FDIC

Office of Inspector General

SEMIANNUAL REPORT TO THE CONGRESS

April 1 – September 30, 2012

Including the OIG Performance Report for Fiscal Year 2012

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 7,625 individuals carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured about $7.086 trillion in deposits in 7,246 institutions, of which the FDIC supervised approximately 4,551. As a result of institution failures during the financial crisis, the balance of the Deposit Insurance Fund turned negative during the third quarter of 2009 and hit a low of negative $20.9 billion by the end of that year. The FDIC subsequently adopted a Restoration Plan, and with various assessments imposed over the past few years, the Deposit Insurance Fund balance steadily increased to a positive $22.7 billion as of June 30, 2012. Receiverships under FDIC control as of September 30, 2012 totaled 466, with about $18.2 billion in assets.

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Inspector General Statement

The Federal Deposit Insurance Corporation (FDIC) and the economy continue to make gradual but steady progress in recovering from the unprecedented financial crisis and the severe recession that followed. Over the past months, the Corporation has helped restore public trust and confidence in the banking system. The FDIC is now handling fewer bank failures than in the past but continues to face the lingering challenges associated with resolving failed institutions and managing receiverships.

Further, in response to new responsibilities, the FDIC is focusing considerable attention on an important mandate under the Dodd-Frank Act. Prior to the crisis, the FDIC did not have the authority to place either the parent company of a bank or the nonbank affiliates within the holding company into receivership. It also lacked the authority to resolve large, nonbank holding companies, like Lehman Brothers Holdings Inc. Title II of the Dodd-Frank Act changed that, enabling the FDIC to resolve the insured depository institution, its parent holding company, and any affiliate and other non-bank systemically important financial institutions. The FDIC continues to work to develop the strategic and operational capability to carry out this new authority.

Importantly, under Title I of the Dodd-Frank Act, bank holding companies with more than $50 billion in assets and other firms designated as systemic must develop their own resolution plans or "living wills." The firms must show how they could be resolved under the bankruptcy code without disrupting the financial system and the economy. Title II then is not a replacement for bankruptcy—rather it is a last resort to allow the firm to fail without systemic disruption. The first resolution plans were submitted in early July by the nine largest companies with non-bank assets of over $250 billion. The FDIC and the Board of Governors of the Federal Reserve System are reviewing those plans for both completeness and the need for further determinations regarding credibility. The FDIC will continue to carry out its challenging Dodd-Frank responsibilities going forward.

The past 6 months have been demanding and productive for the Office of Inspector General (OIG) as well. In addition to carrying out planned audits and evaluations, we have been busy responding to matters of Congressional interest. Specifically, we have been conducting assignments in response to Public Law 112-88, also known as H.R. 2056, requiring that we conduct a comprehensive study on the impact of the failure of insured depository institutions and submit a report, along with recommendations, to the Congress. We also conducted work in response to a request from the Chairman of the Senate Banking Committee that we examine the FDIC's examination process for small community banks. This request was prompted by concerns from community banks and credit unions related to the supervisory impact on business growth and lending activities.

We have completed the highly resource-intensive H.R. 2056 fieldwork, which equates to about eight audit assignments, and anticipate issuing the final results of our study by the legislated January 3, 2013 deadline. We have also completed our work on the community banks and issued the results of that effort during the reporting period.

Also in response to interest on the part of the Congress, in May I testified before the Committee on Financial Services, Subcommittee on Oversight and Investigations, U.S. House of Representatives, on the FDIC's structured transaction program. That testimony, along with examples of our related structured

asset sale work and other audit results for the period are discussed in this report as well.

Our criminal investigations of fraud impacting the FDIC and its operations continue to achieve results. In this report we summarize a number of investigations involving senior bank officials who were trusted insiders in their institutions but who misused their positions. They engaged in fraudulent activities that undermined the integrity of the financial services industry and, in some cases, contributed to the failures of their institutions. In the aftermath of the financial crisis, we also continue to uncover fraudulent mortgage schemes, and those too are presented in our report. In total during the reporting period, with the invaluable assistance of the FDIC and our law enforcement partners, our investigations resulted in 71 indictments, 65 convictions, and potential monetary benefits in excess of $240.9 million.

We also continued our active involvement in the Inspector General community at large during the past 6 months, and of note, issued the results of a review that the FDIC OIG spearheaded on behalf of the Council of Inspectors General on Financial Oversight (CIGFO). That review examined the Financial Stability Oversight Council's (FSOC) controls over sensitive information. FSOC is a collaborative body that brings together federal regulators, an independent insurance expert appointed by the President, and state regulators with a view toward identifying risks and responding to emerging threats to financial stability. The CIGFO report underscores the importance of safeguarding the highly sensitive information that may need to be exchanged by Council members if economic conditions worsen and new threats to the stability of the U.S. financial system emerge.

As we continue to move past the worst days of the financial crisis and experience more stable economic conditions, we will focus our attention, to the extent possible, on new areas of the FDIC's programs and operations and on areas that we have not been able to review for a time. These include, for example, examining the operations of the FDIC's Office of Complex Financial Institutions as it addresses the supervisory, insurance, and resolution risks presented to the FDIC by the largest and most complex financial institutions, in keeping with the intent of the Dodd-Frank Act. We also plan to review the controls in the more routine internal operations of the FDIC and its governance activities, in the interest of ensuring corporate readiness to efficiently and effectively conduct business activities and address emerging risks.

In closing, I would note that in addition to my role as FDIC Inspector General, during the reporting period, at the request of the Chair of the Council of the Inspectors General on Integrity and Efficiency, I assumed the role of Interim Inspector General at the U.S. Securities and Exchange Commission during a period when the Commission was seeking to name a permanent Inspector General.

I want to express my sincere appreciation to the Acting Chairman of the FDIC and to other members of senior leadership who supported me in accepting that additional responsibility. Most importantly, I thank the senior management team of the FDIC OIG for their hard work and consistent commitment to our mission during the past 6 months. Their efforts, and those of the dedicated FDIC OIG staff, have ensured that our audits, evaluations, investigations, and other activities have been carried out as planned and that we have continued to meet the challenges facing our office.

Jon T. Rymer
Inspector General
October 2012

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Highlights and Outcomes

The OIG works to achieve five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. The majority of our audit and evaluation resources during the reporting period have been devoted to ongoing assignments conducted pursuant to Public Law 112-88, or H.R. 2056, requiring that we conduct a comprehensive study of the impact of the failure of insured depository institutions. Specifically, we have conducted the equivalent of about eight audits in response to the legislation. The remainder of our work during the reporting period focused on our first and second goals of assisting the Corporation to ensure the safety and soundness of banks and the viability of the insurance fund. Additionally, based on the risks inherent in the resolution and receivership areas, we have devoted available resources to conduct work in support of our fourth goal. We have not devoted many resources to the two goal areas involving consumer protection and the FDIC's internal operations during the past 6-month period. However, upon completion of H.R. 2056-related work, we intend to do so. A more in-depth discussion of OIG audits, evaluations, investigations, and other activities in pursuit of all of our strategic goals follows.

Strategic Goal 1 – Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During the reporting period, we completed two reports on institutions whose failures resulted in material losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. We also completed 20 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of the threshold of $200 million or less (or $150 million or less if failing after January 1, 2012) and determined whether unusual circumstances existed that would warrant an in-depth review in those cases. Also of note during the period, we issued the results of an assignment requested by the Chairman of the Senate Banking Committee on the FDIC's examination process for small community banks. That report discusses how the FDIC examines small community banks, including examination timelines and steps to ensure consistency, as well as mechanisms for institutions to question examination results.

Ongoing audit and evaluation work in this goal area at the end of the reporting period included work in a number of matters in response to H.R. 2056. Our work includes, among other items, reviewing aspects of FDIC examiners' review of an institution's lending and loan review functions, capital adequacy, allowance for loan and lease loss estimates, appraisal programs, loan workouts, and the supervisory enforcement actions that examiners pursue to address identified deficiencies.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of bank fraud, mortgage fraud, and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failures. For example, in the complex case of the Bank of the Commonwealth, involving Virginia's largest bank failure to date, a number of individuals were indicted, a number have pleaded guilty, and some have already received stiff sentences for their roles in a massive bank fraud that contributed to the failure of the bank and resulting losses to the insurance fund in excess of $265 million. In another significant case, the former president and chief executive officer of Orion Bank, Naples, Florida, was sentenced to 6 years in prison for conspiring to commit bank fraud, misapply bank funds, make false entries in the bank's books and records, make false statements to bank examiners, and obstruct a bank examination. In another case, the leader of a large-scale identity theft ring and a co-conspirator were sentenced for their roles in a $50-million fraud enterprise that defrauded multiple credit card companies, banks, and lenders. One of the individuals was sentenced to 324 months in prison; the other to 266 months. In connection with our previously reported case involving Colonial Bank and Taylor, Bean & Whitaker (TBW), a private mortgage company, the former chief financial officer of TBW was sentenced to 60 months in prison for conspiracy to commit bank and wire fraud and making false statements for his role in a scheme contributing to the failures of Colonial Bank and TBW. In yet another case, the former president of FirstCity Bank, Stockbridge, Georgia, was sentenced to serve 12 years in prison for his involvement in a multimillion dollar bank fraud conspiracy scheme. He was banned from banking for life and ordered to pay restitution of $19.5 million to the FDIC and other victim banks. A colleague in the bank, the former senior commercial loan officer pleaded guilty in the case as well.

Also of note during the reporting period were several successful mortgage fraud cases, one in particular involving the sentencing of the former chief financial officer of Metro Dream Homes who was sentenced to serve 29 months in prison for her role in a massive mortgage fraud scheme that promised to pay off homeowners' mortgages but left them to fend for themselves in the end. More than 1,000 duped investors in the program invested a total of about $78 million. She was ordered to pay restitution of $34.3 million. In another mortgage-related case, a mortgage-rescue business owner was sentenced to serve 90 months in prison for running a fraudulent mortgage-rescue business charging substantial up-front fees but modifying distressed clients' mortgages in only a very few cases.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 11-34.)

Strategic Goal 2 – Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

We did not conduct specific assignments to address this goal area during the reporting period. However, our failed bank work fully supports this goal, as does the investigative work highlighted above in strategic goal 1. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses and losses to the Deposit Insurance Fund. (See pages 35-36.)

Strategic Goal 3 – Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

With the exception of our coverage of the FDIC's compliance examination program as part of the Senate Banking Committee request discussed under the first goal above, we did not devote audit or evaluation resources to specific consumer protection matters during the past 6-month period. For the most part, we continued to devote those resources to material loss review-related work, FDIC activities in the resolution and receivership realms, and ongoing H.R. 2056 work. Our Office of Investigations, however, supports this goal through its work. For example, during the reporting period, as a result of an investigation, a Florida man involved in a securities fraud scheme involving misrepresentation of FDIC insurance was sentenced to 12 months in prison and ordered to pay restitution of $4.7 million. In a similar case, the former owner of two AmeriFirst companies was sentenced in a fraud scheme that victimized more than 500 investors—many retired and living in Texas and Florida. He was also ordered to pay restitution of $23.2 million. As a result of another of our cases, an individual posing as an FDIC

"broker" pleaded guilty in a Ponzi fraud scheme through which he marketed and sold fictitious FDIC-insured certificates of deposit to unsuspecting senior citizen investors.

Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. Working with the Corporation's Division of Information Technology, our investigators seek to protect consumers by dismantling such schemes. In further support of consumer protection, the OIG also continued to respond to a growing number of inquiries from the public, received both through our Hotline and through other channels. We addressed about 200 such inquiries during the past 6-month period. (See pages 37-40.)

Strategic Goal 4 – Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failing Banks and Manages Receiverships

We completed several efforts in this goal area during the reporting period. Of note, the Inspector General testified before the Committee on Financial Services, Subcommittee on Oversight and Investigations, U.S. House of Representatives, on oversight of the FDIC's structured transaction program. We also issued two reports presenting the results of audits of the FDIC's structured asset sales and, in one of those, identified $3.76 million in questioned costs. The two reports contained a total of 17 recommendations to strengthen the Corporation's oversight of the structured asset sales. FDIC management agreed with the reported monetary benefits and is taking action on the other nonmonetary recommendations to address our concerns and strengthen its oversight of the program.

Ongoing H.R. 2056 work in this goal area as of the end of the reporting period includes an assessment of multiple aspects of the FDIC's use of shared-loss agreements from the borrowers' and institutions' perspectives, including the impact on the rate of loan modifications and adjustments, the impact on the availability of credit, and the policies and procedures for terminating the agreements.

Other matters under review as part of H.R. 2056 relate to private investment in insured depository institutions and the policies and procedures governing such activity.

From an investigative standpoint, our Electronic Crimes Unit enhanced its capabilities to support investigative activities related to bank closings. Additionally, the Electronic Crimes Unit continues to participate in a corporate project related to efficiently and effectively collecting and preserving electronic data at bank closings. (See pages 41-48.)

Strategic Goal 5 – Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

In support of this goal area, we carried out the bulk of our 2012 work in response to the Federal Information Security Management Act during the reporting period and will convey final results of that effort in our next semiannual report. We issued the results of a billing review of one of the FDIC's largest loan servicers, who at the time was servicing about 60 percent of $2.04 billion in receivership assets. We determined that the preponderance of payments made by the FDIC to the servicer were adequately supported and complied with contract terms. However, we made seven recommendations to improve controls over the accuracy of billings, data reliability, and safeguarding of sensitive information. In connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), we issued the results of a fourth coordinated review of the status of the implementation activities of the Joint Implementation Plan prepared by the Board of Governors of the Federal Reserve System (FRB), the FDIC, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). We reported that FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Joint Implementation Plan that were necessary to ensure employees transferred were not unfairly disadvantaged. Certain actions are ongoing in that regard, and we will monitor them in subsequent reviews.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline

and other referrals and coordination with the FDIC's Divisions and Offices, including corporate ethics officials, as warranted. (See pages 49-53.)

Strategic Goal 6 – OIG Resources Management: Build and Sustain a High-Quality OIG Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

To ensure effective and efficient management of OIG resources, we continued to focus on a number of initiatives to monitor and track OIG spending, particularly costs involved in travel and procurements, and to explore options for a better system to capture data on our investigative cases. We also provided our FY 2014 budget request to the Acting Chairman for approval and subsequent inclusion in the President's budget. This budget reflects $34.6 million to support 130 full-time equivalents, consistent with our FY 2013 request.

We continued internal quality assurance efforts, including an assignment regarding OIG contractor protection of sensitive information. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to supplement our efforts and provide additional subject-matter expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by supporting individuals in our office pursuing certified public accounting and other professional certifications. Our mentoring program is well underway and seeks to further develop a strong cadre of OIG resources. We also employed interns on a part-time basis to promote their development and assist us in our work. We supported OIG staff members attending graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry and supported staff taking FDIC leadership training courses.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the U.S. Government Accountability Office. The Inspector General served in key leadership roles as the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee; Vice Chair of the Council of Inspectors General on Financial Oversight, as established by the Dodd-Frank Act; and as a Member of the Comptroller General's Advisory Council on Government Auditing Standards. Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the Maryland Association of Certified Public Accountants, Georgetown University Public Policy Institute, Department of Justice, FDIC Divisions and Offices, and international organizations sponsored by the State Department. The OIG participated in corporate diversity events and on the Chairman's Diversity Advisory Council. We continued to use our public inquiry intake system to handle communications with the public and maintained and updated the OIG Web site to respond to the public and provide easily accessible information to stakeholders interested in our office and the results of our work.

In the interest of planning our future work, we undertook a risk assessment of the various operating divisions of the FDIC, looking closely at their missions and goals and the risks to successful accomplishment of their responsibilities. We also attended meetings of the Enterprise Risk Committee and other corporate committees to further monitor risks at the Corporation and tailor OIG work accordingly. We shared OIG perspectives with senior FDIC leadership and with the FDIC's Chief Risk Officer, who is charged with assisting the FDIC Board and senior management in identifying risks facing the Corporation and in setting the Corporation's risk management objectives and direction. In keeping with the Reports Consolidation Act of 2000, we monitored areas that we identified as management and performance challenges facing the Corporation for inclusion in its annual report. (See pages 54-59.)

Significant Outcomes (April 2012 – September 2012)	
Material Loss and In-Depth Review, Audit, and Evaluation Reports Issued	7
Questioned Costs	$3,772,305
Nonmonetary Recommendations	21
Investigations Opened	46
Investigations Closed	39
OIG Subpoenas Issued	12
Judicial Actions	
Indictments/Informations	71
Convictions	65
Arrests	12
OIG Investigations Resulted in:	
Fines of	$1,009,000
Restitution of	$234,106,948
Asset Forfeitures of	$5,758,270
Total	**$240,874,218**
Cases Referred to the Department of Justice (U.S. Attorneys)	50
Cases Referred to FDIC Management	2
Proposed Regulations and Legislation Reviewed	3
Proposed FDIC Policies Reviewed	6
Responses to Requests Under the Freedom of Information Act or Privacy Act	12

Strategic Goal 1: The OIG Will Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for approximately 4,550 FDIC-insured, state-chartered institutions that are not members of the Board of Governors of the Federal Reserve System (FRB)—generally referred to as "state non-member" institutions. Historically, the Department of the Treasury [the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS)] or the FRB have supervised other banks and thrifts, depending on the institution's charter. The winding down of the OTS under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) resulted in the transfer of supervisory responsibility for about 60 state-chartered savings associations to the FDIC, all of which are considered small and that have been absorbed into the FDIC's existing supervisory program. About 670 federally chartered savings associations were transferred to the OCC. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 2,695 national banks, state-chartered banks that are members of the FRB, and those savings associations now regulated by the OCC.

The examination of the institutions that it regulates is a core FDIC function. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, monitor, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused supervision for banks. According to examination policy, the objective of a risk-focused examination is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks. Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act, which requires financial institutions to keep records and file reports on certain financial transactions. An institution's level of risk for potential terrorist financing and money laundering determines the necessary scope of a Bank Secrecy Act examination.

The passage of the Dodd-Frank Act brought about significant organizational changes to the FDIC's supervision program. That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (OCFI) and a Division of Depositor and Consumer Protection (DCP), and the Division of Supervision and Consumer Protection was renamed the Division of Risk Management Supervision (RMS). OCFI continues to evolve and is focusing on overseeing bank holding companies with more than $100 billion in assets and their corresponding insured depository institutions. OCFI is also responsible for non-bank financial companies designated as systemically important by the Financial Stability Oversight Council, of which the FDIC is a voting member. OCFI and RMS coordinate closely on all supervisory activities for insured state non-member institutions that exceed $100 billion in assets, and RMS is responsible for the overall Large Insured Depository Institution program.

Prior to passage of the Dodd-Frank Act, in the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act required the cognizant OIG to perform a review when the DIF incurs a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded $25 million and 2 percent of the failed institution's total assets. With the passage of Dodd-Frank Act, the loss threshold was increased to $200 million through December 31, 2011 and $150

million for losses that occur for the period January 1, 2012 through December 31, 2013. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the FRB perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action (PCA) requirements of the FDI Act), and generally propose recommendations to prevent future failures. Importantly, under the Dodd-Frank Act, the OIG is now required to review all losses incurred by the DIF under the thresholds to determine (a) the grounds identified by the state or federal banking agency for appointing the Corporation as receiver and (b) whether any unusual circumstances exist that might warrant an in-depth review of the loss. The OIG conducts and reports on material loss reviews (MLR) and in-depth reviews of failed FDIC-supervised institutions, as warranted, and continues to review all failures of FDIC-supervised institutions for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" declined for the fifth consecutive quarter, from 772 to 732. This is the lowest level since the end of 2009, but still is high by historical standards. Total assets of problem institutions were $282 billion. The list may indicate a probability of more failures to come and an additional asset disposition workload. Importantly, however, the number of institutions on the Problem List continues to fall—and total assets of problem institutions do likewise.

While the OIG's audits and evaluations address various aspects of the Corporation's supervision and examination activities, through their investigations of financial institution fraud, the OIG's investigators also play a critical role in helping to ensure the nation's banks operate safely and soundly. Because fraud is both purposeful and hard to detect, it can significantly raise the cost of a bank failure, and examiners must be alert to the possibility of fraudulent activity in financial institutions.

The OIG's Office of Investigations works closely with FDIC management in RMS and the Legal Division to identify and investigate financial institution crime, especially various types of bank fraud. OIG investigative efforts are concentrated on those cases of most significance or potential impact to the FDIC and its programs. The goal, in part, is to bring a halt to the fraudulent conduct under investigation, protect the FDIC and other victims from further harm, and assist the FDIC in recovery of its losses. Pursuing appropriate criminal penalties not only serves to punish the offender but can also deter others from participating in similar crimes. Our criminal investigations can also be of benefit to the FDIC in pursuing enforcement actions to prohibit offenders from continued participation in the banking system. When investigating instances of financial institution fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud currently constitute about 90 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in interagency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, when possible, the OIG engages in industry and other professional outreach efforts to keep financial institutions and others informed on fraud-related issues and to educate them on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the **OIG's 2012 performance goals** are as follows:

- Help ensure the effectiveness and efficiency of the FDIC's supervision program, and
- Investigate and assist in prosecuting Bank Secrecy Act violations, money laundering, terrorist financing, fraud, and other financial crimes in FDIC-insured institutions.

OIG Work in Support of Goal 1

The OIG issued three reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. Two of these reports communicated the results of MLRs of failed institutions regulated by the FDIC. In that connection, we also completed failure reviews of other failures—those causing losses to the DIF below the thresholds outlined in the Dodd-Frank Act—to determine whether unusual circumstances existed to pursue an in-depth review. Appendix 2 in this report presents the results of the failure reviews that we conducted during the period.

We have summarized in substantial detail the results of one of the MLRs conducted during the reporting period in this report, that of Tennessee Commerce Bank (TCB). This bank was unlike many others we have reported on in the past, in that its operations focused on a nontraditional "business bank" strategy for small- to medium-sized businesses, entrepreneurs, and professionals. Its failure was largely attributable to the bank's commercial and industrial (C&I) loan activities. We also discuss the other institution failure and corresponding report issued, that involving The First State Bank, Stockbridge, Georgia, in which, as has been the case in countless other failures, the risks involved with commercial real estate and acquisition, development, and construction lending concentrations played a key role in the bank's demise. In each case, our review objectives were to determine the causes of the institution's failure and the resulting material loss to the DIF and evaluate the FDIC's supervision of the institutions, including the FDIC's implementation of the PCA provisions of section 38 of the FDI Act.

Importantly, during the reporting period, we issued a third report in support of our goal of assisting the FDIC to ensure our nation's banks operate safely and soundly—the results of an audit requested by the Chairman of the Senate Banking Committee related to the FDIC's examination process for community banks. That report is summarized below.

From an investigative perspective, in support of ensuring the safety and soundness of the nation's banks, we have pursued cases involving fraud in both open and closed institutions. Results of such selected cases are described below. As in the past, we also discuss a number of our mortgage-fraud related investigations. Importantly, our results would not be possible without the collaboration and assistance of our colleagues at the FDIC and our law enforcement partners throughout the country.

Material Loss Review of Tennessee Commerce Bank, Franklin, Tennessee

On January 27, 2012, the Tennessee Department of Financial Institutions (TDFI) closed TCB, and the FDIC was appointed receiver. TCB's total assets at closing were $1.0 billion and the estimated loss to the DIF was $416.8 million (or 42 percent of TCB's total assets). We engaged KPMG LLP to conduct an MLR of TCB. As part of the audit, KPMG LLP reviewed the application submitted by the Tennessee Commerce Bancorp, Inc. (Bancorp)–TCB's parent holding company–for capital from the U.S. Department of the Treasury's (Treasury) Troubled Asset Relief Program and examiner coverage of the use of those funds at TCB.

By way of background, TCB commenced operations on January 14, 2000. The institution's corporate and banking offices were located in Franklin, Tennessee, about 15 miles south of Nashville. The bank was wholly owned by Bancorp, a publicly traded, one-bank holding company. TCB's assets were centered in its loan portfolio, which totaled $1.17 billion as of December 31, 2009, a point at which loan growth was slowing and the FDIC had determined the bank to be in a "troubled condition." The loan portfolio consisted of 55 percent C&I loans, 38 percent real estate loans (both commercial and consumer), and 7 percent consumer and credit card loans as of that date.

Although TCB offered a full range of banking services and products, its operations focused on a nontraditional "Business Bank" strategy that emphasized banking services for small- to medium-sized businesses, entrepreneurs, and professionals in the bank's local market within a 250-mile radius of the Nashville, Tennessee, metropolitan area. The strategy did not target retail customers or involve competition with other banks based on the traditional definition of "convenience." For example, the bank did not maintain a branch network, a teller line, a drive-through window, or extended banking hours at its main office. TCB's customized business lending consisted of such things as providing lines of credit and term loans secured by accounts receivable, inventory, equipment, and real estate. The bank also made commercial real estate (CRE) loans, including acquisition and construction loans for business properties and term loan financing of CRE.

A large portion of TCB's lending activities included collateral-based financing to national and regional equipment vendors and financing companies through two indirect national market funding programs, one of which focused on large loans and the other on small loans. Under both programs, transactions were originated by third parties, such as equipment vendors or financial services companies, that provided TCB with borrower financial information and arranged for the borrowers' execution of loan documentation. As of December 31, 2009, TCB's indirect national market funding programs accounted for about 25 percent of the bank's $1.17 billion loan portfolio. In addition to its main office in Franklin, TCB operated three loan production offices in Alabama, Minnesota, and Georgia prior to the downturn in its lending markets. By January 2011, all three loan production offices had closed. TCB also originated and sold loan packages and loan participations to increase its earnings and manage its exposure to borrowers.

As for causes of failure, our review determined that TCB failed primarily because its Board of Directors (Board) and management did not effectively manage the risks associated with the bank's sustained high growth in C&I lending. Notably, TCB had a significant concentration in an economically sensitive and specialized segment of the C&I market pertaining to the transportation industry. The bank's lending in this area included loans to leasing companies and lease brokers for the financing of trucks, buses, and other commercial use vehicles. However, TCB's underwriting, administration, monitoring, and collection procedures for these and other C&I loans was not adequate. Contributing to the bank's credit risk exposure were large and complex borrowing relationships that were not effectively managed. Further, TCB's funding strategy for sustaining loan growth and maintaining liquidity involved heavy reliance on non-core funding sources, such as Internet and brokered deposits, and capital injections from its holding company. Finally, TCB did not maintain capital at levels that were commensurate with its risk profile.

In 2007, TCB began to experience problems with its loans in the transportation industry due to the bank's lax lending practices and a softening economy. The credit quality of TCB's loan portfolio continued to decline in 2008 and accelerated as the economy deteriorated. However, TCB continued its high growth strategy, reporting that it originated over $90 million in new loans during the first quarter of 2009. In total, TCB originated or renewed about $400 million in loans from 2009 until its failure. The bank ultimately charged off about $64 million of the $400 million amount as loss. TCB's Board and management failed to recognize problems and losses in the bank's loan portfolio in a timely manner or to take appropriate action to address problems as they developed. TCB also engaged in unusual lending practices, such as insurance premium financing, and made a number of particularly risky loans to individuals in the banking sector that were secured by the stock of other banks in the years before its failure. These loans contributed to the bank's losses.

TCB's final Consolidated Reports of Condition and Income indicated that the bank lost more than $165 million during 2011 and had negative equity capital. The TDFI closed TCB on January 27, 2012 because the institution was unable to raise sufficient capital to support safe and sound banking operations.

With respect to supervision, the FDIC, in coordination with the TDFI, provided ongoing supervisory oversight of TCB through regular onsite examinations, visitations, and various offsite monitoring activities. Through its supervisory efforts, the FDIC identified risks in the bank's operations and brought these risks to the attention of the institution's Board and management through examination and visitation reports, correspondence, and a formal enforcement action. Such risks related to the Board and management's oversight of the institution, the bank's lending strategy, loan underwriting and credit administration, the decline in the loan portfolio, and TCB's heavy reliance on non-core funding sources. Based on the results of an August 2010 joint examination, TCB's Board stipulated to the issuance of a Consent Order, which became effective on May 25, 2011 and remained in place until the bank was closed.

TCB exhibited a high-risk profile in the years preceding the bank's financial decline. Key risks included:

- Sustained high growth and heavy concentrations in economically sensitive segments of C&I lending, including emphasis on specialized lending to leasing companies and lease brokers in the transportation industry, the nature of which exposed the bank to elevated credit risk.
- Reliance on outside sources of capital to maintain growth and capital ratios that were marginally above the PCA thresholds for Well Capitalized institutions.
- Exposure to large and complex borrowing relationships without adequate underwriting and administration.
- Dependence on non-core funding sources, such as Internet and brokered deposits, to support loan growth and liquidity.

Examination reports issued in the years before TCB's financial decline noted that the bank had a relatively high-risk profile and included recommendations to TCB's Board and management to address risks identified during the examinations. During those periods, TCB was profitable, its financial condition was satisfactory, and conditions in its lending markets were generally favorable. Under the FDIC's current approach to supervision, banks with elevated risk profiles, such as TCB, are subject to increased supervisory analysis and a more proactive supervisory response—including accelerated examinations or visitations, lower ratings, and/or supervisory actions—when risks are not properly managed.

In the case of TCB, a more proactive supervisory response to the bank's risky business activities during earlier examinations may have been prudent. Such a response could have included placing greater emphasis on TCB establishing prudent limits on its industry and borrower concentrations, holding higher levels of capital, and implementing stronger risk management practices—particularly with respect to its specialized lending and funds management practices. A more in-depth review of TCB's loan portfolio during the April 2008 TDFI examination also may have been warranted given the risk and complexity of the bank's lending practices, its continued high growth, and management's less-than-satisfactory oversight of the bank. Examiners could have also expressed greater concern within the examination report regarding the risks associated with segments of TCB's C&I loan portfolio, including concentrations of credit pertaining to the transportation industry.

Based on the results of the June 2009 examination, the FDIC pursued a Memorandum of Understanding (MOU) with TCB's Board to address key risk management concerns. Although TCB's Board passed a bank board resolution to address the issues identified during the examination, the FDIC was unable to persuade the bank to execute a Memorandum of Understanding. The FDIC performed a visitation of the bank in April 2010. In retrospect, accelerating the next full-scope examination may have resulted in the

necessary support to pursue a formal action sooner than the Consent Order that became effective in May 2011.

With respect to Bancorp's receipt of $30 million under the Troubled Asset Relief Program's Capital Purchase Program (CPP), in accordance with provisions of the Emergency Economic Stabilization Act of 2008, the FDIC recommended that Treasury approve Bancorp for CPP funds after determining that TCB met all of Treasury's eligibility criteria. Examiners obtained documentation during the June 2009 joint examination that addressed TCB's use of the CPP funds and efforts to comply with executive compensation requirements associated with CPP funding. While the June 2009 joint examination report stated that CPP funds were used to fund loan growth, the report did not address TCB's compliance with the CPP securities purchase agreement. The August 2010 joint examination report stated that examiners were unable to determine whether TCB fully complied with the agreement and the requirements of the Emergency Economic Stabilization Act of 2008 based on limited information provided by the bank. According to RMS officials, examiners made multiple attempts to obtain information from the TCB's Chief Financial Officer and other bank management officials.

Based on the supervisory actions taken with respect to TCB, the FDIC properly implemented the applicable PCA provisions of section 38.

As it relates to the issues and lessons learned discussed in this report, the FDIC has taken a number of actions to enhance its supervision program based on the lessons learned from failures during the recent financial crisis. Such actions include instituting a training initiative for examiners on the appropriate supervisory response for banks with elevated risk profiles and issuing additional supervisory guidance on funds management practices and specialty lending areas, including C&I lending and lease financing.

In response to our report, the Director of RMS reiterated the causes of TCB's failure and the supervisory activities described in the report. Further, RMS has recognized the threat that institutions with high-risk profiles, such as TCB, pose to the DIF and issued additional guidance to examiners related to C&I loans and lease financing in 2009 and 2010. RMS also issued a Financial Institution Letter to FDIC-supervised institutions in 2009 entitled, *The Use of Volatile or Special Funding Sources by Financial Institutions That Are in a Weakened Condition*. According to RMS, this Financial Institution Letter heightened its supervision of institutions with aggressive growth strategies or excessive reliance on volatile funding sources.

MLR of The First State Bank, Stockbridge, Georgia

On January 20, 2012, the Georgia Department of Banking and Finance (GDBF) closed The First State Bank (FSB) and the FDIC was appointed receiver. FSB's total assets at closing were $528.7 million and the estimated loss to the DIF was $216.2 million. We engaged BDO USA, LLP to conduct an MLR of FSB.

Established on October 8, 1964, FSB was a commercial bank based in Stockbridge, Georgia, located about 20 miles south of Atlanta. The institution maintained seven branches in its primary market area of Henry County, Georgia, and the surrounding counties in the Atlanta metropolitan area. The bank was wholly owned by a one-bank holding company, the Henry County Bancshares, Inc., Stockbridge, Georgia. FSB's lending strategy focused primarily on CRE, particularly residential acquisition, development, and construction (ADC) projects.

FSB failed primarily because its Board of Directors (Board) and management did not effectively manage the risks associated with the bank's heavy concentrations in CRE and ADC loans. Among other things, the Board and management did not establish prudent ADC loan concentration limits or maintain capital at levels that were commensurate with the risk in the bank's loan portfolio. Lax lending practices also contributed to the

asset quality problems that developed when economic conditions in FSB's lending markets deteriorated. Specifically, the bank exhibited weak ADC loan underwriting, credit administration, and related monitoring practices. In addition, FSB's management was slow to recognize the deterioration in its loan portfolio and was unable to successfully address the depth and breadth of the bank's financial problems.

FSB's significant exposure to ADC loans, coupled with weak risk management practices, made the bank vulnerable to a sustained downturn in the Georgia real estate market. In late 2007, conditions in FSB's primary lending areas began to deteriorate, resulting in a decline in the quality of the loan portfolio. Much of this decline was centered in ADC loans. FSB's financial condition continued to deteriorate between 2008 and 2011. The associated provisions for loan losses depleted FSB's earnings, eroded its capital, and strained its liquidity. The GDBF closed FSB on January 20, 2012 due to the institution's inability to raise sufficient capital to support safe and sound banking operations.

Our report points out that the FDIC, in coordination with the GDBF, provided ongoing supervisory oversight of FSB through onsite risk management examinations, visitations, and offsite monitoring activities. The FDIC identified key risks in FSB's operations and brought these risks to the attention of the institution's Board and management. Such risks included the bank's significant concentrations in CRE and ADC loans and weak loan underwriting, credit administration, and related monitoring practices. The FDIC and GDBF also made numerous recommendations for improvement and implemented enforcement actions in the form of a Memorandum of Understanding, Consent Order, and Supervisory PCA Directive.

Like other institutions that failed in recent years, FSB developed a significant exposure to ADC loans at a time when the bank's financial condition and lending markets were favorable. This exposure made the bank vulnerable to a sustained downturn in the real estate market. Our report also notes that such an exposure would have been subject to a more critical risk assessment under the FDIC's current approach to supervision, which involves greater emphasis on risk management practices for institutions with elevated risk profiles, such as FSB, and a stronger supervisory response—including accelerated examinations or visitations, lower ratings, and/or supervisory actions—when risks are not being properly managed. However, it is uncertain whether an alternative supervisory approach and response would have been effective in limiting FSB's financial deterioration or the loss to the DIF. Examiners became sharply critical of FSB's risk management practices beginning with the FDIC's November 2007 examination and issued supervisory enforcement actions in 2009 and 2010, respectively. By that time, the bank's lending markets were rapidly deteriorating, making remedial efforts difficult.

Again, our report acknowledges that the FDIC has taken a number of actions to enhance its supervision program based on the lessons learned from failures during the financial crisis. Such actions include instituting a training initiative for examiners that emphasizes risk management practices for institutions with high-risk profiles and issuing additional supervisory guidance on CRE and ADC concentrations.

With respect to PCA, the FDIC implemented supervisory actions that were consistent with relevant provisions of section 38.

In responding to this MLR, the Director of RMS reiterated the causes of failure and supervisory activities described in the report. Further, the response stated that RMS recognized the threat that institutions with high-risk profiles, such as FSB, pose to the DIF and issued to FDIC-supervised institutions a 2008 Financial Institution Letter, entitled, *Managing Commercial Real Estate Concentrations in a Challenging Environment*. The Financial Institution Letter re-emphasized the importance of robust credit risk management practices for institutions with concentrated CRE exposures and set forth broad supervisory expectations.

The FDIC's Examination Process for Small Community Banks

On February 10, 2012, the Chairman of the United States Senate Committee on Banking, Housing, and Urban Affairs requested that the Inspectors General of the FDIC, the Department of the Treasury, FRB, and the National Credit Union Administration conduct audits of their respective agencies' examination processes for small community banks and credit unions. The Chairman's request was prompted by concerns from community banks and credit unions that examinations were being conducted without clear standards or consistent application of agency policies and procedures, which could discourage business growth and responsible lending. The request indicated that the results of the audits would help the Committee to better understand the supervisory processes at the agencies and facilitate the Committee's efforts to address concerns raised by community banks and credit unions.

Our office conducted an audit to report on (1) the FDIC's examination process for small community banks, including examination timelines and how the FDIC ensures consistency in the administration of examinations across the country, and (2) the ability of FDIC-supervised institutions to question examination results, such as through the Office of the Ombudsman, the appeals process, or informal channels, and the frequency and success of such appeals. The scope of our review, 2007-2011, was selected to take into account examination timeframes and appeals processes both before and during the financial crisis. The audit did not include an assessment of the adequacy or the effectiveness of these processes.

Our report noted that as of December 31, 2011, the FDIC was the primary federal regulator for 4,598 state-chartered financial institutions that were not members of the Federal Reserve System. A total of 4,293 (or 93 percent) of these institutions were small community banks with assets totaling $1 billion or less.

By way of background, and as outlined in our report, two FDIC divisions have primary responsibility for the examinations of FDIC-supervised institutions. First, the FDIC's RMS conducts onsite risk management examinations of institutions to assess their overall financial condition, management practices and policies, and compliance with applicable laws and regulations. During 2011, RMS conducted 2,712 statutorily-required risk management examinations. RMS also conducts specialty examinations that cover such areas as trust department operations, information technology controls, and institution compliance with the Bank Secrecy Act. During 2011, RMS conducted 6,002 specialty examinations.

The FDIC's DCP has primary responsibility for protecting consumer rights. DCP conducts onsite examinations of institutions to assess compliance with consumer protection laws and regulations and the extent to which institutions meet community needs under the Community Reinvestment Act. During 2011, DCP conducted 1,757 Community Reinvestment Act/compliance examinations. In addition, the FDIC's OCFI has responsibility for providing a comprehensive focus on the supervisory, insurance, and resolution risks presented to the FDIC by the largest and most complex financial institutions.

We reported that the FDIC has established and implemented a nationwide program for planning, conducting, reporting, and evaluating the effectiveness of its examinations of FDIC-supervised community institutions. With respect to examination timelines, the risk profile of every bank is different, even within a similar size range and rating, so actual examination hours and timeframes can vary. We did find that, in broad terms, the cycle time for conducting risk management examinations increased significantly as the supervisory ratings for, and condition of, the institution deteriorated. We also noted that overall cycle time for well-rated institutions (1 or 2 ratings) increased to a limited degree during the period covered by our review, which the FDIC attributed to policy changes that increased baseline procedures and allowed for more examiner discretion in expanding the scope of their examinations, based on identified risks.

As it relates to the time it takes the FDIC to issue an examination report following onsite work, that phase of the examination process generally ranged from:

- 2 to 4 weeks for institutions rated 1 or 2; and
- 6 to 9 weeks for institutions rated 3, 4, or 5.

The difference in report processing timeframes can generally be attributed to the additional complexity and volume of deficiencies associated with troubled institutions, the level of review required to ensure the reports fully support lower ratings and appropriate supervisory actions, and examiners working with bank management and other regulatory agencies to reach agreement on the examination findings and supervisory actions before the final report is issued.

We also collected examination timeline statistics for compliance examinations. Generally, we identified a trend similar to what we found with risk management examinations—longer overall cycle times for lower-rated institutions. However, unlike risk management examinations, elapsed days between onsite examination work and the issuance of the final report did not vary much according to ratings from 2009 forward, averaging about 1 month.

Regarding how consistently the FDIC administers examinations in its various regions, the FDIC has established the following controls and practices intended to promote a consistent examination process while being mindful that examiners must consider unique circumstances and risk factors associated with each institution:

- Examination policy and guidance.
- Training programs for examiners.
- Multiple levels of review for examination reports, including in certain circumstances by headquarters officials.
- Standards and guidance for applying supervisory actions.
- Quality control reviews of key regional and field office examination activities.
- Coordination with other federal and state regulatory agencies on matters of mutual interest.

Concerning the ability of FDIC-supervised institutions to question examination results, the FDIC encourages examiners and bankers to make a good-faith attempt to resolve disputes through informal dialogue during the examination. According to FDIC officials, many disputes are successfully resolved in this manner. Other opportunities for such a dialogue include exit meetings with bank management, discussions during the reporting process to clarify issues, and meetings with an institution's board of directors at which the examination results are presented. The FDIC also asks each institution, at the end of a risk management examination, to complete a Post-Examination Survey to help the FDIC in improving the efficiency and quality of its examinations.

When agreement on key issues such as examination ratings, loan loss reserve provisions, or classifications of significant loans cannot be reached informally, institutions may request a formal review by the Director of RMS, DCP, or OCFI, as appropriate. A total of 41 such requests were made during the 5-year period ended December 31, 2011. Of this number, one was sustained and three were partially sustained. According to FDIC officials, few requests for review are sustained because the applicable Director usually finds that the initial determinations are consistent with FDIC policy.

Institutions that dispute the results of the directors' reviews may appeal to the Supervision Appeals Review Committee (SARC), which is outside of the examination and supervision process. The SARC's decisions on material supervisory determinations are final. A total of 23 appeals were filed with the SARC during the 5-year period ended December 31, 2011. Of this number, one appeal was partially sustained. The remaining appeals were either denied or lacked grounds for an appeal to the SARC. In reviewing the SARC determinations for appeals that were denied, we noted that the SARC considered the underlying merits of

both the institutions' and the examiners' positions and, as such, considered the substance of the disagreement, and not simply whether or not the examiners followed established policy.

In addition, bankers may question examination results in enforcement action cases filed by the FDIC with the Office of Financial Institution Adjudication administrative law judge, who conducts hearings and recommends decisions associated with formal enforcement actions. Bankers may also contact the FDIC's Office of the Ombudsman, which can be used to discuss and resolve concerns associated with any aspect of the examination process in a confidential forum.

Finally, while not directly related to the objectives of our audit, our report discusses various FDIC initiatives used to further its dialogue and efforts to better understand the challenges and opportunities facing community banks. Such actions help to ensure that the FDIC and others significant to the financial industry identify and discuss community banking-related issues and take action to address those issues.

The RMS Director, on behalf of the Corporation, concurred with our observations. The Director also acknowledged the information in the report regarding quality control practices that promote consistency in the examination process and encourage examiners and bankers to informally resolve disputes during examinations. Concerning our observations on the formal dispute resolution process, the Director confirmed that changes to the decisional deadlines have enabled formal reviews and appeals to be processed within applicable timeframes.

Successful OIG Investigations Uncover Financial Institution Fraud

As mentioned previously, the OIG's Office of Investigations' work focuses largely on fraud that occurs at or impacts financial institutions. The perpetrators of such crimes can be those very individuals entrusted with governance responsibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

The cases discussed below are illustrative of some of the OIG's most important investigative success during the reporting period. These cases reflect the cooperative efforts of OIG investigators, FDIC divisions and offices, U.S. Attorneys' Offices, and others in the law enforcement community throughout the country.

A number of our cases during the reporting period involve bank fraud, wire fraud, embezzlement, identity theft, and mortgage fraud. Many involve former senior-level officials and customers at financial institutions who exploited internal control weaknesses and whose fraudulent activities harmed the viability of the institutions and ultimately contributed to losses to the DIF. The OIG's success in all such investigations contributes to ensuring the continued safety and soundness of the nation's banks.

Successful Bank Fraud Cases

Hampton Roads Developer Sentenced to 138 Months in Prison for Massive Bank and Historic Tax Credit Fraud

A developer from Hampton Roads, Virginia, was sentenced on September 26, 2012 to 138 months in prison, followed by 3 years of supervised release, for engaging in a $41 million bank fraud scheme that contributed to the failure of the Bank of the Commonwealth and a separate historic-tax-credit fraud scheme that cost state and federal governments over $12 million and investors more than $8 million.

On April 20, 2012, he pleaded guilty to conspiracy to commit wire fraud, making false statements, and conspiracy to commit bank fraud. According to his plea agreement, from January 2008 through August 2011, the developer admitted that he and his business partner performed favors for insiders at the Bank of the Commonwealth in exchange for preferential lending treatment and assisted insiders in concealing the extent of the bank's non-performing assets by purchasing bank-owned property.

At the time the bank failed on September 23, 2011, he and his business partner owed the bank approximately $41 million, and the total approximate loss related solely to the loans outlined in court records is at least $13,263,443.

To illustrate the nature of the fraud, the developer admitted that on one project, he and his business partner submitted construction draw requests to the bank with inflated amounts owed subcontractors and included work that was not completed. However, a bank conspirator approved and funded the requests without performing an inspection or requiring any support for the requested amounts. With the help of a bank conspirator, the developer and his business partner cashed multiple six-figure checks drawn on this construction account but used for their own personal purposes.

By July 2009, the original loan of $16 million was fully funded but the renovations were far from complete. Bank conspirators caused the bank to approve an additional $2.45 million loan to the developer and his business partner, who used $550,000 of the loan to pay down negative balances the partners had incurred in their checking accounts. By April 2011, the bank charged off approximately $12.5 million of this loan relationship as a loss, and the property—which a bank conspirator had fraudulently appraised at $20 million in 2008—was appraised anew in September 2011 as being worth $2.8 million.

As another example of his fraudulent activities, the developer admitted that, starting in January 2008, he and his business partner conspired with bank insiders to purchase underperforming bank-owned properties. Bank insiders would typically advance loan proceeds to the two men to facilitate the purchases, loans that the bank would later write off at significant losses.

On multiple occasions, at the request of a bank insider, he and his business partner would bid on bank-owned properties being sold at a foreclosure auction up to a specific price so that the bank could pay off the underlying loan for the properties. Again, the bank insiders conspired to fund loans to the two men to facilitate these fraudulent transactions. In one instance, the bank funded more than $900,000 to purchase property at auction in 2008. In April 2011, the bank obtained an appraisal that indicated that the building had no useful life, and the bank charged off more than $500,000 of this loan as a loss.

The developer also admitted that he and his partner purchased properties owned by a bank insider through loans facilitated by other bank insiders to complete the purchases. In these instances, the bank insider was either no longer liable for large loans or made a profit on the sale. As with the other loans to the developer and his partner, the bank eventually was required to charge off these loans at a considerable loss.

In addition to the activities discussed above, the developer admitted that, from January 2006 through March 2012, he and his business partner borrowed funds from financial institutions to purchase and renovate properties that could qualify for historic rehabilitation tax credits. During the renovation projects, the developer and his partner applied for federal and state historic tax credits; they had no personal use for the tax credits, but they instead sold them to investors in need of reducing their own tax liability.

In total, corporate investors paid him and his business partner approximately $8.7 million for illegitimate tax credits. As a result, the federal government suffered a loss of approximately $6.2 million and the Commonwealth of Virginia suffered a loss of approximately $6.3 million.

The developer's business partner pleaded guilty for his role in these fraud schemes on July 12, 2012. He faces a maximum of 20 years in prison for conspiracy to commit wire fraud and a maximum of 5 years in prison for conspiracy to commit bank fraud when he is sentenced.

Also during the reporting period, another

individual involved in the case—a developer and restaurateur—pleaded guilty to a three-count criminal information charging him with conspiracy to commit bank fraud, unlawful monetary transactions, and making false statements. He faces a maximum penalty of 5 years each for the conspiracy and false statement counts and 10 years in prison for the unlawful monetary transactions count when he is sentenced.

This individual admitted that he performed favors for insiders at the Bank of the Commonwealth in exchange for preferential lending treatment and assisted insiders in concealing the extent of the bank's true financial condition by purchasing bank-owned property.

For example, he admitted in court that in June 2008 he purchased a condominium owned by the bank's former chief executive officer (CEO), and that the former CEO and commercial loan officer caused the bank to fully fund a $433,000 loan for the purchase of the property. He falsely represented that he intended to use the condominium as a second home. In fact, he admitted that he purchased the condominium as a favor to the former CEO and in return for preferential treatment on his loans at the bank. In his statement of facts, he stated that the former CEO made a $52,877.45 profit on the sale of this property. The developer never made a single principal payment on the loan.

Other former top executives and bank borrowers have been indicted for their roles in masking non-performing assets at the bank for their own personal benefit and to the detriment of the bank. From 2008 up to its closing in 2011, the bank lost nearly $115 million. The bank's failure will cause losses of approximately $265 million to the DIF.

We will report on additional actions in this case in future semiannual reports.

Source: *This investigation was initiated based on a request for assistance from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and the Federal Bureau of Investigation (FBI).* ***Responsible Agencies:*** *This is a joint investigation with the FBI and SIGTARP. The case is being prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.*

Former Orion Bank President Is Sentenced to 6 Years in Prison for Conspiracy to Commit Bank Fraud and to Deceive Bank Examiners

The former president of Orion Bank was sentenced to 6 years in federal prison for conspiracy to misapply funds by a bank officer; make false entries in the books and records of Orion Bank; commit bank fraud; and obstruct a bank examination and make false statements to bank examiners.

The former president was CEO and chairman of the board of Orion Bancorp, Inc. and the former Orion Bank, an insured financial institution that was headquartered in Naples, Florida. According to court documents, he orchestrated a complex conspiracy to fraudulently raise capital and falsify bank records in order to mislead state and federal regulators as to the bank's true financial condition.

Beginning in May 2009, he directed executives and officers of Orion Bank to provide financing for a stock purchase, the result of which was a $15 million infusion into Orion Bancorp, Inc. The capital infusion created the illusion to regulators that Orion Bank's capital position had improved considerably. In order to secure the capital infusion, he directed Orion Bank executives to increase to $82 million the amount of loans-in-process to straw borrowers on behalf of his co-conspirator, a borrower who had reached the bank's legal lending limits. He directed the increase in loan proceeds in order to provide and conceal $15 million for the borrower's purchase of Orion Bancorp, Inc. stock, despite knowing that banking laws and regulations prohibited Orion Bank from financing the purchase of its own stock.

The borrower provided fraudulent financial documents to Orion Bank, reporting millions of dollars of annual income from a family trust. At one point, top Orion Bank executives discovered that the borrower had submitted fraudulent documents to support June 2009 loans, as well as approximately $41 million of prior loans. However, the former bank president directed that the loans close, despite this information, in order to secure the capital infusion to the bank. The stock was purchased through a series of transactions designed to conceal the true source of the funds from federal regulators. The former president was the only Orion Bank employee who had the authority to approve loans over $2 million for submission to the Orion Bank board of directors loan committee.

The investigation revealed that the former bank president caused a co-conspirator— the former Orion Bank executive vice president—to present loan packages for approval to the Orion Bank loan committee, despite knowing that the loan packages contained materially false and misleading information. After another co-conspirator—the former senior vice president of the bank—signed the fraudulent loans on behalf of Orion Bank, the former president lied to regulators about the true source of the funds, fraudulently categorizing the stock purchase as new capital, despite knowing that $15 million of the capital raise was financed by the bank. When questioned about the transactions by state and federal examiners, all of the former bank executives involved in the scheme provided false documentation to examiners, in order to mislead regulatory authorities as to the source of the capital infusion, and the true financial condition of Orion Bank.

The FRB of Atlanta and the State of Florida Office of Financial Regulation entered Orion Bank in the summer of 2009 and quickly uncovered the fraud. The FRB issued a PCA on November 9, 2009, dismissing the former bank president from his position as president, CEO, and chairman of the board for Orion Bank. The State of Florida Office of Financial Regulation closed Orion Bank on November 13, 2009 and named the FDIC as receiver. The FDIC estimates that the cost to the DIF as a result of Orion Bank's failure is $884 million.

The borrower, former executive vice president, and former senior vice president were separately charged as a result of their participation in the scheme. They were previously sentenced to 5 years in federal prison, 2 years in federal prison, and 2 years in federal prison, respectively.

Responsible Agencies: *This is a joint investigation by the FBI, Internal Revenue Service, Criminal Investigation (IRS-CI), FRB OIG, SIGTARP, and FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the Middle District of Florida.*

Former Bank President Sentenced in a Bank Fraud Case

On August 9, 2012, the former president, of FirstCity Bank Stockbridge, Georgia, was sentenced to serve 12 years in federal prison to be followed by 5 years of supervised release for his involvement in a multi-million dollar bank fraud conspiracy scheme. He was banned from the banking industry for life and was ordered to pay restitution in the amount of $19.5 million to the FDIC and other victim banks. He also consented to forfeit $7 million, including $1.7 million in cash and interests in multiple pieces of property in Georgia and Virginia. He was also sentenced for committing perjury in a personal bankruptcy case in January 2011 by hiding assets in the Cayman Islands and elsewhere and lying about their existence. He had been in federal custody since his arrest on March 20, 2011, upon his arrival in Miami from a trip to the Turks and Caicos Islands in the West Indies.

FirstCity Bank failed on March 20, 2009. The former president was initially indicted in March 16, 2011, and charged with 12 counts of conspiracy to commit bank fraud, bank fraud, and operating a continuing financial crimes enterprise. FirstCity Bank's former senior commercial loan officer was also charged in the indictment, and FirstCity Bank's former top lawyer, was added as a defendant in the case 3 months later.

On October 21, 2011, the former president waived formal indictment on the perjury charge and pleaded guilty to one count of perjury and one count of conspiracy to commit bank fraud. The former senior commercial loan officer pleaded guilty on June 26, 2012, and is awaiting sentencing. The former lawyer's trial is scheduled to begin on January 15, 2013.

The former president served in a variety of top positions at FirstCity Bank between 2004 and 2009, including vice chairman of the board of directors, a member of the

bank's loan committee, president, and later, acting chairman and CEO. While serving in these positions, he and his co-conspirators conspired to defraud FirstCity Bank's loan committee and board of directors into approving multiple multimillion dollar commercial loans to borrowers who, unknown to FirstCity Bank, were actually purchasing property owned by the former president or his co-conspirators. The co-conspirators misrepresented the essential nature, terms, and underlying purpose of the loans and falsified documents and information presented to the loan committee and the board of directors. The former bank president and his co-conspirators caused at least 10 other federally-insured banks to invest in, or "participate in" the fraudulent loans based on these and other fraudulent misrepresentations, shifting all or part of the risk of default to the other banks. The former president alone reaped almost $7 million in proceeds from the loans.

In the process of defrauding FirstCity Bank and the participating banks, the co-conspirators routinely misled federal and state bank regulators and examiners to conceal their unlawful scheme. They also unsuccessfully sought federal government assistance through the U.S. Treasury Department's Troubled Asset Relief Program and engaged in other misconduct in an attempt to avoid seizure by regulators and prevent the discovery of their fraud.

In an effort to make FirstCity Bank's financial position look better than it really was, the former president and his conspirators made loans to buyers to purchase property that FirstCity Bank held as a result of foreclosure or similar actions without requiring that such buyers make the required down payments.

With respect to the perjury charge, on January 5, 2011, the former president filed a Chapter 7 bankruptcy petition in the United States Bankruptcy Court for the Northern District of Georgia. Among other misrepresentations and omissions, his bankruptcy petition stated that he had a little over $3,000 in cash and financial accounts and essentially no un-encumbered interests in real estate.

On February 3, 2011, he falsely testified under oath at a bankruptcy hearing in federal court that, among other things, his bankruptcy petition was true and accurate in all respects and that he was "down to less than nothing" despite having a large liquid reserve several years earlier. In reality, however, he had and controlled off-shore accounts containing over $545,000 when he swore under oath that he was broke. In addition, he had made about $4 million in loans from his off-shore accounts (i.e., assets of his bankruptcy estate) that were not disclosed in his bankruptcy petition or in his sworn testimony in open court on February 3, 2011.

Source: *This investigation was initiated based on information received from the FDIC Division of Resolutions and Receiverships (DRR).* ***Responsible Agencies:*** *This is a joint investigation of the FDIC OIG, FBI, IRS-CI, and SIGTARP. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Former Senior Commercial Loan Officer Pleads Guilty in Bank Fraud Case

As noted above, the associated actions of the former senior loan officer of FirstCity Bank are also noteworthy in this case. On June 26, 2012, the former senior commercial loan officer pleaded guilty to charges of bank fraud and making a false statement on his tax return.

The former senior loan officer was primarily responsible for recommending approval of commercial real estate loans to the bank's loan committee. In January 2005, he recommended that the bank's loan committee approve a loan for $800,000 to a borrower to purchase and develop 16 lots in a subdivision. He concealed from the bank's loan committee that this loan was part of the funding for a one-day land flip involving these and other lots in the subdivision from which he and his wife would make approximately $100,000. When the loan closed on January 12, 2005, the borrower used the loan proceeds to purchase the 16 lots from a company that the senior loan officer and his wife owned and controlled and which, in turn, had purchased the lots earlier the same day from the true owner for a lower price. In addition, although he misrepresented to the bank that the borrower would make a down payment, in reality, the borrower received approximately $35,000 back when the one-day land flip closed. He caused FirstCity Bank to sell, or participate, this loan to two other Georgia banks without disclosing his personal interest, the one-day flip, or that the borrower had received money back at closing. FirstCity Bank eventually repurchased this loan from the two participating banks. The former senior loan officer eventually paid off FirstCity Bank's loan to this borrower by causing the borrower to quitclaim the property to him in December 2006 and he obtained additional loans from other Georgia banks to retire the debt owed to FirstCity Bank. He received approximately $100,000 in additional funds in connection with this round of financing.

With respect to the tax charge, during 2007 he received approximately $476,000 in commissions from FirstCity Bank from the loans that he originated as FirstCity Bank's senior commercial loan officer. He did not report these commissions, which were paid outside of the bank's payroll process, on his 2007 tax return. He knew that these commissions were taxable income because he had reported similar commissions in prior years. In 2010, upon being informed that he was a target of a criminal investigation, he amended his tax returns twice in a belated attempt to report this income. He would have owed an additional $122,000 in federal taxes in 2007 if he had reported the commissions as required on his 2007 federal tax return.

Source: *The FDIC's DRR.* ***Responsible Agencies:*** *This is a joint investigation of the FDIC OIG, FBI, IRS-CI, and SIGTARP. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Former Bank President and Customer Sentenced in Multimillion-Dollar Check-Kiting Scheme

The former president of Pinehurst Bank in St. Paul, Minnesota, was sentenced to 42 months in prison on five counts of misapplication of bank funds for his involvement in a multimillion-dollar scheme to defraud Pinehurst Bank. He was indicted, along with his co-defendant, an area businessman and bank customer, on June 22, 2011. They were convicted by a federal jury on April 6, 2012. The co-defendant was also sentenced to 42 months in prison on two counts of bank fraud and one count of theft from an employee benefit plan.

The evidence presented at a 12-day trial showed that from March 6, 2009, through January 29, 2010, the former president helped put in place a series of fraudulent loans to conceal the businessman's check-kiting scheme. The five loans, totaling $1.9 million, were issued to straw borrowers for the purpose of covering $1.85 million in anticipated overdrafts resulting from bad checks written by the businessman.

Check kiting occurs when someone intentionally writes a check for a value greater than the account balance and then writes another check from a different account with non-sufficient funds to cover the over-drawn account. Through the scheme, account balances are falsely inflated, allowing the kiter to use non-existent funds to cover payments of debts and purchases. The businessman kited increasingly larger-dollar bad checks between Pinehurst Bank and another bank until late February 2009, when the second bank discovered the scheme and returned over $1.8 million in bad checks to Pinehurst Bank.

While the former bank president took steps to conceal from the bank's board the true nature of the five loans made to the straw borrowers, the scheme was nevertheless uncovered in January 2010, during an independent audit. At that time, the bank terminated the former bank president. The bank was then required to declare the loans as losses, rendering the financial institution undercapitalized and forcing it to be closed by regulators in May 2010.

Further, from May 2009 through at least October 2010, the businessman embezzled more than $160,000 from the 401(k) account of a company that he owned. The 401(k) account was maintained with employee payroll contributions for the purpose of post-retirement payouts. The businessman, however, used the funds to pay company bills, repay the straw loans, and for his personal benefit.

Source: *U.S. Department of Justice.* ***Responsible Agencies:*** *This was a joint investigation by the FDIC OIG, the FB I, and the U.S. Department of Labor-Employee Benefits Security Administration. The case was prosecuted by the U.S. Attorney's Office for the District of Minnesota.*

Former Appalachian Community Bank Senior Vice President Pleads Guilty

On August 22, 2012, the former senior vice president of Appalachian Community Bank pleaded guilty to a charge of conspiracy to commit bank fraud for his role in several schemes to defraud the bank, which failed on March 19, 2010, causing an estimated loss to the DIF of $419.3 million.

The former senior vice president at Appalachian admitted that he conspired with the former CEO and president and others to arrange sham real estate transactions involving foreclosed property owned by Appalachian. Prior to an FDIC examination in August 2009, the two former executives created two shell companies for the sole purpose of hiding approximately $3.7 million worth of Appalachian-owned real estate. GPH Investments, LLC, purchased 11 properties from Appalachian, receiving 90-percent financing from Appalachian. At the same time, PHL Investments, LLC, received a line of credit which accounted for the down payment, causing Appalachian to finance 100 percent of the GPH purchase. The sham transactions were designed to make it appear to FDIC examiners that these new loans were legitimate and performing.

Also, in April 2009, the two former bank officers conspired to use shell corporations to purchase two condominiums in Panama City, Florida. They caused Appalachian to finance the original purchase of $566,000. Approximately 2 months later, they refinanced the condominiums with Appalachian and received approximately $875,000, which was used to service the original debt.

Additionally, the former senior vice president and other co-conspirators created Soak Creek Partners, LLC for the sole purpose of buying and flipping property. In March, 2007, the former senior vice president caused Appalachian to extend three $100,000 loans to a silent partner of Soak Creek. He failed to report to the loan committee that the actual purpose of these three loans was to fund the down payment of approximately 5,000 acres in Tennessee. In April 2007, he caused Appalachian to wire $7.2 million in the name of Soak Creek to a Tennessee law firm that closed the purchase of the 5,000 acres; this wire transfer caused the Soak Creek account to be overdrawn by $7.2 million. Approximately 4 days later, Soak Creek sold the 5,000 acres to a Texas investment company for approximately $9.3 million, netting the former senior vice president a profit of approximately $2 million on the transaction.

Some months later, in September 2007, he caused Appalachian to wire transfer approximately $3 million in the name of Soak Creek to a Tennessee law firm to fund the purchase of another 2,100-acre tract in Tennessee. This wire transfer caused Soak Creek's account to be overdrawn by approximately $3 million. On the same day, Soak Creek sold the 2,100-acre tract to a Texas investment company for approximately $3.7 million. The former senior vice president realized a profit of approximately $500,000 from the sale.

Source: *The case was initiated based on a referral from the FBI.* ***Responsible Agencies:*** *This is a joint investigation by SIGTARP, Federal Housing Finance Agency OIG, FBI, and the FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Former Bank President and CEO Sentenced for Embezzlement

On August 30, 2012, the former president and CEO of the First National Bank, Rosedale, Mississippi, was sentenced to serve 63 months in prison to be followed by 5 years of supervised release. He was also ordered to pay restitution to the FDIC of $1.5 million, of which $75,000 was ordered to be paid immediately. On March 31, 2012, he pleaded guilty to embezzlement. The First National Bank was regulated by the OCC until June 4, 2010, when the FDIC was appointed Receiver.

Between 2005 and continuing through December 2009, the former bank president and CEO diverted loan origination and renewal fees and created fraudulent loans in the names of family members and converted those funds into cash or official checks for his personal use and benefit. He also concealed his illegal activities by altering the books and records of the bank.

Source: *FDIC RMS.* ***Responsible Agencies:*** *The FDIC OIG conducted the investigation with assistance from the FBI and Department of the Treasury OIG. The case was prosecuted by the U.S. Attorney's Office for the Northern District of Mississippi.*

Former Chief Financial Officer at Taylor, Bean & Whitaker Sentenced to 60 Months in Prison for Fraud Scheme

A former chief financial officer (CFO) of Taylor, Bean & Whitaker (TBW) was sentenced to 60 months in prison for his role in a more than $2.9 billion fraud scheme that contributed to the failure of TBW. He had pleaded guilty in March to one count of conspiracy to commit bank and wire fraud and one count of making false statements. This is one of many sentencings of parties involved in fraudulent activities affecting not only TBW but also contributing to the failure of Colonial Bank, as reported in earlier semiannual reports.

The former CFO joined TBW in 2000 and reported directly to its chairman and later to its CEO. He previously admitted in court that from 2005 through August 2009, he and other co-conspirators engaged in a scheme to defraud financial institutions that had invested in a wholly-owned lending facility called Ocala Funding. Ocala Funding obtained funds for mortgage lending for TBW from the sale of asset-backed commercial paper to financial institutions, including Deutsche Bank and BNP Paribas. The facility was managed by TBW and had no employees of its own.

Shortly after Ocala Funding was established, the former CFO learned there were inadequate assets backing its commercial paper, a deficiency referred to internally at TBW as a "hole" in Ocala Funding. He knew that the hole grew over time to more than $700 million. He learned from the CEO that the hole was more than $1.5 billion at the time of TBW's collapse. The former CFO admitted he was aware that, in an effort to cover up the hole and mislead investors, a subordinate who reported to him had falsified Ocala Funding collateral reports and periodically sent the falsified reports to financial institution investors in Ocala Funding and to other third parties. He acknowledged that he and the CEO also deceived investors by providing them with a false explanation for the hole in Ocala Funding.

The former CFO also previously admitted in court that he directed a subordinate to inflate an account receivable balance for loan participations in TBW's financial statements. He acknowledged that he knew that the falsified financial statements were subsequently provided to Ginnie Mae and Freddie Mac for their determination on the renewal of TBW's authority to sell and service securities issued by them.

In addition, he admitted in court to aiding and abetting false statements in a letter the CEO sent to the U.S. Department of Housing and Urban Development, through Ginnie Mae, regarding TBW's audited financial statements for the fiscal year ending on March 31, 2009.

As reported in previous semiannual reports, other principals in the TBW/Colonial Bank fraud schemes, including the former chairman of TBW, the former CEO of TBW, and the former president of TBW, have been found guilty and sentenced to prison terms ranging from 3 months to 30 years.

Source: *This investigation was initiated by SIGTARP.* ***Responsible Agencies:*** *The failure of Colonial Bank, Montgomery, Alabama, was investigated by the FDIC OIG, FBI, SIGTARP, and Department of Housing and Urban Development OIG. The case was prosecuted by the Department of Justice, Criminal Division, Fraud Section, and the U.S. Attorney's Office for the Eastern District of Virginia.*

Accountant and Real Estate Developer Sentenced to 27 Months in Prison for Orchestrating $1.5 Million Check-Kiting Scheme

An accountant and part-time real estate developer was sentenced to 27 months in prison for directing a long-running check-kiting scheme that defrauded two banks of a total of $1.5 million. He had previously pleaded guilty to one count of bank fraud.

The accountant and part-time developer opened and maintained approximately 15 different bank accounts at two banks: New Millennium Bank and Brunswick Bank & Trust. He engaged in a check-kiting scheme wherein he created artificial balances in his bank accounts by causing checks to be written against the accounts knowing that the money was not there to cover them. He would then deposit the checks into other accounts he controlled to artificially inflate the balances of those accounts.

He admitted that he took the proceeds of the fraudulent checks to pay personal and business expenses and to transfer money to other accounts that he controlled. In total, he deposited in excess of $25 million in bad checks written against his various bank accounts. When the banks discovered the fraud, they returned the checks with insufficient funds and charged the accounts —collapsing the check kite—resulting in the accounts being overdrawn and the banks sustaining hundreds of thousands of dollars in losses.

Source: *FDIC RMS.* ***Responsible Agency:*** *This investigation was conducted by the FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the District of New Jersey.*

Leader of $50 Million Fraud Ring and Co-Conspirators Sentenced

The FDIC OIG has been participating in a complex fraud case involving multiple conspirators and their numerous victims—including both individuals and financial institutions. In that regard, during the reporting period, a California man and a New York man were sentenced for their roles in the $50 million bank fraud conspiracy that operated in six states, involved a network of bank employees, and victimized more than 500 individuals around the world by stealing their personal and financial information. The operation, deemed one of the largest and most sophisticated of its kind prosecuted in the U.S. to date, was carried out between 2006 and 2011 in Minnesota, California, Massachusetts, Arizona, New York, and Texas.

The leader of the operation, a California man, was sentenced to 324 months in federal prison on 1 count of bank fraud conspiracy, 11 counts of bank fraud, 6 counts of mail fraud, 2 counts of wire fraud, 4 counts of aggravated identity theft, 1 count of money laundering conspiracy, and 1 count of trafficking in false authentication features. His key co-conspirator from New York was sentenced to 266 months in federal prison on 1 count of bank fraud conspiracy, 4 counts of bank fraud, and 4 counts of aggravated identity theft. The two men were charged in a superseding indictment on June 7, 2011. They were convicted on February 28, 2012, following a 3-week trial.

The evidence presented at trial proved that from 2006 through March of 2011, the two men acted with numerous co-conspirators to buy and sell stolen bank-customer information that was ultimately used to open fraudulent bank and credit card accounts, apply for loans, and obtain cash. Subsequently, co-conspirators altered checks for deposit into those fraudulent accounts and drafted checks against them. They also acquired cash from the fraudulent credit card accounts they established and used the false credit cards to purchase merchandise. Moreover, they co-opted home equity lines of credit without the knowledge or consent of the true account holders, using the lines of credit for their personal benefit. In addition to recruiting bank employees to assist in the scheme, co-conspirators regularly recruited other individuals to conduct fraudulent financial transactions, often transporting them to various banks around the country to commit their crimes.

The financial institutions victimized included American Express, Associated Bank, Bank of America, Capital One, Guaranty Bank, JP Morgan Chase Bank, TCF Bank, US Bank, Wachovia Bank, Washington Mutual, and Wells Fargo Bank.

Trial testimony proved that the New York man was a high-level manager in the conspiracy. He directed operations and routinely traveled to Minnesota to obtain cash from banks and purchase merchandise from Mall of America and Southdale Mall with the use of fraudulent credit cards. The California man, however, was the leader of the conspiracy. After his arrest, authorities found more than 8,000 stolen identifiers in his storage locker, including hospital records, bank records, credit reports, commercial checks, credit card mailers, and motor vehicle information. According to trial testimony, the stolen information was used to create false identification documents, sometimes in less than an hour. The California man, himself, had 27 fraudulent driver's licenses bearing his photographs. At the time of his arrest, he also possessed more than 140 photos of co-conspirators, including the New York man, ready to be attached to false identification. In addition, he had check stock and blank American Express credit cards for use in making false financial instruments.

During the life of the conspiracy, the California man commanded the manager and many others involved in the operation to commit the fraud, which afforded him layers of protection from exposure as the actual leader of the ring. He directed a cast of players, some of whom provided him with stolen personal identifiers, while others used that information to create false identification. Then, armed with those false identification documents and fraudulent financial instruments, co-conspirators traveled the country, committing fraud on behalf of the conspiracy.

To date, some of approximately 27 named co-conspirators have pleaded guilty and received sentences ranging from 12 to 33 months in prison. Others of them face maximum penalties of 30 years in prison.

Source: *Minnesota Financial Crime Task Force.* ***Responsible Agencies:*** *This is an on-going joint investigation by the Minnesota Financial Crime Task Force, FDIC OIG, IRS-CI, the U.S. Postal Inspection Service, the U.S. Secret Service, and Immigration and Customs Enforcement. The case is being prosecuted by the U.S. Attorney's Office for the District of Minnesota.*

OIG Mortgage Fraud Cases

Our office has successfully investigated a number of mortgage fraud cases over the past 6 months, several of which are described below. Perpetrators of these mortgage schemes are receiving stiff penalties and restitution orders. Our involvement in such cases is often the result of our participation in a growing number of mortgage fraud task forces. Mortgage fraud has taken on new characteristics in the recent economic crisis as perpetrators seek to take advantage of an already bad situation, as illustrated in several mortgage rescue fraud cases described below. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals. The following examples illustrate the nature of these fraudulent activities and the actions taken to stop them.

Sentencing in Mortgage Rescue Case

On June 25, 2012, a mortgage-rescue business owner was sentenced to serve 90 months in prison to be followed by 3 years of supervised release for running a fraudulent mortgage-rescue business that charged substantial up-front fees but actually modified clients' mortgages in only a few cases. Restitution will be determined at a later time. The court ordered that this sentence be served consecutive with a 75-month federal sentence that he received on April 5, 2012, in the District of Columbia involving a counterfeit check scheme.

According to court records, the business owner, a convicted felon and disbarred attorney, owned and operated a Vienna, Virginia, mortgage-rescue business. From June 2008 through March 2009, the business took in nearly $2.8 million from approximately 865 clients whose mortgages were in distress and who came to the business owner looking for relief. He aggressively recruited new clients and pocketed their money while pretending he was successful, was an attorney, and that the business had restructured hundreds of mortgages, stopped hundreds of foreclosures, and negotiated hundreds of short sales. In addition, he instructed clients to terminate contact with their mortgage companies and to stop making payments to their lenders. In

reality, his company was able to obtain relief for approximately 4.5 percent of its clients.

Source: *This investigation was initiated based on a request for assistance from the FBI, Northern Virginia Resident Agency, Manassas, Virginia.* ***Responsible Agencies:*** *This case was investigated by the FBI's Washington Field Office, the FDIC OIG, and SIGTARP. The case was prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.*

Multiple Convictions in Florida Mortgage Fraud Case

On May 4, 2012, a husband, wife, and former police officer were convicted following a 12-week trial for their roles in a massive mortgage fraud scheme that operated in the Sarasota, Florida, area. The three were found guilty of conspiracy to commit wire fraud and of making false statements on loan applications submitted to FDIC-insured financial institutions and mortgage lenders. The jury also found the husband and wife guilty on separate counts of making false statements on loan applications submitted to an FDIC-insured bank.

The three individuals conspired with each other and with numerous other individuals to purchase residential properties in the Sarasota area by making false statements on loan applications that were submitted to various FDIC-insured banks and mortgage lenders. The false statements pertained to, among other things, the actual purchase/sale price of the property; the purchaser/borrower's intended use of the property; the purchaser/borrower's employment, income, assets and liabilities; and the amount and source of the equity contributed to the purchase by the purchaser/borrower. The idea behind the scam perpetrated was to fraudulently obtain the maximum loan possible on each property, and then to sell that property within a few years after it had appreciated, without risking much, if any, of their own money. The conspiracy began in the late 1990s and then grew slowly until 2004. In 2004, with the drastic increase in real estate prices in Sarasota, it grew exponentially. The conspiracy ended when the real estate market collapsed in 2008.

This widespread mortgage fraud scheme was led by two real estate agents and eventually included more than 100 properties and more than $114 million in fraudulent mortgage loans. Those agents used family members and associates with high credit scores as straw borrowers on stated income loans. Loan applications were made through a small group of loan officers who were friendly with the two agents. The loan applications contained multiple material false statements as to income and assets, and the loans were subsequently almost exclusively closed at a single title company that was complicit in the scheme.

Once the agents gained control of a property, additional fraudulent sales to other co-conspirators using inflated prices and ever-increasing loan amounts normally followed. The agents collected large real estate commissions on most of the transactions, as the majority of the sales were at prices from $1 million to over $3 million.

A total of 19 defendants, including the two agents, have been convicted during this investigation. Sentencing for the husband, wife, and former police officer was scheduled for October 2012.

Responsible Agencies: *The investigation is being conducted by the FBI, FDIC OIG, and the Sarasota County Sheriff's Office. The case is being prosecuted by the U.S. Attorney's Office for the Middle District of Florida.*

Metro Dream Homes CFO Sentenced to Prison

The former CFO of Metro Dream Homes (MDH) was sentenced in May 2012 to 29 months in prison to be followed by 3 years of supervised release for money laundering in connection with her participation in a massive mortgage fraud scheme that promised to pay off homeowners' mortgages on their "Dream Homes," but left them to fend for themselves. She was also ordered to pay restitution of $34,340,830. Six other defendants have been convicted and sentenced for their roles in this scheme.

Beginning in 2005, the former CFO and her co-conspirators targeted homeowners and home purchasers to participate in a purported mortgage payment program called the "Dream Homes Program." To give investors the impression that the Dream Homes Program was very successful, MDH spent hundreds of thousands of dollars making presentations at luxury hotels such as the Washington Plaza Hotel in Washington, D.C., the Marriott Marquis Hotel in New York, New York, and the Regent Beverly Wilshire Hotel in Beverly Hills, California.

Participants were told at the presentations that in exchange for a minimum $50,000 investment and an "administrative fee" of up to $5,000, the conspirators would make the homeowners' future monthly mortgage payments and pay off the homeowners' mortgages within 5-7 years. Dream Homes Program representatives explained to investors that the homeowners' initial investments would be used to fund investments in automated teller machines, flat-screen televisions that would show paid business advertisements, and electronic kiosks that sold goods and services. MDH encouraged homeowners to refinance existing mortgages on their homes in order to withdraw equity and generate the funds necessary to enroll their homes in the Dream Homes Program.

During the programs, the defendants in this case failed to advise investors that: the ATMs, flat-screen televisions, and kiosks never generated any meaningful revenue; the defendants used the funds from later investors to pay the mortgages of earlier investors; and MDH had not filed any federal income tax returns throughout its existence. The defendants also failed to advise investors that their investments were being used for the personal enrichment of select MDH employees, to pay salaries and mortgages; employ a staff of chauffeurs and maintain a fleet of luxury cars; and travel to and attend the 2007 National Basketball Association All-Star game and the 2007 National Football League Super Bowl, staying in luxury accommodations in both instances.

In marketing the Ponzi scheme, the defendants arranged for early Dream Homes Program investors, whose monthly mortgage payments had been paid by MDH using the funds of later Dream Homes Program investors, to attend recruitment meetings to assure potential investors that the Dream Homes Program was not a fraud. MDH paid investors through a third-party company to advertise the Dream Homes Program to friends and family. As a result of the scheme, more than 1,000 investors in the Dream Homes Program invested approximately $78 million. When the defendants stopped making the promised mortgage payments, the homeowners were left to make the mortgage payments themselves with no recourse for their invested funds.

Responsible Agencies: *This investigation is being conducted jointly by the Washington, D.C. and Maryland Mortgage Fraud Task Forces, which, for this case, included the FDIC OIG, the FBI, IRS-CI, and the Maryland Attorney General's Office – Securities Division. The case is being prosecuted by the U.S. Attorney's Office for the District of Maryland.*

Leader of $66 Million Mortgage Fraud Scheme Pleads Guilty in Manhattan Federal Court

The president and owner of a Long Island-based mortgage brokerage firm pleaded guilty to conspiring to commit wire fraud and bank fraud in connection with a $66 million mortgage fraud scheme.

From 2004 to 2009, he and his firm engaged in a massive mortgage fraud scheme that recruited straw buyers—individuals who posed as home buyers but had no intention of living in, or paying for, the mortgaged properties—to purchase homes from willing sellers, many of whom were in financial distress. He and his co-conspirators often paid the straw buyers for their participation in the scheme. At his direction, loan officers at his firm submitted applications to banks and lenders on behalf of the straw buyers that made fraudulent representations about their net worth, employment, and income. They also fraudulently stated that the sham buyers planned to live in the properties for which the mortgage applications were made. After approving the loans, the lenders sent the mortgage proceeds to the firm's attorneys, including several that were participants in the scheme. These attorneys submitted false statements to the lenders about how they were distributing the loan proceeds and then made huge illicit

payments, typically totaling tens of thousands of dollars or more per transaction, from the loan proceeds to members of the conspiracy.

Source: *Request for assistance from the FBI.* ***Responsible Agencies:*** *This is a joint investigation with the FBI, the Department of Housing and Urban Development OIG, IRS-CI, and U.S. Secret Service. This case is being prosecuted by the U.S. Attorney's Office for the Southern District of New York.*

Sentencing in Mortgage Fraud Case

On May 1, 2012, the owner of a mortgage company was sentenced to serve 37 months in prison to be followed by 3 years of supervised release for conspiracy to commit wire fraud for her role in a mortgage fraud scheme. This scheme involved the issuance of over $4.7 million in fraudulent mortgage loans and caused homeowners to lose over $1.2 million in equity in their homes.

The individual operated a mortgage company from her home. Beginning in 2005, a co-conspirator—a licensed loan originator—identified homeowners who were in financial distress because they were unable to make the mortgage loan payments on their homes and enticed the homeowners to participate in a foreclosure "rescue" plan. He told the homeowners that he would locate "investors" to purchase their homes and thereafter, the homeowners would pay rent to the "investors," who would pay the mortgage and receive a small percentage of the homeowners' equity; that the remainder of the homeowners' equity would be transferred to him, who would hold it in escrow; and that the homeowners would buy back their properties after 12 to 18 months, giving them time to "repair" their finances and credit while they continued to live in their homes.

The co-conspirator recruited family members and associates as "investors" to purchase the properties and paid them a small percentage of the seller's equity at the time of settlement. Prior to the sales of the homes, he created and recorded second deeds of trust or promissory notes that purported to show debts owed by the homeowners to him, and that were secured by the existing equity in their home. At the closing of the home sales, the title companies disbursed funds to his bank account to pay off the liens he had created. He assured the homeowners and "investors" that he would assist them with their rent and mortgage payments, using the equity that he claimed he was holding in his "escrow account." In fact, he and the mortgage company owner knew that he was simply putting these funds into his personal checking account and using them for personal and business purposes.

The two conspirators obtained the new mortgage loans on the properties in the names of the "investors" with higher monthly mortgage payments, and usually, higher interest rates than the homeowners were currently paying. In the loan applications, the mortgage company owner falsely represented that the "investors" intended to live in the homes as primary residents and inflated the incomes of the "investors." In some instances, she submitted fraudulent loan applications for the same "investor" to purchase multiple properties as their so-called primary residence in a short period of time.

The co-conspirator assisted her by procuring false verification of employment letters. Based on the false loan applications, lenders funded loans at high interest rates for the "investors," yielding large transactional fees and premiums for the mortgage company owner. The two conspirators knew that the homeowners who sold their home to the "investor" had lost control of their home; could not afford the new mortgage loan with higher payments and interest; and could not qualify for a refinance.

As a result of the scheme, lenders made over $4.7 million in mortgage loans. Their final loss remains uncertain as some of the homes remain in foreclosure to this day. The homeowners lost approximately $944,200 in home equity. The co-conspirator is currently serving a 41-month prison sentence for his role in the scheme.

Source: *This investigation was based on a request for assistance from the Maryland Mortgage Fraud Task Force and the FBI, Baltimore Field Office, Baltimore, Maryland.* ***Responsible Agencies:*** *This is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office for the District of Maryland.*

Strong Partnerships with Law Enforcement Colleagues

The OIG has partnered with various U.S. Attorneys' Offices throughout the country in bringing to justice individuals who have defrauded the FDIC or financial institutions within the jurisdiction of the FDIC, or criminally impeded the FDIC's examination and resolution processes. The alliances with the U.S. Attorneys' Offices have yielded positive results during this reporting period. Our strong partnership has evolved from years of hard work in pursuing offenders through parallel criminal and civil remedies resulting in major successes, with harsh sanctions for the offenders. Our collective efforts have served as a deterrent to others contemplating criminal activity and helped maintain the public's confidence in the nation's financial system.

During the reporting period, we partnered with U.S. Attorneys' Offices in the following geographic areas: Alabama, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Puerto Rico.

We also worked closely with the Department of Justice; FBI; other OIGs; other federal, state, and local law enforcement agencies; and FDIC divisions and offices as we conducted our work during the reporting period.

Keeping Current with Financial Fraud Activities Nationwide	
The FDIC OIG participates in the following bank fraud, mortgage fraud, and other working groups and task forces throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating criminal activity and fraudulent schemes nationwide.	
OIG Headquarters	National Bank Fraud Working Group--National Mortgage Fraud Working Sub-group.
New York Region	Long Island Mortgage Fraud Task Force; Eastern District New York Mortgage Fraud Task Force; the Northern Virginia Real Estate Fraud Initiative Working Group, Manassas, Virginia; Maine Suspicious Activity Report (SAR) Review Team; Maryland Mortgage Fraud Task Force; the New England Mortgage Fraud Working Group; Philadelphia Mortgage Fraud Working Group; DC National SAR Review Team.
Atlanta Region	Middle District of Florida Mortgage and Bank Fraud Task Force; Southern District of Florida Mortgage Fraud Working Group; Northern District of Georgia Mortgage Fraud Task Force; Eastern District of North Carolina Bank Fraud Task Force; Northern District of Alabama Financial Fraud Working Group.
Kansas City Region	St. Louis Mortgage Fraud Task Force; Kansas City Mortgage Fraud Task Force; Kansas City Financial Crimes Task Force; Minnesota Inspector General Council meetings; Kansas City SAR Review Team; Springfield, Missouri SAR Review Team; Nebraska SAR Review Team; Iowa Mortgage Fraud Working Group.
Chicago Region	Illinois Mortgage Fraud Working Group; Dayton Area Mortgage Task Force; Cincinnati Area Mortgage Fraud Task Force; Southern District of Illinois Bank Fraud Working Group; Illinois Fraud Working Group; Indiana Bank Fraud Working Group; Detroit Mortgage Fraud Task Force; Central District of Illinois SAR Review Team; Southern District of Illinois SAR Review Team; Northern District of Illinois SAR Review Team; Eastern District of Wisconsin Mortgage Fraud Task Force; Financial Investigative Team, Milwaukee, Wisconsin; SAR Review Team, Western District of Wisconsin.
San Francisco Region	FBI Seattle Mortgage Fraud Task Force, Fresno Mortgage Fraud Working Group for the Eastern District of California, Sacramento Mortgage Fraud Working Group for the Eastern District of California, Sacramento SAR Working Group, Los Angeles Mortgage Fraud Working Group for the Central District of California.
Dallas Region	Mortgage Fraud Task Force for the Southern District of Mississippi, Oklahoma City Financial Crimes SAR Review Work Group, North Texas Mortgage Fraud Working Group, Eastern District of Texas Mortgage Fraud Task Force, Texas Attorney General's Residential Mortgage Fraud Task Force, Houston Mortgage Fraud Task Force, Austin SAR Review Working Group.
Electronic Crimes Unit	Washington Metro Electronic Crimes Task Force, Botnet Threat Task Force, High Technology Crime Investigation Association, Cyberfraud Working Group.

Strategic Goal 2:
The OIG Will Help the FDIC Maintain the Viability of the Insurance Fund

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the nation's financial system. With enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage was raised temporarily from $100,000 to $250,000 per depositor, through December 31, 2009. This coverage was subsequently extended through December 31, 2013, and the Dodd-Frank Act made permanent the increase in the coverage limit to $250,000. It also provided deposit insurance coverage on the entire balance of non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012. A priority for the FDIC is to ensure that the DIF remains viable to protect all insured depositors. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

Since year-end 2007, the failure of FDIC-insured institutions has imposed total estimated losses of more than $89 billion on the DIF. The sharp increase in bank failures over the past several years took a severe toll on the insurance fund. The DIF balance turned negative in the third quarter of 2009 and hit a low of negative $20.9 billion in the following quarter. As the DIF balance declined, the FDIC adopted a statutorily required Restoration Plan and increased assessments to handle the high volume of failures and begin replenishing the fund. The FDIC increased assessment rates at the beginning of 2009. In June 2009, the FDIC imposed a special assessment that brought in additional funding from the banking industry. Further, in December 2009, to increase the FDIC's liquidity, the FDIC required that the industry prepay almost $46 billion in assessments, representing over 3 years of estimated assessments.

Since the FDIC imposed these measures, the DIF balance has steadily improved. It increased throughout 2010 and stood at negative $1.0 billion as of March 31, 2011. As of year-end 2011, the DIF balance was a positive $9.2 billion, and as of the second quarter of 2012, the balance was $22.7 billion. Under the Restoration Plan for the DIF, the FDIC has put in place assessment rates necessary to achieve a reserve ratio (the ratio of the fund balance to estimated insured deposits) of 1.35 percent by September 30, 2020, as the Dodd-Frank Act requires. As of the second quarter, the reserve ratio was at 0.32 percent. FDIC analysis of the past two banking crises has shown that the DIF reserve ratio must be 2 percent or higher in advance of a banking crisis to avoid high deposit insurance assessment rates when banking institutions are strained and least able to pay. Consequently, the FDIC established a 2-percent reserve ratio target as a critical component of its long-term fund management strategy.

The FDIC has also implemented the Dodd-Frank Act requirement to redefine the base used for deposit insurance assessments as average consolidated total assets minus average tangible equity rather than an assessment based on domestic deposits. The FDIC does not expect this change to materially affect the overall amount of assessment revenue that otherwise would have been collected. However, as Congress intended, the change in the assessment base generally shifts some of the overall assessment burden from community banks to the largest institutions, which rely less on domestic deposits for their funding than do smaller institutions. The result was intended to be a sharing of the assessment burden that better reflects each group's share of industry assets. The FDIC had estimated that aggregate premiums paid by institutions with less than $10 billion in assets would decline by approximately 30 percent, primarily due to the assessment base change. When the provision was implemented in the second quarter of

2011, aggregate premiums paid by such institutions had declined by about 33 percent.

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk factors that affect all insured institutions. The FDIC is committed to providing accurate and timely bank data related to the financial condition of the banking industry. Industry-wide trends and risks are communicated to the financial industry, its supervisors, and policymakers through a variety of regularly produced publications and ad hoc reports. Risk-management activities include approving the entry of new institutions into the deposit insurance system, off-site risk analysis, assessment of risk-based premiums, and special insurance examinations and enforcement actions. In light of increasing globalization and the interdependence of financial and economic systems, the FDIC also supports the development and maintenance of effective deposit insurance and banking systems world-wide.

Responsibility for identifying and managing risks to the DIF has rested with the FDIC's Division of Insurance and Research, RMS, Division of Resolutions and Receiverships (DRR), and now OCFI. The FDIC's Office of Corporate Risk Management also plays a key role in identifying risks. To help integrate the risk management process, the FDIC Board authorized the creation of an Enterprise Risk Committee, as a cross-divisional body to coordinate risk assessment and responses across the Corporation. This committee assumed the functions of the former National Risk Committee. In support of the Enterprise Risk Committee, a Risk Analysis Committee was also formed, made up of senior managers from key divisions and offices. A Risk Analysis Center monitors emerging risks and recommends responses to the Enterprise Risk Committee. In addition, the Financial Risk Committee and Closed Bank Risk Committee focus on how risks impact the DIF and financial reporting.

Over recent years, the consolidation of the banking industry resulted in fewer financial institutions controlling an ever expanding percentage of the nation's financial assets. The FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs have included the Large Insured Depository Institution Program, Dedicated Examiner Program, Shared National Credit Program, and off-site monitoring systems.

Importantly, with respect to the largest institutions, Title II of the Dodd-Frank Act will help address the notion of "Too Big to Fail." The largest institutions will be subjected to the same type of market discipline facing smaller institutions. Title II provides the FDIC authority to wind down systemically important bank holding companies and non-bank financial companies as a companion to the FDIC's authority to resolve insured depository institutions. As noted earlier, the FDIC's new OCFI is now playing a key role in overseeing these activities.

To help the FDIC maintain the viability of the DIF, the OIG's **2012 performance goal** is as follows:

- Evaluate corporate programs to identify and manage risks in the banking industry that can cause losses to the fund.

OIG Work in Support of Goal 2

We did not complete work specifically related to this goal area during the reporting period. We would note, however, that the OIG's work referenced in Goal 1 fully supports the goal of helping the FDIC maintain the viability of the DIF. For example, each institution for which we conduct an MLR, in-depth review, or a failed bank review by definition, causes a substantial loss to the DIF. The OIG's failed bank work is designed to help prevent such losses in the future. Similarly, investigative activity described in Goal 1 fully supports the strategic goal of helping to maintain the viability of the DIF. The OIG's efforts often lead to successful prosecutions of fraud in financial institutions, with restitution paid back to the FDIC when possible, and/or deterrence of fraud that can cause losses to the fund.

Strategic Goal 3: The OIG Will Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. The following are but a sampling of Acts seeking to protect consumers:

- The **Community Reinvestment Act** encourages federally insured banks to meet the credit needs of their entire community.
- The **Equal Credit Opportunity Act** prohibits creditor practices that discriminate based on race, color, religion, national origin, sex, marital status, or age.
- The **Home Mortgage Disclosure Act** was enacted to provide information to the public and federal regulators regarding how depository institutions are fulfilling their obligations towards community housing needs.
- The **Fair Housing Act** prohibits discrimination based on race, color, religion, national origin, sex, familial status, and handicap in residential real-estate-related transactions.
- The **Gramm-Leach Bliley Act** eliminated barriers preventing the affiliations of banks with securities firms and insurance companies and mandated new privacy rules.
- The **Truth in Lending Act** requires meaningful disclosure of credit and leasing terms.
- The **Fair and Accurate Credit Transaction Act** further strengthened the country's national credit reporting system and assists financial institutions and consumers in the fight against identity theft.

The FDIC serves a number of key roles in the financial system and among the most important is its work in ensuring that banks serve their communities and treat consumers fairly. The FDIC carries out its role by (1) providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and (2) examining the banks where the FDIC is the primary federal regulator to determine the institutions' compliance with laws and regulations governing consumer protection, fair lending, and community investment. By way of perspective, during 2011, DCP conducted 1,757 Community Reinvestment Act/compliance examinations. As a means of remaining responsive to consumers, the FDIC's Consumer Response Center investigates consumer complaints about FDIC-supervised institutions and responds to consumer inquiries about consumer laws and regulations and banking practices.

The FDIC continues to experience and implement changes related to the Dodd-Frank Act that have direct bearing on consumer protections. The Dodd-Frank Act established a new Consumer Financial Protection Bureau within the FRB and transferred to this bureau the FDIC's examination and enforcement responsibilities over most federal consumer financial laws for insured depository institutions with over $10 billion in assets and their insured depository institution affiliates. Also during early 2011, the FDIC established a new Division of Depositor and Consumer Protection, responsible for the Corporation's compliance examination and enforcement program as well as the depositor protection and consumer and community affairs activities that support that program.

Historically, turmoil in the credit and mortgage markets has presented regulators, policymakers, and the financial services industry with serious challenges. The FDIC has been committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs

of the economy, especially the needs of creditworthy households that may experience distress. Another important priority is financial literacy. The FDIC has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream. Economic inclusion continues to be a priority for the FDIC.

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing functions. The FDIC seeks to ensure that financial institutions protect the privacy and security of information about customers under applicable U.S. laws and regulations.

Every year fraud schemers attempt to rob consumers and financial institutions of millions of dollars. The OIG's Office of Investigations can identify, target, disrupt, and dismantle criminal organizations and individual operations engaged in fraud schemes that target our financial institutions or that prey on the banking public. OIG investigations have identified multiple schemes that defraud consumers. Common schemes range from identity fraud to Internet scams such as "phishing" and "pharming."

The misuse of the FDIC's name or logo has been identified as a common scheme to defraud consumers. Such misrepresentations have led unsuspecting individuals to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These consumers have lost millions of dollars in the schemes. Investigative work related to such fraudulent schemes is ongoing and will continue. With the help of sophisticated technology, the OIG continues to work with FDIC divisions and other federal agencies to help with the detection of new fraud patterns and combat existing fraud. Coordinating closely with the Corporation and the various U.S. Attorneys' Offices, the OIG helps to sustain public confidence in federal deposit insurance and goodwill within financial institutions.

To assist the FDIC to protect consumer rights and ensure customer data security and privacy, the OIG's **2012 performance goals** are as follows:

- Contribute to the effectiveness of the Corporation's efforts to ensure compliance with consumer protections at FDIC-supervised institutions.
- Support corporate efforts to promote fairness and inclusion in the delivery of products and services to consumers and communities.
- Conduct investigations of fraudulent representations of FDIC affiliation or insurance that negatively impact public confidence in the banking system.

OIG Work in Support of Goal 3

During the reporting period, we did not devote audit or evaluation resources directly to this goal area. We did, though, include DCP's examination process in our review of the FDIC's examination process for small community banks, an assignment requested by the Chairman of the Senate Banking Committee, as referenced in an earlier write-up in this report. Additionally, our investigative work related to misrepresentation of FDIC insurance or affiliation and protection of personal information supported this strategic goal area. Further, in response to an increase in the number of consumer inquiries in our public inquiry system, the OIG has referred a number of matters either to the FDIC's Consumer Response Center or to other entities offering consumer assistance on banking-related topics. These efforts are discussed below.

Office of Investigations Works to Prevent Misrepresentations of FDIC Affiliation

Unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured or somehow connected to the FDIC. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance or the FDIC name while misleading them as to the true nature of the investments or other offerings. Abuses of this nature not only harm consumers, they can also erode public confidence in federal deposit insurance. During the reporting period, two individuals were sentenced for their roles in securities fraud schemes involving misrepresentation of FDIC affiliation. An individual posing as an FDIC broker also pleaded guilty to engaging in a Ponzi fraud scheme that victimized senior citizens.

Florida Man Sentenced in Securities Fraud Scheme

On July 27, 2012, the former co-owner of Capital 1st Financial was sentenced to serve 12 months in prison to be followed by 24 months of supervised release. He was also ordered to pay restitution of $4.7 million. On September 30, 2010, he was found guilty of securities fraud and mail fraud.

The former co-owner was the seventh defendant to be convicted and sentenced in this case. In 2006 and 2007, he and his associates misled investors into purchasing interests in a hedge fund known as Secured Capital Trust. These defendants received approximately $5 million from investors in a marketing scheme involving misrepresentations of FDIC insurance. The marketing scheme involved newspaper advertisements for FDIC-insured certificates of deposit (CDs) paying above-market rates. When investors responded to the advertisements, they were "baited and switched" into Secured Capital Trust.

A co-conspirator, who is currently serving a 60-month prison sentence, told investors that the funds invested in Secured Capital Trust would be placed in FDIC-insured CDs or pools of FDIC-insured CDs. The funds from the sale of Secured Capital Trust were actually used to purchase shares of Interfinancial Holdings Corporation. The State of Florida, Office of Financial Regulations, filed a temporary injunction, appointed a receiver, and shut down Capital 1st Financial. The Interfinancial Holdings Corporation stock price subsequently fell and the investors lost the majority of their investments.

Source: *This investigation was initiated based on a referral from the Securities and Exchange Commission and the FBI.* ***Responsible Agencies:*** *This is a joint investigation with the FDIC OIG and the FBI. The case was prosecuted by the U.S. Attorney's Office for the Northern District of Texas.*

Dallas Man Sentenced in Securities Fraud Scheme

On July 20, 2012, the former owner and chief operations officer of the now defunct Dallas-based AmeriFirst Funding Corp and AmeriFirst Acceptance Corp was sentenced to serve 192 months in prison to be followed by 36 months of supervised release. He was also ordered to pay restitution of $23.2 million. On December 21, 2011, he was found guilty of securities fraud and mail fraud following a week-long trial.

Both of his companies had been under the control of a court-appointed receiver since the U.S. Securities and Exchange Commission brought an emergency action to halt the fraud in 2007. According to the evidence presented at trial, he raised over $50 million from more than 500 unsuspecting investors through the fraudulent offer and sale of securities known as secured debt obligations. He falsely represented to investors, many of whom were retirees, that their investment was insured and guaranteed against loss and backed by a commercial bank. He also falsely represented he would act as a fiduciary over the money they entrusted to him. However, instead of acting as a fiduciary, he spent investor money on such purchases as an airplane, sports cars, a condominium, real estate, and his own personal living expenses.

Source: *The Securities and Exchange Commission and the FBI.* ***Responsible Agencies:*** *This is a joint investigation with the FDIC OIG and the FBI. The case was prosecuted by the U.S. Attorney's Office for the Northern District of Texas.*

Man Posing as an "FDIC Broker" Pleads Guilty in Ponzi Fraud Scheme

On August 2, 2012, an individual falsely representing himself as being affiliated with the FDIC pleaded guilty to mail fraud and false personation of an officer or employee of the FDIC. He was charged on August 17, 2011, in a 67-count indictment in connection with his

role in operating a $6.3 million Ponzi scheme through which he marketed and sold fictitious FDIC-insured CDs to senior citizen investors, primarily in Arizona and California.

From July 2000 through June 2011, while claiming to be an "FDIC Broker," he solicited investors through newspaper advertisements and fliers. He acted primarily under the assumed names of BankNet, Nationwide Banknet Services, Capital One Custodial Services, and WWI. No investor funds were used to purchase CDs, but funds were actually used for personal expenses and for purported "interest" and "principal" payments on fraudulent CDs sold to other victim investors.

Source: *Maricopa County Sheriff's Office, Surprise, Arizona.* ***Responsible Agencies:*** *This was a joint investigation with the Maricopa County Sheriff's Office. The case is being prosecuted by the U.S. Attorney's Office for the District of Arizona.*

Electronic Crimes Unit Responds to Email and Other Schemes

The Electronic Crimes Unit (ECU) continues to work with agency personnel and an FDIC contractor to identify and mitigate the effects of phishing attacks through emails claiming to be from the FDIC. These schemes persist and seek to elicit personally identifiable and/or financial information from their victims. The nature and origin of such schemes vary and in many cases, it is difficult to pursue the perpetrators, as they are quick to cover their cyber tracks, often continuing to originate their schemes from other Internet addresses.

OIG's Inquiry Intake System Responds to Public Concerns and Questions

The OIG's inquiry intake system supplements the OIG Hotline function. The Hotline continues to address allegations of fraud, waste, abuse, and possible criminal misconduct. However, over the past 2 years, our office has continued to receive an increasing number of public inquiries ranging from media inquiries to requests for additional information on failed institutions to pleas for assistance with mortgage foreclosures to questions regarding credit card companies and associated interest rates. These inquiries come by way of phone calls, emails, faxes, and other correspondence. The OIG makes every effort to acknowledge each inquiry and be responsive to the concerns raised. We handle those matters within the OIG's jurisdiction and refer inquiries, as appropriate, to other FDIC offices and units or to external organizations. During the past 6-month period, we addressed approximately 200 such matters.

Strategic Goal 4: The OIG Will Help Ensure that the FDIC Efficiently and Effectively Resolves Failing Banks and Manages Receiverships

In the FDIC's history, no depositor has experienced a loss on the insured amount of his or her deposit in an FDIC-insured institution due to a failure. One of the FDIC's most important roles is acting as the receiver or liquidating agent for failed FDIC-insured institutions. The success of the FDIC's efforts in resolving troubled institutions has a direct impact on the banking industry and on taxpayers.

The FDIC's DRR's responsibilities include planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and efficient administration of failing and failed financial institutions in order to maintain confidence and stability in our financial system.

- The **resolution process** involves valuing a failing federally insured depository institution, marketing it, soliciting and accepting bids for the sale of the institution, considering the least costly resolution method, determining which bid to accept, and working with the acquiring institution through the closing process.
- The **receivership process** involves performing the closing function at the failed bank; liquidating any remaining assets; and distributing any proceeds to the FDIC, the bank customers, general creditors, and those with approved claims.

Banks over the past years have become more complex, and the industry has consolidated into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has dealt with in the past.

An important reform under the Dodd-Frank Act is the new resolution authority for large bank holding companies and systemically important non-bank financial companies. The FDIC has historically carried out a prompt and orderly resolution process under its receivership authority for insured banks and thrifts. The Dodd-Frank Act gave the FDIC a similar set of receivership powers to liquidate failed systemically important financial firms.

In addition to the activities associated with exercising this new resolution authority in the future, the Corporation is currently dealing with a challenging resolution and receivership workload. To date during the crisis, approximately 460 institutions have failed, with total assets at inception of $673.4 billion. Estimated losses resulting from the failures total approximately $89 billion. As of June 30, 2012, the number of institutions on the FDIC's "Problem List" was 732, indicating the potential of more failures to come and an increased asset disposition workload.

Franchise marketing activities are at the heart of the FDIC's resolution and receivership work. The FDIC pursues the least costly resolution to the DIF for each failing institution. Each failing institution is subject to the FDIC's franchise marketing process, which includes valuation, marketing, bidding and bid evaluation, and sale components. The FDIC is often able to market institutions such that all deposits, not just insured deposits, are purchased by the acquiring institution, thus avoiding losses to uninsured depositors.

Of special note, through purchase and assumption agreements with acquiring institutions, from November 2008, when loss-sharing began, through June 30, 2012, the Corporation had resolved 293 failures (69 percent of total failures during that time frame) with $212.7 billion in assets using shared-loss agreements (SLA). Under these agreements, which run up to 10 years, the FDIC agrees to absorb a portion of the loss—generally 80-95 percent—which may be experienced by the acquiring institution with regard to those assets, for a period of up to 7 years. Beyond that term, the FDIC only

participates in recoveries. In addition, as of the end of June 2012, the FDIC had entered into 32 structured asset sales involving 42,314 assets with a total unpaid principal balance of about $25.5 billion at the time of sale. Under these arrangements, the FDIC retains a participation interest in future net positive cash flows derived from third-party management of these assets.

Other post-closing asset management activities continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through purchase and assumption agreements or involved in structured sales. As of September 30, 2012, the FDIC was managing 466 receiverships holding about $18.2 billion in assets, mostly securities, delinquent commercial real-estate and single-family loans, and participation loans. Post-closing asset managers are responsible for managing many of these assets and rely on receivership assistance contractors to perform day-to-day asset management functions. Since these loans are often sub-performing or nonperforming, workout and asset disposition efforts are more intensive.

In handling a large volume of post-failure activities, DRR's human resources have been challenged over the years. At the end of 2008, on-board resolution and receivership staff totaled 491. The FDIC subsequently increased its permanent resolution and receivership staffing and significantly increased its reliance on contractor and term employees to fulfill the critical resolution and receivership responsibilities associated with the ongoing FDIC interest in the assets of failed financial institutions. On-board staffing at the beginning of 2012 was about 2,276. With some easing of the crisis and the closings of two of the FDIC's three temporary satellite offices, DRR staffing totaled about 1,513 full-time equivalents as of September 30, 2012. As of that same date, DRR's total contracting resources equalled 369, for a total of 1,882 on-board resources. DRR-related contracts awarded for 2012 comprise a substantial portion of all FDIC contracts.

Over the past years, the significant surge in failed-bank assets and associated contracting activities has required increased attention to effective and efficient contractor oversight management and technical monitoring functions. Bringing on so many contractors and new employees in a short period of time can strain personnel and administrative resources in such areas as employee background checks, for example, which, if not timely and properly executed, can compromise the integrity of FDIC programs and operations.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. For example, in the case of bank closings where fraud is suspected, our Office of Investigations may send case agents and computer forensic special agents from the Electronic Crimes Unit (ECU) to the institution. ECU agents use special investigative tools to provide computer forensic support to OIG investigations by obtaining, preserving, and later examining evidence from computers at the bank.

The OIG also coordinates with DRR on concealment of assets cases that may arise. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. The Office of Investigations works with both DRR and the Legal Division in pursuing criminal investigations of these individuals.

To help ensure the FDIC efficiently and effectively resolves failing banks and manages receiverships, the OIG's **2012 performance goals** are as follows:

- Evaluate the FDIC's plans and systems for managing bank resolutions.
- Investigate crimes involved in or contributing to the failure of financial institutions or which lessen or otherwise affect recoveries by the DIF, involving restitution or otherwise.

OIG Work in Support of Goal 4

During the reporting period, we continued to carry out varied assignments involving a range of resolution and receivership activities, including a number of ongoing assignments in response to H.R. 2056. For example, H.R. 2056 includes areas of interest related to SLAs, significance of losses at failed institutions, and capital adequacy and investment in both open and closed institutions. Importantly, the Inspector General (IG) was asked to testify before the Committee on Financial Services, Subcommittee on Oversight and Investigations, U.S. House of Representatives, on Oversight of the FDIC's Structured Transaction Program. We also completed work related to two of the FDIC's risk-sharing agreements with limited liability companies (LLC) involved in structured asset sales that the IG referenced in his testimony. This testimony and the findings and recommendations of the two completed assignments are summarized below.

OIG Audit Work Focuses on Resolution and Receivership Challenges

IG's Congressional Testimony on May 16, 2012

In his testimony, the IG pointed out that in early 2010, we began to focus our audit attention on the Corporation's rapidly growing resolution and receivership management activities, including such risk-sharing arrangements as SLAs and structured asset sale transactions. The FDIC's financial risk exposure pertaining to these risk-sharing arrangements is significant, and we designed our audits early on to assess compliance with the arrangements and the internal controls that the FDIC has established and implemented to protect the interests of the DIF in these arrangements.

The IG described the findings and recommendations of two completed audits of structured asset sale transactions; the scope and methodology of the OIG's ongoing work on these types of transactions; and, to the extent possible, our review of the complaints filed by borrowers impacted by these transactions. He also briefly discussed our planned work in this area.

With respect to SLAs, at the time of our testimony, we indicated that as of March 31, 2012, the FDIC reported that it had entered into 285 SLAs with an original principal balance of $212.7 billion in assets. Given the number of SLAs and the associated risks to the DIF, we initially identified individual, large SLA transactions that, in our judgment, presented significant financial risk to the FDIC, and from which we believed we could derive lessons that would help management to develop and improve controls.

The IG testified that we had conducted seven audits of individual SLAs, resulting in 93 recommendations, of which numerous recommendations related to the establishment of program level controls. With the development by FDIC management of more robust internal control structures at the transaction level, the IG explained that we later shifted the focus of our work with regard to these agreements to the FDIC's controls at a higher program level. This approach is consistent with the one we undertook for our reviews of failed institutions—that is, a more individual focus followed by a more global view of trends.

As for structured asset sales, the IG noted that the FDIC, acting as receiver for failed banks, reported that it had consummated 32 structured sale transactions involving 42,314 assets with a total unpaid principal balance of approximately $25.5 billion, as of April 25, 2012. His testimony addressed the work we had completed on two of these structured asset sale transactions and described the scope and methodology of an ongoing audit of two other such transactions. (Note: results of our work involving the first of these audits—ANB Financial, N.A.—were reported in an earlier semiannual report for the period October 1, 2010 through March 31, 2011. The other two audits were completed during the current reporting period and the results of these efforts (Corus Construction Venture, LLC and Rialto Capital Management, LLC) are described in more detail below.)

In looking to the future, the IG testified that the OIG intended to continue audits

of individual SLA and structured asset sale transactions because of the dollar value of the transactions and to provide a deterrent effect as it relates to the risk of fraud. However, he noted that we had not yet assessed the effectiveness of all of the control improvements we recommended for the structured asset sale program and that the FDIC has advised it has implemented. As that program matures and as resources permit, the IG indicated that we planned to elevate our focus to a program-level review that assesses overall monitoring and oversight controls. Such an approach is consistent with our earlier work examining institution failures and a more recent review of the SLA program. Upon completing such a review, as a next step, we would consider taking a broad, comparative look at the various resolution strategies that the FDIC has employed during the crisis in order to assist the Corporation in carrying out future resolution and receivership activities.

Corus Construction Venture, LLC

We contracted with CliftonLarsonAllen LLP (Clifton) to conduct an audit of the Corus Construction Venture, LLC (CCV) structured asset sale. The transaction involved multiple written agreements, which we collectively refer to as the structured asset sale agreements. The objectives of the audit were to assess: (1) compliance with the structured asset sale agreements related to the CCV structured asset sale and (2) the FDIC's monitoring of the agreements.

On September 11, 2009, the OCC closed Corus Bank, N.A., Chicago, Illinois, and the FDIC was appointed receiver. On October 12, 2009, the FDIC as receiver created CCV and subsequently entered into a structured sale wherein 101 assets of the receivership were sold, in part, and contributed, in part, to CCV. The assets had an unpaid principal balance of approximately $4.4 billion and included loans for condominium and office construction projects in a number of markets, such as Atlanta, Chicago, Los Angeles, Miami, New York, and Washington, D.C. Under the terms of the structured asset sale agreements, CCV assumed certain duties, obligations, and liabilities pertaining to the assets and issued purchase money notes (PMN) totaling $1.377 billion to the FDIC as partial consideration for the sale.

On October 16, 2009, following a competitive bid process, the FDIC sold an initial 40-percent managing equity interest in CCV to CCV Managing Member, LLC, later known as ST Residential. ST Residential paid the FDIC approximately $551 million and assumed certain liabilities and contractual obligations for its equity interest in CCV, and the FDIC retained the remaining 60-percent equity interest. ST Residential serves as CCV's Managing Member and, as such, has overall responsibility for managing the business and affairs of CCV. In addition, ST Residential performs asset servicing functions. In exchange for servicing, administering, managing, and disposing of CCV's assets, ST Residential receives a monthly management fee and reimbursement of certain allowable servicing expenses from the proceeds of the assets.

To facilitate the structured asset sale, the FDIC provided CCV an Advance Facility of up to $1.15 billion to fund the construction of incomplete buildings and provide other asset-related working capital. Before the members of CCV can receive equity distributions, the full amount due on the PMN must be deposited into a defeasance account, all borrowings under the Advance Facility must be paid in full, and the ability to lend further under the Advance Facility must be terminated. Further, if ST Residential receives distributions from CCV equal to pre-defined thresholds, ST Residential's equity interest in CCV will decrease to 30 percent and the FDIC's equity interest will increase to 70 percent.

Clifton concluded that CCV and ST Residential were in compliance with certain provisions of the structured asset sale agreements. For example, ST Residential submitted timely financial reports to the FDIC. In addition, with respect to assets that Clifton sampled, ST Residential had taken steps to increase their marketability by making improvements and placing considerable emphasis on engaging knowledgeable asset and property managers to service and liquidate the assets. Regarding the FDIC's monitoring of the agreements, Clifton found that DRR had implemented certain controls and additional control improvements were planned or underway at the close of audit fieldwork. As described below, however, Clifton identified several matters involving ST Residential's compliance and the FDIC's monitoring that warranted DRR management's attention.

Management Fees on Nonaccrual and Capitalized Interest. Clifton pointed out that it is not a customary or usual practice in the financial services industry to pay a management fee on nonaccrual and capitalized interest because there is no economic substance to the interest, and it requires no substantive management work. Because of a lack of clarity in the agreements, we did not question ST Residential's receipt of such fees but recommended that DRR review this matter further and provide additional clarification regarding the treatment of nonaccrual or capitalized interest in future structured asset sale agreements.

Servicing Expenses. Clifton questioned $3,754,891 related to costs incurred during the period October 16, 2009 through September 30, 2010 that were not permissible under the terms of the structured asset sale agreements and that DRR should disallow. The majority of these costs pertain to servicing-related activities provided by real estate development firms engaged by ST Residential. The remaining questioned costs involve travel, meals, and entertainment.

Controls and Activities Associated with Servicing and Liquidating Assets. Although ST Residential established various controls to help ensure that assets were serviced and liquidated consistent with the terms of the structured asset sale agreements, the company had not developed written policies and procedures for servicing and liquidating assets that were commensurate with the size, risk, and complexity of the assets being managed.

Protection of Sensitive Information. While ST Residential had implemented certain controls over sensitive personally identifiable information for borrowers and guarantors, its controls as a whole were not consistent with customary and usual standards of practice for prudent mortgage lenders, loan servicers, and asset managers servicing, managing, and administering loans and properties similar to CCV.

Management Fee Calculations. Clifton questioned $5,357 in management fees that DRR should disallow due to an erroneous unpaid principal balance amount on a loan. Clifton also noted that improved procedures for ensuring timely application of cash collections to the unpaid principal balance of CCV's assets could reduce management fees.

DRR's Monitoring of the CCV Structured Asset Sale. DRR established certain controls for managing the risks associated with the CCV structured asset sale, such as assigning a dedicated Senior Asset Management Specialist to monitor the agreements and engaging a contractor to provide certain quality assurance services. However, DRR's monitoring needed improvement in several areas. Among other things, DRR was not reviewing servicing expenses reported by ST Residential, conducting independent site inspections of properties, or analyzing relevant documentation in support of advance requests under the Advance Facility. In addition, although DRR had engaged a Verification Contractor to provide certain quality assurance services pertaining to the CCV transaction, the services provided by the contractor were generally not efficient or effective.

DRR advised Clifton that a number of control improvements were either established or planned subsequent to the close of audit field work. Such improvements included issuing policies and procedures for monitoring structured asset sales, engaging a Compliance Monitoring Contractor to perform periodic compliance reviews of CCV and ST Residential, and assigning additional resources to monitor the CCV structured asset sale. DRR also replaced the Verification Contractor and

began performing independent site inspections. Further, DRR had entered into a Letter Agreement with ST Residential to, among other things, conduct a comprehensive review of servicing expenses to determine whether they were properly accounted for. Clifton did not assess the effectiveness of controls established subsequent to the close of audit field work. We reported that, if implemented effectively, the new controls should enhance the quality of DRR's monitoring and oversight of the CCV structured asset sale.

In its response, DRR agreed with all 10 of the report's recommendations and described various corrective actions that were either completed or planned. Such actions include reviewing the manner in which management fees are calculated under structured asset sale agreements; seeking the disallowance of questioned costs totaling $3,760,248; and revising policies, procedures, and guidance that govern the business activities associated with the CCV transaction. These planned and completed actions were responsive to all 10 recommendations.

Rialto Capital Management, LLC

Also during the reporting period, we completed an audit of the FDIC's structured transactions with Rialto Capital Management, LLC (Rialto) in response to a request, dated October 13, 2011, from the Director of DRR. In requesting this work, the DRR Director noted that the FDIC had received a number of inquiries regarding various aspects of the structured transactions. Although DRR had taken steps to address the inquiries, the Director indicated that concerns surrounding the transactions remained at that time and that an independent review of the transactions was warranted.

In conducting this work, our objectives were to assess (1) the FDIC's bidding and selection processes, (2) the terms and conditions of the LLC sales agreements, (3) Rialto's compliance with the LLC sales agreements, and (4) the FDIC's monitoring and oversight of the LLCs. As part of our audit, we also reviewed selected inquiries from the public pertaining to the structured transactions to determine whether the FDIC's responses were timely and supported by documentation. The independent accounting firm of BDO USA, LLP provided assistance in the performance of the audit.

By way of perspective, and as noted earlier, the FDIC, as receiver, had completed 32 structured transactions through June 30, 2012 involving 42,314 assets with a total unpaid principal balance of $25.5 billion. These transactions accounted for 3.8 percent of the $676.2 billion in assets inherited by the FDIC, as receiver, from failed institutions from January 1, 2008 through June 30, 2012.

On February 3, 2010, the FDIC, as receiver for 22 failed institutions at that time, created two LLCs—one for residential assets (Multibank RES) and the other for commercial assets (Multibank CML)—and transferred a total of 5,511 sub- and non-performing residential and commercial acquisition, development, and construction loan assets with a combined unpaid principal balance of $3.1 billion into the LLCs. The FDIC, as receiver, held and serviced the assets for an average of 13 months before they were conveyed to the LLCs.

As partial consideration for transferring the assets into Multibank RES and CML, the LLCs executed and delivered to the FDIC, as receiver, a total of six PMNs with a combined initial principal amount of $626.9 million. The FDIC, in its corporate capacity, guaranteed the PMNs. The FDIC set the interest rates on the PMNs at 0 percent as an incentive for potential investors because the FDIC was concerned about the potential limited recovery on the high number of non-performing assets held by Multibank RES and CML.

On February 9, 2010, following a competitive bid process, the FDIC, as receiver, sold a 40-percent equity interest in Multibank RES and CML to entities established by Rialto (herein referred to as Rialto because Rialto created and is a 100-percent owner of the entities) for a total of $243.5 million. The FDIC, as receiver, retained the remaining 60-percent equity interests in Multibank RES and CML.

With respect to the bidding and selection processes, we determined that the FDIC:

- marketed the assets that comprised the Multibank RES and CML portfolios and approved (i.e., qualified) prospective investors to bid consistent with its then-existing policies, procedures, and guidance; and
- properly determined that Rialto's bids represented the best value offered for the assets and awarded an equity interest in the portfolios to Rialto.

We did note, however, that the FDIC should develop guidance that defines an approach for informing the public about structured transactions as the Corporation enters into such partnerships.

Based on our assessment of the terms and conditions of the LLC sales agreements, we determined that they were generally consistent with customary and usual business practices in the financial services industry. In addition, we reviewed asset files and other information pertaining to a sample of 120 assets and concluded that Rialto was in compliance with the provisions of the structured transaction agreements that we tested. Notably, our review did not identify any questioned costs or violations of the prohibitions in the structured transaction agreements regarding asset sales to affiliates. Further, Rialto was in the process of enhancing its procedures to further mitigate the risk of selling an asset to an affiliate.

However, our report notes that, at the time of our audit, DRR was working with Rialto to (1) ensure that Rialto applied cash proceeds from the sale of REO consistent with the terms of the structured transaction agreements and (2) remove REO deficiency balances from the unpaid principal balance of assets when deficiencies were not being pursued (even though such action is not required by the structured transaction agreements). Both of these efforts impacted Rialto's management fee. DRR was also working with Rialto to (3) separately report REO and loan deficiency balances in financial reports provided to the FDIC (even though such detailed reporting is not required by the structured transaction agreements) and (4) provide the FDIC with required reports on significant litigation activities and environmental hazards. Our report noted that the FDIC should confirm that Rialto has appropriately documented and effectively implemented procedures to address all of these matters.

With respect to the FDIC's monitoring and oversight of Multibank RES and CML, we found that DRR had limited controls in place when the structured transactions with Rialto were consummated. Since that time, DRR's monitoring controls had improved considerably. Further, the FDIC's responses to inquiries from the public pertaining to the transactions were processed in a timely manner, and the information contained in responses that we sampled was supported by documentation. However, we identified several areas where DRR could improve its monitoring and oversight of Rialto. Specifically, we found that DRR should:

- Confirm that Rialto has fully implemented its enhanced procedures for certifying that REO sales are made only to non-affiliated parties of the company.
- Provide the compliance monitoring contractor (CMC) responsible for monitoring Rialto with relevant information regarding inquiries from the public to facilitate the CMC's oversight efforts.
- Establish written guidance that defines DRR's approach for conducting site inspections of LLC properties and documenting the results of such inspections to enhance the monitoring of LLCs.
- Continue coordinating with Rialto to stay abreast of any risk that cash flows will be insufficient to fully pay off two PMNs totaling $314 million on schedule. DRR should also obtain and document a consensus among appropriate FDIC management officials on the merits of options available if such an event would occur, including reissuing the PMNs with new maturity dates, as allowed for by the

structured transaction agreements.

- Direct the CMC responsible for monitoring Rialto to include an assessment of the company's handling of consumer loans during the CMC's periodic compliance reviews, if appropriate.

We made seven recommendations intended to strengthen the FDIC's controls and oversight pertaining to the structured transactions with Rialto. In responding to our draft report, FDIC management concurred with all of our recommendations and described planned corrective actions to address them.

Electronic Crimes Unit Supports Closed Bank Investigations

The ECU continued to support the OIG's Office of Investigations by providing computer forensic assistance in ongoing fraud investigations. To ensure it remains well positioned to do so, the ECU has completed an upgrade to its computer forensic lab. The ECU has incorporated a network and centralized storage for its electronic evidence. The network approach will allow the ECU to more effectively use its forensic programs. The processing of electronic evidence can become extremely resource-intensive when processing a large number of files such as those containing emails. The new network will use the available resources more efficiently. Further, the volume of electronic evidence collected by the ECU has grown exponentially over the last couple of years. Over the last 4 years, the ECU has collected and processed over 67 terabytes of electronic evidence. During the current reporting period alone, the ECU has collected and processed more than 11 terabytes of electronic evidence.

The ECU is also continuing its involvement with the FDIC on an ongoing project related to the collection and preservation of electronic data. The project is a comprehensive agency-wide initiative to develop standards to more effectively and efficiently collect and preserve electronic data. The ECU is participating in a portion of the project related to the collection of electronic data at bank closings. The ECU is providing assistance to the FDIC in determining whether electronic data can be collected in a more efficient method at bank closings to save time and money without resulting in the loss of relevant data.

Strategic Goal 5: The OIG Will Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

The FDIC must effectively manage and utilize a number of critical strategic resources in order to carry out its mission successfully, particularly its human, financial, information technology (IT), and physical resources. These resources have been stretched during the past years of the recent crisis, and the Corporation will continue to face challenges as it seeks to return to a steadier state of operations. Promoting sound governance and effective stewardship of its core business processes and human and physical resources will be key to the Corporation's success.

Of particular note, FDIC staffing levels increased dramatically in light of the crisis but have trended downward over the past year. The Board approved an authorized 2011 staffing level of 9,252 employees, which was up about 2.5 percent from the 2010 authorization of 9,029. On a net basis, all of the new positions were temporary, as were 39 percent of the total 9,252 authorized positions for 2011. Authorized staffing for 2012 is 8,704. Temporary employees were hired by the FDIC to assist with bank closings, management and sale of failed bank assets, and other activities that were expected to diminish substantially as the industry returns to more stable conditions. To that end, the FDIC opened three temporary satellite offices (East Coast, West Coast, and Midwest) for resolving failed financial institutions and managing the resulting receiverships. The FDIC closed the West Coast Office in January 2012 and its Midwest Office in September 2012.

The Corporation's contracting level also grew significantly, especially with respect to resolution and receivership work. To support the increases in FDIC staff and contractor resources, the Board of Directors approved a $4.0 billion Corporate Operating Budget for 2011, down slightly from the 2010 budget the Board approved in December 2009. For 2012, the approved budget was further reduced to $3.28 billion. The FDIC's operating expenses are paid from the DIF, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious.

Opening new offices, rapidly hiring and training many new employees, expanding contracting activity, and training those with contract oversight responsibilities placed heavy demands on the Corporation's personnel and administrative staff and operations during the crisis. Now, as conditions seem a bit improved throughout the industry and the economy, a number of employees have been released—as is the case in the two temporary satellite offices referenced earlier—and staffing levels will continue to move closer to a pre-crisis level, which may cause additional disruption to ongoing operations and current workplaces and working environments. Among other challenges, pre- and post-employment checks for employees and contractors will need to ensure the highest standards of ethical conduct, and for all employees, in light of a transitioning workplace, the Corporation will seek to sustain its emphasis on fostering employee engagement and morale. The Corporation's Workplace Excellence Program is a step in that direction.

From an IT perspective, amidst the heightened activity in the industry and economy, the FDIC is engaging in massive amounts of information sharing, both internally and with external partners. FDIC systems contain voluminous amounts of critical data. The Corporation needs to ensure the security, integrity, availability, and appropriate confidentiality of bank data, personally identifiable information, and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity. Continued attention to ensuring the physical security of all FDIC resources is also a priority. The FDIC

needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

The FDIC is led by a five-member Board of Directors, all of whom are to be appointed by the President and confirmed by the Senate, with no more than three being from the same political party. With the passage of the Dodd-Frank Act, the OTS no longer exists, and the Director of OTS has been replaced on the FDIC Board by the Director of the Consumer Financial Protection Bureau, Richard Cordray. Former FDIC Chairman Sheila Bair left the Corporation when her term expired—in early July 2011. Vice Chairman Martin Gruenberg was serving as Acting Chairman as of the end of 2011, and had been nominated by the President to serve as Chairman. In March 2012, the Senate extended the Board term for Acting Chairman Gruenberg but did not vote on his nomination to be Chairman. The internal Director, Thomas Curry, nominated by the President to serve as Comptroller of the OCC, was confirmed as Comptroller in late March 2012 and currently occupies that position. Thomas Hoenig, nominated by the President to serve as Vice Chairman of the FDIC, was confirmed as a Board member in March 2012 and was sworn in, though not as Vice Chairman, in April 2012.* Finally, Jeremiah Norton was confirmed by the Senate in March 2012 and sworn in as a Board Member in April 2012.

Thus, the Board has been operating for about the past 5 months at its full five-member capacity for the first time since July 2011. Given the relatively frequent turnover on the Board and the new configuration of the current Board, it is essential that strong and sustainable governance and communication processes be in place throughout the FDIC. Board members, in particular, need to possess and share the information needed at all times to understand existing and emerging risks and to make sound policy and management decisions, particularly in the face of new FDIC responsibilities and challenges to come.

Enterprise risk management is a key component of governance at the FDIC. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation, and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved. The first Chief Risk Officer at the FDIC came on board in August 2011 and leads the Office of Corporate Risk Management. The Board also authorized creation of an Enterprise Risk Committee, as a cross-divisional body to coordinate risk assessment and response across the Corporation. As noted earlier, in support of this committee, the Risk Analysis Committee was formed to review issues highlighted by the Enterprise Risk Committee, gather information to support the Enterprise Risk Committee, and identify new issues to consider. The addition of these risk management functions should serve the best interests of the Corporation.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the OIG's **2012 performance goals** are as follows:

- Evaluate corporate efforts to manage human resources and operations efficiently, effectively, and economically.
- Promote integrity in FDIC internal operations.
- Promote alignment of IT with the FDIC's business goals and objectives.
- Promote IT security measures that ensure the confidentiality, integrity, and availability of corporate information.
- Promote personnel and physical security.
- Promote sound corporate governance and effective risk management and internal control efforts.

Note: As this report was going to press, on November 15, 2012, the Senate confirmed Messrs. Gruenberg and Hoenig as Chairman and Vice Chairman, respectively.

OIG Work in Support of Goal 5

During the reporting period, we completed two assignments in support of this goal area and began planning for a number of others as we anticipate completion of H.R. 2056 work. We conducted nearly all of our 2012 work in connection with the Federal Information Security Management Act and will report the results of that effort in our next semiannual report. As for completed work, in connection with the FDIC's contracting activity, we conducted an audit of KeyCorp Real Estate Capital Markets, Inc. We also joined the Treasury and FRB OIGs in our fourth review related to the transfer of OTS personnel and functions to the OCC, FRB, and FDIC, pursuant to the Dodd-Frank Act. These reviews are summarized below.

The FDIC's Contract with KeyCorp Real Estate Capital Markets, Inc.

During 2010, DRR undertook an initiative to consolidate the servicing of loans and related assets in receivership with external "national" loan servicers, such as KeyCorp Real Estate Capital Markets, Inc. (KeyCorp). As of March 31, 2012, the FDIC had four national loan servicers that collectively serviced 3,182 assets with a net unpaid principal balance of about $2.04 billion. KeyCorp was the largest of these servicers in terms of asset size, servicing $1.23 billion (or 60 percent) of the $2.04 billion.

In view of the significant role that KeyCorp plays in servicing receivership assets, we conducted an audit of controls related to the FDIC's contract with KeyCorp. to assess (1) the extent to which payments made by the FDIC for services provided by KeyCorp were adequately supported and in compliance with contract terms, (2) the reliability of selected data used to manage and market assets serviced by KeyCorp, and (3) the adequacy of certain controls over sensitive information handled by KeyCorp.

The FDIC awarded a contract to KeyCorp on July 26, 2010, for the servicing of assets (primarily commercial loans) in receivership. Under the terms of the contract, KeyCorp provides a full range of servicing activities, such as maintaining loan files; performing loan administration, loan default management, and collection and cash management services; and assisting, as requested, with asset sale initiatives. As compensation for its services, the FDIC pays KeyCorp various types of fees, including monthly servicing fees and transaction fees for loan conversion activities, loss mitigation efforts such as loan compromises and restructures, and foreclosures. The FDIC also reimburses KeyCorp for pass-through costs, such as taxes and insurance, and advances pursuant to loan commitments. As of March 31, 2012, payments to KeyCorp under the contract totaled almost $23 million.

KeyCorp maintains a significant amount of data that are used to support important business decisions regarding the management and marketing of assets. Accordingly, it is critical that the data be reliable (i.e., accurate, and complete). To help ensure the reliability of this data, DRR has taken various steps, such as incorporating data quality requirements into the contract, periodically testing the accuracy of loan data maintained by KeyCorp, and initiating an internal "Loan Data Structure Project" in 2011 to help ensure the accuracy of receivership data captured and maintained by DRR and its contractors.

Key controls for protecting sensitive information handled by KeyCorp include background investigations, confidentiality agreements, risk-level designations for contracts and contractor personnel, subcontractor approvals, and contract security provisions. The FDIC's Division of Administration (DOA), through the Contracting Officer, works with DRR to ensure that these controls are implemented. Further, the FDIC established the *Outsourced Service Provider Assessment Methodology* to provide security oversight of outsourced service providers, such as KeyCorp. The methodology considers various security information to establish quantifiable risk ratings and, based on those ratings, defines procedures for verifying security measures and processes. Collectively, the security controls

referenced above help to ensure that contractor and subcontractor personnel meet the FDIC's minimum standards of integrity and fitness and that sensitive information is safeguarded from unauthorized disclosure.

Our audit determined that the preponderance of payments made by the FDIC to KeyCorp were adequately supported and were in compliance with the terms of the contract for the charges that we analyzed. The payment discrepancies that we identified were not material in relation to the total charges that we reviewed and were addressed prior to the close of the audit. Notwithstanding these results, the relatively high error rate in our sample indicated that a review by DRR of KeyCorp's billing procedures was warranted. In addition, invoices supporting the charges that we analyzed had been reviewed and approved by DRR prior to payment as prescribed by FDIC policy. However, in light of the large volume of charges and associated documentation, we noted that a more risk-based approach for reviewing servicer invoices could promote efficiencies and consistency in DRR's review processes.

DRR has taken a number of steps to ensure the reliability of data used to manage and market assets serviced by KeyCorp. However, DRR can achieve greater assurance regarding the reliability of such data by establishing and implementing a more structured data quality program that includes such things as objective metrics to measure data reliability, enhanced policies and guidance, and improved contract provisions that address ongoing data reliability.

Regarding controls over sensitive information, the FDIC conducted preliminary security checks and obtained signed confidentiality agreements for all of the KeyCorp contractor and subcontractor personnel that we reviewed. However, we identified instances in which background investigations had not been initiated as required by FDIC policy. In addition, the risk level designation for the contract needed clarification. Further, KeyCorp did not obtain the FDIC's prior written approval before engaging a subcontractor to work on the contract or include certain security-related provisions in its subcontracts as required by the contract. Finally, the FDIC was working to apply its *Outsourced Service Provider Assessment Methodology* to assess security risks and controls at KeyCorp. Addressing the security control weaknesses identified during the audit will increase the FDIC's assurance that sensitive information is adequately protected and that contractor and subcontractor personnel satisfy the FDIC's minimum standards of integrity and fitness.

We made seven recommendations intended to improve controls related to the accuracy and review of KeyCorp's invoices, the reliability of receivership data, and the safeguarding of sensitive information. We are reporting $12,057 in unsupported questioned costs pertaining to the payment discrepancies identified during the audit.

In responding to our report, FDIC management concurred with the seven recommendations and described completed and planned corrective actions to address the recommendations.

Joint Review Conducted by the OIGs of the Department of the Treasury, Board of Governors of the Federal Reserve System, and the FDIC

We issued a report presenting the results of the fourth joint review by the OIGs of the Department of the Treasury (Treasury), FRB, and FDIC of the transfer, pursuant to Title III of the Dodd-Frank Act, of the functions, employees, funds, and property of the former OTS to the FRB, the FDIC, and the OCC. In accordance with Title III of the Dodd-Frank Act, the transfer occurred in July 2011.

The first joint review determined whether the Joint Implementation Plan (Plan) for the transfer prepared by FRB, FDIC, OCC, and OTS conformed to relevant Title III provisions. After the initial joint review of the Plan, Title III requires that every 6 months the three OIGs jointly provide a written report on the status of the implementation of the Plan to FRB, FDIC, and OCC, with a copy to the Congress.

The objective of the current review was to determine and report on the status of the implementation of the Plan. To accomplish the objective, the OIGs reviewed the actions FRB, FDIC, and OCC had taken to implement the Plan since our last report, issued on March 21, 2012, through August 23, 2012. The work focused on the items related to the Plan that were ongoing or were not yet required to be completed as identified in our last report. The OIGs also performed tests to determine compliance with Title III provisions related to transferred OTS employees and property. As part of the work, OIG staff interviewed officials from FRB, FDIC, and OCC, and reviewed relevant documentation. The OIGs conducted fieldwork from April 2012 through August 2012.

In brief, the OIGs concluded that procedures and safeguards are in place as outlined in the Plan to ensure that transferred employees are not unfairly disadvantaged, and that the actions in the Plan that were necessary to transfer OTS property to OCC were implemented. However, certain items related to additional certification for certain transferred OTS examiners and collection of supervisory assessments by FRB are still ongoing. We will continue to monitor progress of these efforts in subsequent reviews.

Strategic Goal 6: OIG Resources Management: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders. A major challenge for the OIG over the past few years has been ensuring that we have the resources needed to effectively and efficiently carry out the OIG mission at the FDIC, given a sharp increase in the OIG's statutorily mandated work brought about by numerous financial institution failures, the FDIC's substantial resolution and receivership responsibilities, and now its new resolution authorities under the Dodd-Frank Act. All of these warrant vigilant, independent oversight.

To ensure a high-quality staff, we must continuously invest in keeping staff knowledge and skills at a level equal to the work that needs to be done, and we emphasize and support training and development opportunities for all OIG staff. We also strive to keep communication channels open throughout the office. We are mindful of ensuring effective and efficient use of human, financial, IT, and procurement resources in conducting OIG audits, evaluations, investigations, and other support activities, and have a disciplined budget process to see to that end.

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the IG and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. As a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the OIG adheres to the Quality Standards for Federal Offices of Inspector General. Further, the OIG conducts its audit work in accordance with generally accepted government auditing standards; its evaluations in accordance with Quality Standards for Inspection and Evaluation; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with Quality Standards for Investigations and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at FDIC Board meetings and at Audit Committee meetings where recently issued audit and evaluation reports are discussed. Other meetings occur throughout the year as OIG officials meet with division and office leaders and attend and participate in internal FDIC conferences and other forums.

The OIG also places a high priority on maintaining positive relationships with the Congress and providing timely, complete, and high quality responses to congressional inquiries. In most instances, this communication would include semiannual reports to the Congress; issued MLR, in-depth review, audit, and evaluation reports; responses to other legislative mandates; information related to completed investigations; comments on legislation and regulations; written statements for congressional hearings; contacts with congressional staff; responses to congressional correspondence and Member requests; and materials related to OIG appropriations.

The OIG fully supports and participates in CIGIE activities, and the FDIC IG currently serves as Chair of its Audit Committee. We coordinate closely with representatives from the other the financial regulatory OIGs. In this regard, as noted earlier in this report, the Dodd-Frank Act created the Financial Stability Oversight Council (FSOC) and further established the Council of Inspectors General on Financial Oversight (CIGFO). This Council facilitates sharing of information among CIGFO member IGs and discusses ongoing work of each member IG as it relates to the broader financial sector and ways to improve financial oversight. CIGFO may also convene working groups to evaluate the effectiveness of internal operations of the FSOC. The Treasury IG chairs the CIGFO and the FDIC IG is currently serving as Vice Chair. (See write-up at the end of this report highlighting CIGFO's audit of FSOC's controls over non-public information.)

The IG is a member of the Comptroller General's Advisory Council on Government Auditing Standards. Additionally, the OIG meets with representatives of the Government Accountability Office to coordinate work and minimize duplication of effort and with representatives of the Department of Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

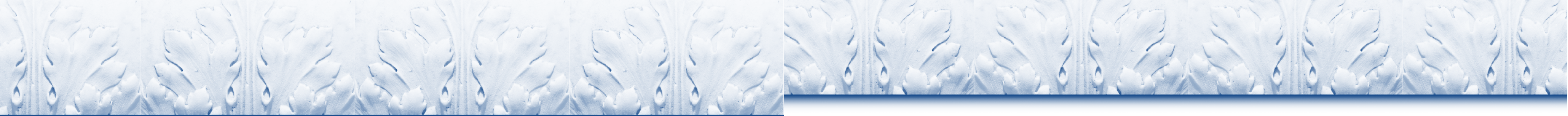
The FDIC OIG has its own strategic and annual planning processes independent of the Corporation's planning process, in keeping with the independent nature of the OIG's core mission. The Government Performance and Results Act of 1993 (GPRA) was enacted to improve the management, effectiveness, and accountability of federal programs. GPRA requires most federal agencies, including the FDIC, to develop a strategic plan that broadly defines the agency's mission and vision, an annual performance plan that translates the vision and goals of the strategic plan into measurable objectives, and an annual performance report that compares actual results against planned goals.

The OIG strongly supports GPRA and is committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments consistent with the principles and concepts of GPRA. We continuously seek to integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the **OIG's 2012 performance goals** are as follows:

- Effectively and efficiently manage OIG human, financial, IT, and physical resources
- Ensure quality and efficiency of OIG audits, evaluations, investigations, and other projects and operations
- Encourage individual growth and strengthen human capital management and leadership through professional development and training
- Foster good client, stakeholder, and staff relationships
- Enhance OIG risk management activities

A brief listing of OIG activities in support of these performance goals follows.



Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources	
1	Provided the OIG's FY 2014 budget proposal to the FDIC's Acting Chairman for his approval and subsequent inclusion in the President's budget. This budget requests $34.6 million to support 130 full-time equivalents, reflecting no change from our FY 2013 budget, based on corporate workload assumptions of bank failures and resolution activity expected in calendar year 2013 and beyond.
2	Implemented additional controls to monitor, track, and control OIG spending, particularly as it relates to OIG travel-related expenses and use of procurement cards.
3	Explored options for a new investigative case management system, and worked to better track audit and evaluation assignment costs and to manage audit and evaluation records located on shared drives or SharePoint sites.
4	Advertised and filled a number of positions for OIG special agents to ensure a strong complement of investigative resources to carry out nationwide criminal investigations of fraudulent activities impacting the FDIC.
5	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.
6	Continued using our new inquiry intake system to better capture and manage inquiries from the public, media, Congress, and the Corporation, in the interest of prompt and more effective handling of such inquiries. Participated with the FDIC's group of Public Service Providers to share information on inquiries and complaints received, identify common trends, and determine how best to respond to public concerns.
7	Coordinated with the Assistant Inspectors General for Investigations at the Department of the Treasury and the FRB to leverage resources by planning joint investigative work.
8	Coordinated with counterparts at the Department of the Treasury, FRB, and National Credit Union Administration to efficiently and effectively carry out multiple assignments involving the other regulators in accordance with both H.R. 2056 and a request from the Chairman of the Senate Banking Committee.
9	Revised, reiterated, and implemented the OIG's Drug-Free Workplace policy to ensure overall OIG understanding of the dangers of drug use and strengthen policies and procedures for ensuring a drug-free workplace.
10	Arranged for OIG office space in Virginia Square headquarters to be compliant with the Americans with Disabilities Act requirements in the interest of ensuring appropriate accessibility for those needing such accommodations.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Continued to implement the OIG's Quality Assurance Plan for October 2010–March 2013 to ensure quality in all audit and attestation engagement work and evaluations, in keeping with government auditing standards and Quality Standards for Inspection and Evaluation. As part of that plan, undertook a quality assurance effort regarding OIG contractor protection of sensitive information.
2	Received a peer review of our investigative operations conducted by the Department of Energy OIG as part of the IG community's peer review process for investigations. The Department of Energy OIG determined that in its opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the year ending June 22, 2012, was in compliance with the quality standards established by CIGIE and the applicable Attorney General guidelines.
3	Oversaw contracts to qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct audits and evaluations, and closely monitored contractor performance.
4	Continued use of the IG's feedback form to assess time, cost, and overall quality and value of audits and evaluations.
5	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting material loss and other such reviews, resolution and receivership-related work, assignments in connection with H.R. 2056, and other audits and evaluations, and to support investigations of financial institution fraud and other criminal activity, in the interest of ensuring legal sufficiency and quality of all OIG work.
6	Developed and delivered training to all OIG special agents to ensure quality investigations that adhere to discovery and disclosure obligations, as outlined by the Department of Justice.
7	Coordinated the IG community's audit peer review activities for OIGs government-wide as part of our leadership of the CIGIE Audit Committee to ensure a consistent and effective peer review process and quality in the federal audit function.
8	Provided comments on legal and policy matters presented by the draft *Updated External Peer Review Guide* being prepared by the CIGIE Audit Committee to help ensure audit quality in all federal OIGs subject to the IG community's peer review process, including the FDIC OIG.
9	Reviewed and updated a number of OIG internal policies related to audit, evaluation, investigation, and management operations of the OIG to ensure they provide the basis for quality work that is carried out efficiently and effectively throughout the office and began converting and transferring all such policies to a new automated policies and procedures repository for use by all OIG staff.
10	Monitored and participated in the Corporation's Plain Writing Act initiative to ensure OIG compliance with the intent of the Act.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Continued to support members of the OIG attending graduate banking school programs sponsored by the Graduate School of Banking at the University of Wisconsin and the Southwest Graduate School of Banking to enhance the OIG staff members' expertise and knowledge of the banking industry.
2	Employed interns on a part-time basis in the OIG to provide assistance to the OIG.
3	Supported individuals seeking certified public accounting certifications by underwriting certain study program and examination costs and supported others in pursuit of qualifications such as certified fraud examiners, certified government financial managers, and certified information systems auditors.
4	Continued involvement in the IG community's introductory auditor training sessions designed to provide attendees with an overall introduction to the community and enrich their understanding of fundamental aspects of auditing in the federal environment. Devoted resources to teaching or facilitating various segments of the training.
5	Enrolled OIG staff in several different FDIC Leadership Development Programs to enhance their leadership capabilities.
6	Launched the OIG's Mentoring Program to pair mentors and mentorees as a means of developing and enriching both parties in the relationship and enhancing contributions of OIG staff to the mission of the OIG.
7	Sponsored lunch-time Webinars on a variety of topics relevant to the OIG in the interest of providing additional opportunities for professional development for OIG staff.

Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by briefing and communicating with various Committee staff on issues of interest to them; providing our Semiannual Report to the Congress for the 6-month period ending March 31, 2012; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest. Of note during this reporting period was the IG's testimony before the Committee on Financial Services, Subcommittee on Oversight and Investigations, U.S. House of Representatives, on matters related to the Oversight of the FDIC's Structured Transaction Program.
2	Communicated with the Acting Chairman, the FDIC's internal Director and Chair of the FDIC Audit Committee, other FDIC Board Members, the Chief Financial Officer, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in numerous outreach efforts with such external groups as the Maryland Association of Certified Public Accountants, Georgetown University Public Policy Institute, international visitors from the Korea Deposit Insurance Corporation hosted by the FDIC, and the Federal Financial Institutions Examination Council to provide general information regarding the OIG and share perspectives on issues of mutual concern and importance to the financial services industry.
4	Held quarterly meetings with FDIC Division Directors and other senior officials to keep them apprised of ongoing OIG reviews, results, and planned work.
5	Kept RMS, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing Office of Investigations' quarterly reports to RMS, DRR, the Legal Division, and the Acting Chairman's Office outlining activity and results in our cases involving closed and open banks.

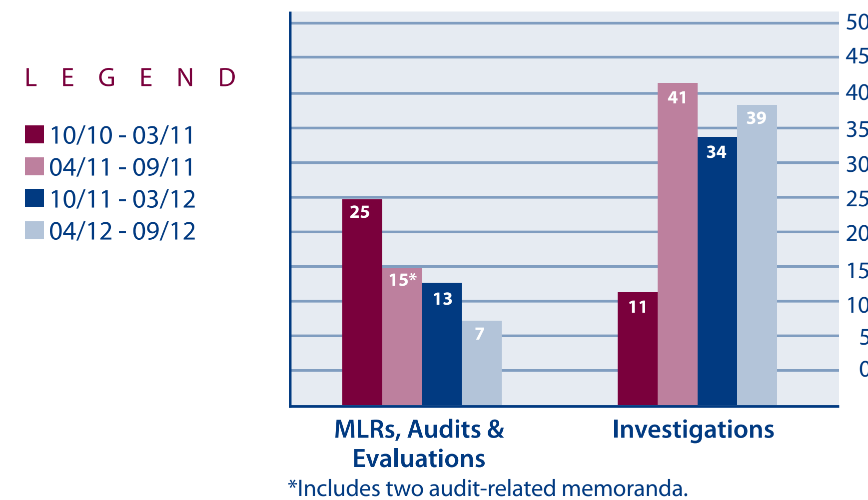
6	Participated at FDIC Audit Committee meetings to present the results of significant completed audits, evaluations, and related matters for consideration by Committee members.
7	Reviewed six proposed or revised corporate policies related to, for example, the FDIC's privacy impact assessment requirements, its records and information management program, and the Corporation's legal-hold policy and implementation. Made suggestions to increase clarity and specificity of these and other draft policies.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including advising on auditor training and the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Council of Counsels to the IGs, and Professional Development Committee meetings; commenting on various legislative matters through the Legislative Committee; and providing support for the IG community's investigative meetings.
9	Communicated with representatives of the OIGs of the federal banking regulators and others (FRB, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, SIGTARP, Department of Housing and Urban Development) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources. Participated on CIGFO, as established by the Dodd-Frank Act, with the IGs from most of the above-named agencies, a Council on which the FDIC IG currently serves as Vice Chair. Issued results of the CIGFO Working Group's review of the FSOC's security controls over non-public information, an effort spearheaded by the FDIC OIG.
10	Responded, along with others in the IG community, to Senators Grassley's and Coburn's semiannual request for information on closed investigations, evaluations, and audits that were not disclosed to the public.
11	Responded to two requests from Representative Darrell Issa regarding: (1) information on open and unimplemented recommendations at the FDIC and (2) questions regarding IG communications with the Congress and use of "seven-day letters."
12	Coordinated with the Department of Justice and U.S. Attorneys' Offices throughout the country in the issuance of press releases announcing results of cases with FDIC OIG involvement and routinely apprised the Office of Communications and Acting Chairman's office of such releases.

Enhance OIG Risk Management Activities	
1	Conducted risk-based OIG planning efforts for audits, evaluations, and investigations during 2013 and beyond, taking into consideration the goals of, and risks to, FDIC corporate programs and operations and those risks more specific to the OIG.
2	Attended FDIC Board Meetings, Enterprise Risk Committee meetings, corporate planning and budget meetings, and other senior-level management meetings and simulations to monitor or discuss emerging risks at the Corporation and tailor OIG work accordingly.
3	Compiled information for the OIG's 2012 assurance letter to the FDIC Chairman, under which the OIG provides assurance that it has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, Office of Management and Budget A-123, and other key legislation.
4	Continued to monitor the management and performance challenge areas that we identified at the FDIC, in accordance with the Reports Consolidation Act of 2000 as we conducted audits, evaluations, and investigations: Carrying Out New Resolution Authority, Resolving Failed Institutions and Managing Receiverships, Ensuring and Maintaining the Viability of the Deposit Insurance Fund, Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program, Protecting and Educating Consumers and Ensuring an Effective Compliance Program, and Effectively Managing the FDIC Workforce and Other Corporate Resources.

Cumulative Results (2-year period)

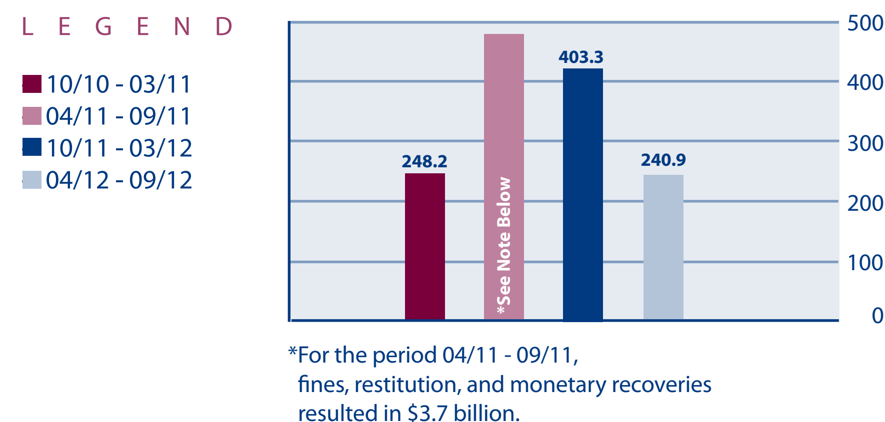
Nonmonetary Recommendations	
October 2010 – March 2011	58
April 2011 – September 2011	13
October 2011 – March 2012	17
April 2012 – September 2012	21

Products Issued and Investigations Closed



*Includes two audit-related memoranda.

Fines, Restitution, and Monetary Recoveries Resulting from OIG Investigations (in millions)



*For the period 04/11 - 09/11, fines, restitution, and monetary recoveries resulted in $3.7 billion.

Fiscal Year 2012 Performance Report

This performance report presents an overview of our performance compared to our Fiscal Year 2012 annual performance goals in our Business Plan. It provides a statistical summary of our qualitative goals as well as a narrative summary of performance results by Strategic Goal. It also shows our results in meeting a set of quantitative goals that we established for the year.

We formulated six strategic goals, as shown in the table below. Each of our strategic goals, which are long-term efforts, has annual performance goals and associated efforts that represent our initiatives in Fiscal Year 2012 toward accomplishing the strategic goal. The table reflects the number of performance goals that were Met, Substantially Met, or Not Met. This determination is made through ongoing discussions at the OIG Executive level and a qualitative assessment as to the impact and value of the audit, evaluation, investigation, and other work of the OIG supporting these goals throughout the year.

As shown in the table, we met or substantially met 84 percent of our performance goals in Fiscal Year 2012. A discussion of our success in each of the goals begins on page 63.

Fiscal Year 2012 Annual Performance Goal Accomplishment (Number of Goals)

Strategic Goals	Performance Goals			
	Met	Substantially Met	Not Met	Total
Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly	2			2
Insurance: Help the FDIC Maintain the Viability of the Insurance Fund	1			1
Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy	1	1	1	3
Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships	2			2
FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources		4	2	6
OIG Resources Management: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships	5			5
Total	11	5	3	19
Percentage	58	26	16	100

Quantitative Performance Measures 2012			
Performance Measure	**FY 2012 Target**	**FY 2012 Actual**	**Status**
Financial Benefit Return[a]	100%	2308%	Met
Past Recommendations Implemented[b]	95%	100%	Met
Complete 100 Percent of Audit/Evaluation Assignments Required by Statute by the Required Date	100%	100%	Met
Audit/Evaluation Assignments Completed Within 30 Days of Established Final Report Milestone	90%	55%	Not Met
Audit/Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	65%	Not Met
Investigation Actions[c]	200	472	Met
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%	77%	Substantially Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%	68%	Substantially Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	88%	Met
Closing Reports Issued to Management Within 30 Days of Completion of All Judicial Actions	100%	64%	Not Met

[a] Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by the OIG's total actual fiscal year budget obligations.
[b] Fiscal year 2010 recommendations implemented by fiscal year-end 2012.
[c] Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencings, monetary actions, employee actions, and other administrative actions.

Comment on Overall Performance Results: In reviewing our qualitative performance results, we note that the demands of our H.R. 2056 workload and our focus on resolution and receivership activities, along with several unanticipated requests during the year have precluded us from devoting resources to certain other goal areas. Now, as our work on H.R. 2056 is coming to a close, we have begun to resume more discretionary audit and evaluation coverage of other important areas of risk at the FDIC and will continue to do so during the upcoming fiscal year. With respect to quantitative results, we are pleased to have completed our statutorily required material loss reviews (MLR) and our annual Federal Information Security Management Act (FISMA) review on time. In the case of MLRs, we accomplished each of these reviews within 6-months of the FDIC's notification to us of the loss amounts. As for FISMA, we coordinated with FDIC management to meet the time frames prescribed by the Act for transmission of our report and the Corporation's report to the Office of Management and Budget. We did, however, fall short in several areas. For example, we were unable to fully meet our timeliness and cost goals for the conduct of audits and evaluations. This is in part attributable to a necessary shift in resources to perform the equivalent of eight audit assignments in response to the H.R. 2056 legislation, along with an unanticipated congressional request and a request from the FDIC Acting Chairman, that diverted audit and evaluation resources from previously planned work. We also did not fully meet certain investigative goals and plan to evaluate why this is so. As the financial crisis continues to ease and our workload becomes more stabilized, we hope to be able to better meet all of the performance measures that we establish.

Strategic Goal 1 – Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. During fiscal year 2012, we completed five reports on institutions whose failures resulted in material losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. We also completed 33 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of $200 million or less, or $150 million or less if failing after January 1, 2012, and determined whether unusual circumstances existed that would warrant an in-depth review in those cases.

We also issued the results of an assignment requested by the Chairman of the Senate Banking Committee on the FDIC's examination process for small community banks. That report discusses how the FDIC examines small community banks, including examination timelines and steps to ensure consistency, as well as mechanisms for institutions to question examination results.

Ongoing audit and evaluation work in this goal area at the end of the fiscal year included work in a number of matters in response to H.R. 2056. This legislation requires that the FDIC Inspector General conduct a comprehensive study on the impact of the failure of insured depository institutions and submit a report, along with any recommendations, to the Congress not later than 1 year after the date of enactment (i.e., by January 3, 2013). Our work includes, among other items, reviewing aspects of FDIC examiners' review of an institution's lending and loan review functions, capital adequacy, allowance for loan and lease loss estimates, appraisal programs, loan workouts, and the supervisory enforcement actions that examiners pursue to address identified deficiencies.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failures. For example, the former president and chief executive officer of Orion Bank, Naples, Florida, pleaded guilty and was sentenced to 6 years in prison for conspiring to commit bank fraud, misapply bank funds, make false entries in the bank's books and records, and obstruct a bank examination. In another case, the leader of a large-scale identity theft ring and a co-conspirator pleaded guilty for their roles in a $50 million fraud enterprise that defrauded multiple credit card companies, banks, and lenders. The leader was sentenced to 324 months in prison; his co-conspirator received 266 months. The former president of FirstCity Bank, Stockbridge, Georgia, was sentenced to 12 years in prison for his role in a multi-million dollar fraud scheme. He was banned from banking for life and ordered to pay restitution of $19.5 million to the FDIC and other victim banks.

In connection with our previously reported case involving the failure of Colonial Bank and Taylor, Bean, & Whitaker (TBW), a private mortgage company, an eighth person, the former chief financial officer of TBW pleaded guilty and was sentenced to 60 months in prison for conspiracy to commit bank and wire fraud and making false statements for his role in a scheme contributing to the failures of Colonial Bank and TBW. The former chief financial officer was also sentenced to 29 months in prison and ordered to pay $34.3 million in restitution for her role in the scheme. In another case, an Arkansas attorney was sentenced to 121 months of incarceration and was ordered to pay $33.8 million in restitution for defrauding nine financial institutions of nearly $50 million.

Also of note during the reporting period were several successful mortgage fraud cases, one in particular involving the sentencing of the former chief executive officer of Metro Dream Homes. He was sentenced to serve 150 years in prison for his role in a massive mortgage fraud scheme that promised to pay off homeowners' mortgages but left them to fend for themselves in the end. More than 1,000 duped investors in the program invested a total of about $78 million. He was ordered to pay restitution of $34.3 million.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest.

Strategic Goal 2 – Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

We did not conduct specific assignments to address this goal area during the performance period. However, our failed bank work fully supports this goal, as does the investigative work highlighted above in strategic goal 1. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses and losses to the Deposit Insurance Fund.

Strategic Goal 3 – Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

With the exception of our coverage of the FDIC's compliance examination program as part of the Senate Banking Committee request discussed under the first goal above, we did not devote audit or evaluation resources to specific consumer protection matters during the past year because for the most part, we devoted those resources to material loss review-related work, FDIC activities in the resolution and receivership realms, and ongoing H.R. 2056 work. Our Office of Investigations, however, supports this goal through its work. For example, during the performance period, as a result of an investigation, a co-conspirator in a securities fraud scheme involving misrepresentation of FDIC insurance was sentenced to 54 months in prison and ordered to pay restitution of nearly $13 million. His co-conspirator pleaded guilty to money laundering. In a similar case, the former owner of two AmeriFirst companies was convicted and sentenced to 192 months in prison and ordered to pay restitution of $23.2 million as punishment for a fraud scheme that victimized more than 500 investors—many retired and living in Texas and Florida.

Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The OIG also continued to respond to a growing number of inquiries from the public, received both through our Hotline and through other channels. We addressed about 450 such inquiries during the past fiscal year.

Strategic Goal 4 – Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships

We completed several assignments in this goal area during fiscal year 2012. We issued an overall evaluation of the FDIC's monitoring of shared-loss agreements and made five recommendations to strengthen the program. We also completed audits of two shared-loss agreements between the FDIC and acquiring institutions in which we identified a total of $17 million in questioned costs related to questioned loss claims and made additional recommendations to enhance the FDIC's monitoring and oversight of the acquiring institutions. With respect to our audits of the shared-loss agreements, FDIC management agreed with the reported monetary benefits and is taking action on other nonmonetary recommendations to address our concerns.

Of note, the IG testified before the Committee on Financial Services, Subcommittee on Oversight and Investigations, U.S. House of Representatives, on oversight of the FDIC's structured transaction program. We also issued two reports presenting the results of audits of the FDIC's structured asset sales and, in one of those, identified $3.76 million in questioned costs. The two reports contained a total of 17 recommendations to strengthen the Corporation's oversight of the structured asset sales. FDIC management also agreed with these reported monetary benefits and is taking action on the other nonmonetary recommendations to address our concerns and strengthen its oversight of the structured transaction program.

We completed a review of the FDIC's qualification process for private capital investors interested in acquiring or investing in failed depository institutions and made a recommendation to improve documentation of approvals and analyses. Finally, we audited the FDIC's acquisition and management of securities obtained through receivership activities, in which we identified $9.8 million in questioned costs and made additional recommendations for control improvements.

Ongoing H.R. 2056 work in this goal area as of the end of the performance period included an assessment of multiple aspects of the FDIC's use of shared-loss agreements from the borrowers' and institutions' perspectives, including the impact on the rate of loan modifications and adjustments, the impact on the availability of credit, and the policies and procedures for terminating the agreements. Other matters under review as part of H.R. 2056 related to private investment in insured depository institutions and the policies and procedures governing such activity.

From an investigative standpoint, our Electronic Crimes Unit continued its efforts to support investigative activities at bank closings. Additionally, the Electronic Crimes Unit participated in a corporate project related to efficiently and effectively collecting and preserving electronic data at bank closings.

Strategic Goal 5 – Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources

In support of this goal area, we issued the results of our 2011 review as required by the Federal Information Security Management Act, making seven recommendations in the areas of plans of action and milestones, remote access management, identity and access management, and contractor systems. At the end of the performance year, we were completing our 2012 FISMA work. In a billing review of an FDIC contract for real estate management and marketing services, we questioned $398,227 and provided observations to enhance the economy, efficiency, and effectiveness of similar existing or future contracts. We also issued the results of a billing review of one of the FDIC's largest loan servicers, who at the time was servicing about 60 percent of $2.04 billion in receivership assets. We determined that the preponderance of payments made by the FDIC to the servicer were adequately supported and complied with contract terms. However, we made seven recommendations to improve controls over the accuracy of billings, data reliability, and safeguarding of sensitive information. Our work on FDIC conference-related activities and expenses, conducted at the request of the FDIC Acting Chairman, identified opportunities to strengthen policies and reduce costs. The FDIC took immediate responsive action.

In connection with the Dodd-Frank Act, we issued the results of our third and fourth coordinated reviews of the status of the implementation activities of the Joint Implementation Plan prepared by the FRB, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). We reported that the FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Joint Implementation Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate, and that transferred employees were not unfairly disadvantaged. We will continue to

monitor these activities as required.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline and other referrals and coordination with the FDIC's Divisions and Offices, including corporate ethics officials, as warranted.

Strategic Goal 6 – OIG Resources Management: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships

To ensure effective and efficient management of OIG resources, among other activities, we permanently filled our Assistant Inspector General for Management position. We subsequently focused on a number of initiatives to monitor and track OIG spending, particularly costs involved in travel and procurement card spending, and to explore options for better systems to house OIG policies and procedures and to capture and track information on our investigative cases. We also provided our FY 2013 budget to cognizant Congressional committees. This budget reflects $34.6 million to support 130 full time equivalents. We provided our FY 2014 budget to the Acting Chairman, reflecting no change from the prior year request.

We conducted several internal quality assessment projects to ensure quality work, including one on contracted audits of risk-sharing agreements and another regarding OIG contractor protection of sensitive information. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to supplement our efforts and provide additional subject-matter expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by supporting individuals in our office pursuing certified public accounting and other professional certifications. We also employed college interns on a part-time basis to assist us in our work. We supported OIG staff members attending graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry and supported staff taking FDIC leadership training courses. In an effort to ensure a strong cadre of OIG staff, we reinstituted our mentoring program to partner mentors and mentorees to share experiences, knowledge, and individual challenges.

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the U.S. Government Accountability Office. The Inspector General served in key leadership roles as the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee; Vice Chair of the Council of Inspectors General on Financial Oversight, as established by the Dodd-Frank Act; and as a Member of the Comptroller General's Advisory Council on Government Auditing Standards. Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the American Institute of Certified Public Accountants, American Conference Institute, Maryland Association of Certified Public Accountants, Georgetown University Public Policy Institute, Department of Justice, FDIC Divisions and Offices, and international organizations sponsored by the State Department. The OIG participated in corporate diversity events and on the Chairman's Diversity Advisory Council. We continued to use our public inquiry intake system and maintained and updated the OIG Web site to respond to the public and provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of risk management, in connection with SAS 99 and the annual audit of the FDIC's financial statements, we provided comments on the risk of fraud at the FDIC to the U.S. Government Accountability Office. We provided the OIG's 2011 assurance statement to the Acting Chairman regarding our efforts to meet internal control requirements. We also participated regularly at meetings of the National Risk Committee and later the new Enterprise Risk Committee to further monitor

risks at the Corporation and tailor OIG work accordingly. We undertook a review of risks in corporate divisions and offices as part of planning for FY 2013. We shared OIG perspectives with the Corporation's Chief Risk Officer, who is charged with assisting the FDIC Board and senior management in identifying risks facing the Corporation and in setting the Corporation's risk management objectives and direction. In keeping with the Reports Consolidation Act of 2000, we provided our assessment of management and performance challenges facing the Corporation for inclusion in its annual report and monitored and/or pursued assignments in the areas identified as challenges throughout the year: Carrying Out New Resolution Authority, Resolving Failed Institutions and Managing Receiverships, Ensuring and Maintaining the Viability of the Deposit Insurance Fund, Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program, Protecting and Educating Consumers and Ensuring an Effective Compliance Program, and Effectively Managing the FDIC Workforce and Other Corporate Resources.

Reporting Requirements

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Section 5(a)(9): Statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use	72
Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made	72
Section 5(a)(11): Significant revised management decisions during the current reporting period	72
Section 5(a)(12): Significant management decisions with which the OIG disagreed	72

Note: Evaluation report information is also included in the tables that follow.

Appendix 1: Information Required by the Inspector General Act of 1978, as Amended

Review of Legislation and Regulations

The FDIC OIG's review of legislation and regulations during the past 6-month period involved the following activities:

- We continued to monitor and/or comment on proposed cybersecurity legislation that would amend IG-related provisions of the Federal Information Security Management Act (FISMA). The monitoring of, and comments on, such legislation focused on the involvement of Inspectors General in conducting reviews of agency information security programs pursuant to FISMA, the nature and scope of those reviews, and the proper role of CIGIE in setting standards for FISMA reviews. In addition, we considered whether the legislation allowed for redactions of sensitive information from FISMA and related reports. The proposed legislation included H.R. 4263 and S. 3342, the SECURE IT Act; H.R. 4257, Federal Information Security Amendments Act of 2012; and S. 2105 and S. 3414, the Cybersecurity Act of 2012.
- We participated with the FDIC IG and other IGs and representatives in a briefing with the staff of the Senate Judiciary Committee regarding possible legislation to allow agency IGs to redact sensitive IT material from OIG reports. The legislation is intended to qualify under one of the exemptions in the Freedom of Information Act.
- We addressed legal issues in connection with the FDIC OIG's implementation of Public Law 112-88, which requires the FDIC OIG to conduct a study on various matters related to the impact of the failure of insured depository institutions.

Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, corrective actions may be different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on (1) information supplied by the FDIC's Corporate Management Control (CMC), Division of Finance and (2) the OIG's determination of closed recommendations. Recommendations are closed when (a) CMC notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, after the OIG confirms that corrective actions have been completed and are responsive. CMC has categorized the status of these recommendations as follows:

Management Action in Process: (one recommendation from one report)

Management is in the process of implementing the corrective action plan, which may include modifications to policies, procedures, systems, or controls; issues involving monetary collection; and settlement negotiations in process.

Table I: Significant Recommendations from Previous Semiannual Reports on Which Corrective Actions Have Not Been Completed

Report Number, Title, and Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
EVAL-11-006 **Prompt Regulatory Action Implementation** September 30, 2011	1*	To improve the effectiveness of the Prompt Regulatory Action framework and to meet the section 38 and 39 goals of identifying problems early and minimizing losses to the DIF, we recommended that the FDIC, FRB, and OCC agency heads review the matters for consideration presented in this report and work through the Financial Stability Oversight Council to determine whether the Prompt Regulatory Action legislation or implementing regulations should be modified. The FDIC has taken actions to refine the deposit insurance system for banks with assets under $10 billion to assess premiums commensurate with risk-taking. The banking regulators, including the FDIC, have a proposed rule regarding minimum capital levels out for public comment. The FDIC also has a 2012 performance goal that states the Corporation will (1) review PCA and other tools to identify non-capital indicators of potential problems for early supervisory intervention and (2) based on that review, work to reach agreement with other federal regulators on a coordinated approach to identifying early warning indicators for prompt regulatory action or earlier supervisory intervention to address concerns identified during risk management examinations such that failure costs to the DIF could be reduced.

*The OIG has requested additional information to evaluate management's actions in response to the OIG recommendation.

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
AUD-12-011 August 31, 2012	The FDIC's Examination Process for Small Community Banks			
AUD-12-013 September 13, 2012	Material Loss Review of The First State Bank, Stockbridge, Georgia			
AUD-12-014 September 13, 2012	Material Loss Review of Tennessee Commerce Bank, Franklin, Tennessee			
Resolution and Receivership Management				
AUD-12-009 April 5, 2012	Corus Construction Venture, LLC Structured Asset Sale	$3,760,248	$0	
AUD-12-012 September 12, 2012	The FDIC's Structured Transactions with Rialto Capital Management, LLC			
Resources Management				
AUD-12-010 July 3, 2012	Controls Related to the FDIC's Contract with KeyCorp Real Estate Capital Markets, Inc.	$12,057	$12,057	
AUD-12-015 September 26, 2012	Status of the Transfer of Office of Thrift Supervision Functions			
Totals for the Period		**$3,772,305**	**$12,057**	

Table III: Audit and Evaluation Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	$0	$0
B. Which were issued during the reporting period.	2	$3,772,305	$12,057
Subtotals of A & B	**2**	**$3,772,305**	**$12,057**
C. For which a management decision was made during the reporting period.	2	$3,772,305	$12,057
(i) dollar value of disallowed costs.	2	$3,772,305	$12,057
(ii) dollar value of costs not disallowed.	0	$0	$0
D. For which no management decision has been made by the end of the reporting period.	0	$0	$0
Reports for which no management decision was made within 6 months of issuance.	0	$0	$0

Appendix 2: Information on Failure Review Activity

(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

Table IV: Audit and Evaluation Reports Issued with Recommendations for Better Use of Funds

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	$0
B. Which were issued during the reporting period.	0	$0
Subtotals of A & B	**0**	**$0**
C. For which a management decision was made during the reporting period.	0	$0
(i) dollar value of recommendations that were agreed to by management.	0	$0
- based on proposed management action	0	$0
- based on proposed legislative action	0	$0
(ii) dollar value of recommendations that were not agreed to by management.	0	$0
D. For which no management decision has been made by the end of the reporting period.	0	$0
Reports for which no management decision was made within 6 months of issuance.	0	$0

Table V: Status of OIG Recommendations Without Management Decisions

During this reporting period, there were no recommendations more than 6 months old without management decisions.

Table VI: Significant Revised Management Decisions

During this reporting period, there were no significant revised management decisions.

Table VII: Significant Management Decisions with Which the OIG Disagreed

During this reporting period, there were no significant management decisions with which the OIG disagreed.

Table VIII: Instances Where Information Was Refused

During this reporting period, there were no instances where information was refused.

FDIC OIG Review Activity for the Period April 1, 2012 through September 30, 2012 (for failures causing losses to the DIF of $200 million or less through December 31, 2011 and $150 million or less from January 1, 2012 through December 31, 2013)

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Failure Review Activity – Completed Reviews--Updated from Previous Semiannual Report						
Blue Ridge Savings Bank, Inc. (Asheville, North Carolina)	10/14/11	$37.9	The bank was insolvent and in an unsafe and unsound condition to conduct business.	No	N/A	N/A
Country Bank (Aledo, Illinois)	10/14/11	$66.3	The bank was conducting business in an unsafe and unsound manner.	No	N/A	N/A
Piedmont Community Bank (Gray, Georgia)	10/14/11	$71.6	The bank was unable to meet a minimum level of capitalization required by a Consent Order and was at risk of becoming critically undercapitalized.	No	N/A	N/A
First State Bank (Cranford, New Jersey)	10/14/11	$45.8	The bank was critically undercapitalized, and the capital was deemed inadequate with no prospect of replenishment; in violation of an outstanding Consent Order; and in an unsafe and unsound condition to transact business.	No	N/A	N/A
Community Capital Bank (Jonesboro, Georgia)	10/21/11	$62	The bank was critically undercapitalized and unable to meet the requirements of a Cease and Desist Order, including, but not limited to, the requirement for a minimum level of capitalization.	No	N/A	N/A
All American Bank (Des Plaines, Illinois)	10/28/11	$6.5	The bank's capital was impaired, and the bank was in an unsound condition and conducting its business in an unsafe and unsound manner.	No	N/A	N/A
Mid City Bank, Inc. (Omaha, Nebraska)	11/4/11	$12.7	The bank was declared insolvent and was conducting business in an unsafe and unauthorized manner, endangering the interests of its depositors, and operating in an unsafe and unsound condition to transact business.	No	N/A	N/A
SunFirst Bank (Saint George, Utah)	11/4/11	$49.7	The bank was in an unsafe and unsound condition to transact business; the bank's capital was impaired; the bank was or was about to become insolvent; and the bank's officers or directors had failed or refused to comply with the terms of a legally authorized order of the Utah Department of Financial Institutions' Commissioner.	No	N/A	N/A

FDIC OIG Review Activity for the Period April 1, 2012 through September 30, 2012 (for failures causing losses to the DIF of $200 million or less through December 31, 2011 and $150 million or less from January 1, 2012 through December 31, 2013)

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Community Bank of Rockmart (Rockmart, Georgia)	11/10/11	$14.5	The bank was unable to meet certain requirements of a Consent Order, including, but not limited to, the requirements for minimum levels of capital. The bank was at risk of becoming critically undercapitalized.	No	N/A	N/A
Central Progressive Bank (Lacombe, Louisiana)	11/18/11	$58.1	The bank was considered to be in an unsafe and unsound condition to continue the business of banking.	No	N/A	N/A
Polk County Bank (Johnston, Iowa)	11/18/11	$12	The bank's capital was impaired and the bank was insolvent. The bank was conducting its business in an unsafe and unsound manner.	No	N/A	N/A
Premier Community Bank of the Emerald Coast (Crestview, Florida)	12/16/11	$35.5	The bank was insolvent and was transacting its business in an unsafe, unsound, and unauthorized manner.	No	N/A	N/A
Central Florida State Bank (Belleview, Florida)	1/20/12	$24.4	The bank was imminently insolvent.	No	N/A	N/A
First Guaranty Bank and Trust Company of Jacksonville (Jacksonville, Florida)	1/27/12	$82	The bank was imminently insolvent.	No	N/A	N/A
Patriot Bank Minnesota (Forest Lake, Minnesota)	1/27/12	$32.6	The bank was in an unsafe and unsound condition to transact business, and the bank's ability to meet its financial obligations was questionable.	No	N/A	N/A
Central Bank of Georgia (Ellaville, Georgia)	2/24/12	$67.4	The bank was at risk of becoming critically undercapitalized and was unable to meet certain requirements of a Consent Order, including, but not limited to, the requirements for minimum levels of capitalization.	No	N/A	N/A
Global Commerce Bank (Doraville, Georgia)	3/2/12	$20.9	The bank was critically undercapitalized and unable to meet the requirements of a Consent Order, including, but not limited to, the requirements for minimum levels of capitalization.	No	N/A	N/A
New City Bank (Chicago, Illinois)	3/9/12	$20.4	The bank's capital was impaired, and the bank was in an unsound condition and conducting its business in an unsafe and unsound manner.	No	N/A	N/A
Fidelity Bank (Dearborn, Michigan)	3/30/12	$92.8	The bank was in an unsafe and unsound condition and unable to reverse its decline and return to a safe and sound condition.	No	N/A	N/A

FDIC OIG Review Activity for the Period April 1, 2012 through September 30, 2012 (for failures causing losses to the DIF of $200 million or less through December 31, 2011 and $150 million or less from January 1, 2012 through December 31, 2013)

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
New Reviews Completed During the Reporting Period						
HarVest Bank of Maryland (Gaithersburg, Maryland)	4/27/12	$17.2	The bank's capital was impaired, and the bank was unable to meet the requirements of a Consent Order and relevant federal and state law, including requirements for minimum levels of capitalization.	No	N/A	N/A
Reviews in Process as of the End of the Reporting Period						
Covenant Bank & Trust (Rock Spring, Georgia)	3/23/12	$35	*			
Premier Bank (Wilmette, Illinois)	3/23/12	$67.1	*			
First Capital Bank (Kingfisher, Oklahoma)	6/8/12	$7.6	*			
Farmers' and Traders' State Bank (Shabbona, Illinois)	6/8/12	$10.9	*			
Putnam State Bank (Palatka, Florida)	6/15/12	$39.1	*			
Security Exchange Bank (Marietta, Georgia)	6/15/12	$36	*			
The Farmers Bank of Lynchburg (Lynchburg, Tennessee)	6/15/12	$30.3	*			
Montgomery Bank and Trust (Ailey, Georgia)	7/6/12	$75.2	*			
Glasgow Savings Bank (Glasgow, Missouri)	7/13/12	$8 thousand	*			
The Royal Palm Bank of Florida (Naples, Florida)	7/20/12	$13.5	*			
Georgia Trust Bank (Buford, Georgia)	7/20/12	$20.9	*			
First Cherokee State Bank (Woodstock, Georgia)	7/20/12	$36.9	*			
Heartland Bank (Leawood, Kansas)	7/20/12	$3.1	*			
Jasper Banking Company (Jasper, Georgia)	7/27/12	$58.1	*			
Waukegan Savings Bank (Waukegan, Illinois)	8/3/12	$19.8	*			
First Commercial Bank (Bloomington, Minnesota)	9/7/12	$65.9	*			
First United Bank (Crete, Illinois)	9/28/12	$50.7	*			

* Failure review pending or ongoing as of the end of the reporting period.

Appendix 3: Peer Review Activity
(required by the Dodd-Frank Wall Street Reform and Consumer Protection Act)

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal Inspectors General are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, the FDIC OIG is reporting the following information related to its peer review activities. These activities cover our role as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews.

Audit Peer Reviews

On the audit side, on a 3-year cycle, peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,* based on requirements in the *Government Auditing Standards* (Yellow Book). Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

- The FDIC OIG was the subject of a peer review of its audit organization during a prior reporting period. The Railroad Retirement Board OIG conducted the review and issued its system review report on September 21, 2010. In the Railroad Retirement Board OIG's opinion, the system of quality control for our audit organization in effect for the year ended March 31, 2010, had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass.

  The report's accompanying letter of comment contained five recommendations that, while not affecting the overall opinion, were designed to further strengthen the system of quality control in the FDIC OIG Office of Audits.

All actions taken in response to the Railroad Retirement Board's recommendations were completed by February 23, 2011.

This peer review report (the system review report and accompanying letter of comment) is posted on our Web site at www.fdicig.gov

Definition of Audit Peer Review Ratings

Pass: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Pass with Deficiencies: The system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

Fail: The review team has identified significant deficiencies and concludes that the system of quality control for the audit organization is not suitably designed to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the audit organization has not complied with its system of quality control to provide the reviewed OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

FDIC OIG Peer Review of the Smithsonian Institution OIG

The FDIC OIG completed a peer review of the audit operations of the Smithsonian Institution (SI), and we issued our final report to that OIG on September 21, 2011. We reported that in our opinion, the system of quality control for the audit organization of the SI OIG, in effect for the 15-month period ended March 31, 2011, had been suitably designed and complied with to provide the SI OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The SI OIG received a peer review rating of pass.

As is customary, we also issued a Letter of Comment, dated September 21, 2011, that set forth findings and recommendations that were not considered to be of sufficient significance to affect our opinion expressed in the system review report. We made 11 recommendations, with which the SI OIG agreed. SI OIG indicated it would complete all corrective actions related to the findings and recommendations no later than March 31, 2012. Our findings and recommendations related to the following areas: standards followed on desk reviews, statements of independence for referencers, disciplinary mechanism for reporting personal impairments, reviews of continuing professional education data, reporting whether audit results can be projected, internal quality assurance program enhancements, and SI OIG's letter related to the annual financial statements audit. SI OIG has posted its peer review report (the system review report and accompanying letter of comment) on its Web site at www.si.edu/oig/.

For the prior semiannual reporting period, the SI OIG reported completed actions on 4 of our 11 recommendations. SI OIG was also updating its audit manual to reflect the FY 2011 revision to government auditing standards and recommendations from our peer review. As of the end of the current reporting period, SI OIG is reporting that actions on all recommendations in our peer review report have been completed.

Investigative Peer Reviews

Quality assessment peer reviews of investigative operations are conducted on a 3-year cycle as well. Such reviews result in a determination that an organization is "in compliance" or "not in compliance" with relevant standards. These standards are based on *Quality Standards for Investigations* and applicable Attorney General guidelines. The Attorney General guidelines include the *Attorney General Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority* (2003), *Attorney General Guidelines for Domestic Federal Bureau of Investigation Operations* (2008), and *Attorney General Guidelines Regarding the Use of Confidential Informants* (2002).

- In 2009, the FDIC OIG was the subject of a peer review conducted by the Department of the Interior (DOI) OIG. DOI issued its final report to us on September 9, 2009. In DOI's opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the period October 1, 2007 through September 30, 2008, was in compliance with the quality standards established by CIGIE and the Attorney General guidelines. These safeguards and procedures provided reasonable assurance of conforming with professional standards in the conduct of FDIC OIG investigations. DOI issued a letter of observations but made no recommendations in that letter.
- The FDIC OIG conducted a peer review of the investigative function of the National Aeronautics and Space Administration OIG during June through August 2011. We issued our final report to NASA OIG on November 10, 2011. We reported that, in our opinion, the system of internal safeguards and management procedures for the investigative function of the NASA OIG in effect for the period ending December 31, 2010 was in full compliance with the quality standards established by CIGIE and Attorney General Guidelines. We also issued a letter of observations but made no recommendations in that letter.
- During the reporting period, the Department of Energy (DOE) OIG conducted a peer review of our investigative function. DOE OIG issued its final report on the quality assessment review of the investigative operations of the FDIC OIG on July 31, 2012. DOE OIG reported that in its opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the year ending June 22, 2012, was in compliance with quality standards established by CIGIE and applicable Attorney General guidelines. These safeguards and procedures provided reasonable assurance of conforming with professional standards in the planning, execution, and reporting of FDIC OIG investigations.

Congratulations and Farewell

Congratulations to CIGIE Award Winners

The OIG is proud of the accomplishments of the following OIG staff, who, with colleagues from other OIGs, received awards at the CIGIE Awards ceremony on October 16, 2012.

Award for Excellence: Evaluation of Prompt Regulatory Action Implementation

In Recognition of Excellence in Evaluating the Banking Regulators' Implementation of Minimum Capital and Safety and Soundness Provisions

Adriana Rojas, Associate Counsel, FDIC OIG

Corinne Torongo, Auditor, FDIC OIG

Margaret Wolf, Audit Manager, FDIC OIG

Marshall Gentry, Assistant Inspector General for Evaluations, FDIC OIG

Mary Carmichael, Planning and Operations Manager, FDIC OIG

Teresa Supples, Office Support Specialist, FDIC OIG

Award for Excellence: Investigation: The Orion Bank Investigation Team

In Recognition of Excellence in Uncovering a Multi-Million Dollar Fraud Scheme at Orion Bank

Brian Tucker, Special Agent, IRS

Charles "Ed" Slagle, Special Agent, SIGTARP

James Sweat, Investigator, FDIC OIG

Nicole Waid, Assistant United States Attorney, Middle District of Florida

Peter Caggiano, Special Agent, FDIC OIG

Stephen Carroll, Special Agent, FRB OIG

Thomas Larned, Special Agent, FBI

Additionally, two FDIC OIG staff, along with OIG colleagues from the FRB/Consumer Financial Protection Bureau, and the Department of the Treasury received the **Barry R. Snyder Joint Award** at the awards ceremony for their Joint Review of the Transfer of Office of Thrift Supervision Functions.

In Recognition of Exemplary Joint Work to Review the Transfer of Functions of the Office of Thrift Supervision to the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency

Marshall Gentry, Assistant Inspector General for Evaluations, FDIC OIG

A. Michael Stevens, Evaluations Manager, FDIC OIG

Retirement—Farewell

Wonso Evans

Wonso Evans, Information Technology Specialist and the OIG's Information Security Manager, retired following a federal career of nearly 38 years. Wonso served in the United States Air Force beginning in 1974. In 1987, he joined the U.S. General Accounting Office (now the Government Accountability Office), where he served as a computer programmer for nearly 3 years. In 1990, he continued his career as a computer specialist at the Resolution Trust Corporation OIG, which merged with the FDIC after the Resolution Trust Corporation's sunset on December 31, 1995. Wonso shared his talents and expertise with all component offices, and was assigned specifically to the Office of Management and later to the Office of Investigations. Of special note, he played a key role in custom building a tracking system for the OIG's criminal investigations, expanding the capabilities of the computer forensics lab, and designing a Suspicious Activity Report database. Later in his tenure at the FDIC OIG, as a member of the Office of Management and the OIG's Information Security Manager, he helped ensure a secure information technology environment and was instrumental in developing SharePoint sites that OIG staff relied on when conducting their audits, evaluations, investigations, and other management support activities. Wonso's helpful assistance will be missed by all of his OIG colleagues and others in the Corporation.

Special Project:

CIGFO Issues Results of Its Audit of the Financial Stability Oversight Council's Controls over Non-public Information

Report to the Financial Stability Oversight Council and the Congress
(June 22, 2012)

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created a comprehensive new regulatory and resolution framework designed to avoid the severe consequences of financial instability. The Dodd-Frank Act also created, among other things, the Council of Inspectors General on Financial Oversight (CIGFO). One of CIGFO's statutory functions is to provide oversight of the Financial Stability Oversight Council (FSOC or Council). Specifically, the law grants CIGFO the authority to convene a working group, by a majority vote, for the purpose of evaluating the effectiveness and internal operations of FSOC.

FSOC is charged with identifying risks to the nation's financial stability, promoting market discipline, and responding to emerging threats to the stability of the nation's financial system. These responsibilities are significant, and any decisions coming from FSOC could impact the U.S. financial system and have repercussions for global financial institutions and systems. The information that FSOC collects, deliberations it has, and decisions it implements must be managed and controlled.

FSOC is chaired by the Secretary of the Treasury. Within the Department of the Treasury (Treasury), a dedicated policy office, led by a Deputy Assistant Secretary, functions as the FSOC Secretariat and serves as a mechanism to bring issues to the Council quickly through a coordinated process. The 10 voting members of FSOC provide a federal regulatory perspective and an independent insurance expert's view. The five nonvoting members offer different insights as state-level representatives from bank, securities, and insurance regulators or as the directors of the new offices within Treasury established by the Dodd-Frank Act – the Office of Financial Research and the Federal Insurance Office.

On December 8, 2011, Jon Rymer, Inspector General, FDIC, and Vice Chair, CIGFO, proposed convening a working group to examine FSOC's controls and protocols for ensuring that its non-public information, deliberations, and decisions are properly safeguarded from unauthorized disclosure. The proposal was approved and the CIGFO Working Group was formed. Members included representatives from the FDIC, Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau, Commodity Futures Trading Commission, Department of the Treasury, Federal Housing Finance Agency, National Credit Union Administration, and Securities and Exchange Commission.

To accomplish its objective, the CIGFO Working Group identified the controls and protocols in place at each of the FSOC federal agency members to safeguard FSOC information and the manner in which FSOC as a whole safeguards information from unauthorized disclosure. The audit was intended to capture the current information exchange environment as well as identify any potential risk or gaps in controls over information exchange and bring those issues to the attention of FSOC as it continues to carry out its mission. The Working Group did not include the FSOC independent and state members in this review.

Working Group Results

FSOC understands that its ability to safely share information among its members is critical to its effectiveness. The report pointed out that to date, a limited amount of non-public information, primarily information related to rulemakings, meetings, and other routine activities, had been exchanged among Council members. Joint work among FSOC members to identify and mitigate risks to financial stability had begun, and data sharing would expand as the Office of Financial Research continued to build its capacity. To protect the exchange of information, the Council members entered into a memorandum of understanding governing the treatment of non-public information that relies on each agency to use the controls in place at their respective agencies.

All FSOC federal agency members are subject to the Federal Information Security Management Act, which requires that federal agencies review their information and determine appropriate security controls over that information commensurate with risk. The Working Group did, however, identify differences in how FSOC federal agency members mark non-public information as well as differences for handling non-public information. Without addressing these differences, there is a risk that senders and receivers of FSOC non-public information may not apply a consistent level of controls. In this regard, it is important to note that FSOC began to address these differences among its members through a March 2012 project that is being coordinated by the FSOC Data Committee. FSOC requested detailed information gathered during the CIGFO review to assist with this project.

In preparation for the increase in new types of non-public information under the Dodd-Frank Act and mindful of its duty to safely share that information among its members, the FSOC Secretariat was developing, with the Office of Financial Research, two tools to support secure collaboration.The report pointed out that as FSOC continued to develop those tools for information sharing, it should consider that some of the new information developed under the Dodd-Frank Act as well as unexpected economic events may require controls greater than those that were currently in place or being planned among Council members. Similarly, appropriate safeguards would need to be considered and possibly upgraded by each FSOC federal agency member to ensure timely and secure access to the information. In the interim, the report noted that FSOC should consider having a contingency plan in place to quickly and safely exchange information under a crisis environment. Such a plan should also contemplate FSOC's independent and state members.

Conclusion and Matters for Consideration

The CIGFO report acknowledged that FSOC was still evolving and a number of information-sharing projects were under development. For this reason, the Working Group did not make recommendations in its report. However, the Working Group encouraged the Council to continue ongoing efforts, further examine the

issues raised in the report with respect to commonalities and differences of member agencies, and prepare for possible security upgrades for information that may need to be exchanged as economic conditions change and new threats to the stability of the U.S. financial system emerge. The Working Group underscored the importance of acting in a timely manner.

FSOC Comments

On June 12, 2012, the Treasury Acting General Counsel, on behalf of FSOC, provided comments. The comments acknowledged the Working Group's observations and suggestions. The response indicated that in the event any new data was designated "high impact," meaning the release of such data could result in catastrophic adverse impact on the financial system, FSOC members and member agencies would review how to address issues associated with safeguards and protocols to accommodate the exchange of such data. The Working Group reiterated the value of preparing for that possibility.

Abbreviations and Acronyms

ADC	acquisition, development, and construction
C&I	commercial and industrial
CCV	Corus Construction Venture, LLC
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Clifton	CliftonLarsonAllen LLP
CPP	Capital Purchase Program
CRE	commercial real estate
DCP	Division of Depositor and Consumer Protection
DIF	Deposit Insurance Fund
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOI	Department of the Interior
DRR	Division of Resolutions and Receiverships
ECU	Electronic Crimes Unit
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Management Act
FRB	Board of Governors of the Federal Reserve System
FSB	First State Bank
FSOC	Financial Stability Oversight Council
GDBF	Georgia Department of Banking and Finance
GPRA	Government Performance and Results Act of 1993
IG	Inspector General
IRS-CI	Internal Revenue Service, Criminal Investigation
IT	Information Technology
LLC	limited liability company
MDH	Metro Dream Homes
MLR	Material Loss Review
OCC	Office of the Comptroller of the Currency
OCFI	Office of Complex Financial Institutions
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
Plan	Joint Implementation Plan
PMN	purchase money notes
RMS	Division of Risk Management Supervision
SAR	Suspicious Activity Report
SARC	Supervision Appeals Review Committee
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLA	Shared-Loss Agreement
TBW	Taylor, Bean & Whitaker
TCB	Tennessee Commerce Bank
TDFI	Tennessee Department of Financial Institutions

OIG Hotline

The Office of Inspector General (OIG) Hotline is a convenient mechanism employees, contractors, and others can use to report instances of suspected fraud, waste, abuse, and mismanagement within the FDIC and its contractor operations. The OIG maintains a toll-free, nationwide Hotline (1-800-964-FDIC), electronic mail address (IGhotline@FDIC.gov), and postal mailing address. The Hotline is designed to make it easy for employees and contractors to join with the OIG in its efforts to prevent fraud, waste, abuse, and mismanagement that could threaten the success of FDIC programs or operations.

To learn more about the FDIC OIG and for copies of audit and evaluation reports discussed in this Semiannual Report, visit our Web site: http://www.fdicig.gov

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