

# SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL  
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT, AND ROBUST ENFORCEMENT

Quarterly Report to Congress  
April 29, 2015

## MISSION

SIGTARP's mission is to advance economic stability by promoting the efficiency and effectiveness of TARP management, through transparency, through coordinated oversight, and through robust enforcement against those, whether inside or outside of Government, who waste, steal or abuse TARP funds.

## STATUTORY AUTHORITY

SIGTARP was established by Section 121 of the Emergency Economic Stabilization Act of 2008 ("EESA"), as amended by the Special Inspector General for the Troubled Asset Relief Program Act of 2009 ("SIGTARP Act"). Under EESA and the SIGTARP Act, the Special Inspector General has the duty, among other things, to conduct, supervise and coordinate audits and investigations of any actions taken under the Troubled Asset Relief Program ("TARP") or as deemed appropriate by the Special Inspector General. In carrying out those duties, SIGTARP has the authority set forth in Section 6 of the Inspector General Act of 1978, including the power to issue subpoenas.

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## Message from the Special Inspector General

Over the last six weeks, the Office of the Special Inspector General for the Troubled Asset Relief Program (“SIGTARP”) took action to protect TARP by publishing audit findings and nine recommendations over Treasury’s use of \$372 million in TARP dollars to demolish vacant houses, and by obtaining two critical victories in SIGTARP’s fight against TARP-bailout related crime when two trials ended with both juries convicting a TARP bank officer. As we found in our audit, by keeping itself in the dark about key decisions and activities in TARP blight elimination, Treasury is leaving the success of a TARP program to chance and losing opportunities to see how it can help the states and ensure the most effective use of TARP. We also found that Treasury has not taken a risk-based approach and does not have or monitor the contracts and subcontracts for which TARP funds are the source of payment, nor do the states. After a six-week trial, a jury found Ebrahim Shabudin, senior officer of TARP-bank United Commercial Bank, guilty of fraud in, as described by the DOJ, “one of the largest criminal prosecutions brought by the [DOJ] of wrongdoing by bank officers arising out of the 2008 financial crisis.” This, with convictions of UCB officers Thomas Yu and Craig On, came after five years of SIGTARP and our partners unravelling a hidden financial fraud scheme. UCB was the 9th largest bank to fail, the first TARP bank to fail, causing a \$300 million loss to TARP, and a \$677 million loss to the FDIC. Also, after a five-day trial, a jury found David Weimert, senior officer of TARP-recipient AnchorBank, guilty of fraud.

Significant criminal prosecutions from a young agency are not the norm. SIGTARP investigations combined with the difference we have been able to make through audits, other reports, and recommendations have protected taxpayers. SIGTARP nears a significant milestone, with 99 defendants we investigated sentenced to prison. With 52 additional convicted defendants awaiting sentencing, we expect that to rise. There have been 250 defendants we investigated charged with a crime. SIGTARP has escalated its efforts tenfold to recover funds lost to TARP crime, with \$1.58 billion already recovered.

SIGTARP’s five-year investigation of UCB illustrates what it takes, and how long it takes to successfully investigate a massive fraud scheme inside a TARP bank, no small feat for an office created six years ago, and charged with finding a new kind of crime. These convictions reflect a turning point in SIGTARP’s ability to make significant headway in investigating TARP bankers—our most difficult type of investigation. Early on, SIGTARP has been successful in investigating crime by borrowers against TARP banks, crimes related to HAMP, and banks that unsuccessfully applied for TARP. It has been a much harder road to bring results against TARP bank officers where the fraud is concealed, and the TARP capital covers losses that would otherwise be exposed. While it took time, SIGTARP honed our expertise in finding crime inside a TARP bank. Since the beginning of 2013, SIGTARP has produced criminal charges against 29 TARP bankers as we gained greater expertise to find and unravel fraud at TARP banks even with no whistleblower or regulatory referral. We expect this number to rise significantly.

Our ability to make a difference through a combination of audits and investigations has grown stronger with time. In this report, we identify the states where HAMP has underserved homeowners. We are leaving TARP and the financial system safer than we found it. We have much more we can do and must do. There is more to come.

Respectfully,

CHRISTY L. ROMERO  
Special Inspector General



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# EXECUTIVE SUMMARY



Over the last six weeks, SIGTARP took action to protect TARP by publishing audit findings and recommendations over Treasury's use of TARP dollars to demolish vacant houses and by obtaining two critical victories in SIGTARP's law enforcement fight against TARP-bailout related crime when two trials ended with both juries convicting a TARP bank officer investigated by SIGTARP. Last month, on March 26, 2015, after a six-week trial, a Federal jury found Ebrahim Shabudin, a senior officer of TARP-recipient United Commercial Bank (UCB), guilty on all counts in "one of the largest criminal prosecutions brought by the Department of Justice of wrongdoing by bank officers arising out of the 2008 financial crisis," (as described by the DOJ). Shabudin's conviction with the criminal convictions by guilty plea of UCB officers including Senior Vice President Thomas Yu and CFO Craig On, came after five years of SIGTARP and our law enforcement partners finding and unravelling a hidden financial fraud scheme piece by piece.

Our hard and careful work paid off as we gained expertise during those years, learning how best to uncover and expose a fraud scheme at a TARP-recipient bank with a magnitude of losses exceeding half a billion dollars. UCB was the first TARP bank to fail, and the ninth largest bank to fail since 2007, causing a loss of more than \$300 million in TARP, and a \$677 million loss to the FDIC. The following week, on April 3, 2015, after a five-day trial, another federal jury found David Weimert, senior officer of TARP-recipient AnchorBank, guilty of five counts of fraud, another critical victory in SIGTARP's fight against TARP-bailout related crime.

SIGTARP's five-year investigation of UCB illustrates what it takes, and how long it takes, to investigate a massive fraud scheme inside a TARP bank with success, no small feat for an office created just six years ago, and charged with finding a new kind of crime in a constantly-evolving Government program. Weimert's fraud was much smaller compared to the fraud at UCB, but it still took years to investigate and prosecute. We at SIGTARP cannot allow a TARP banker to get away with a crime that hurt the bank, no matter the size.

These two TARP bankers' convictions reflect a turning point in SIGTARP's ability to make significant headway in investigating and aiding the prosecution of officers inside banks that received TARP funds — our most difficult type of investigation. The time it has taken to bring these types of prosecutions should not be surprising given that SIGTARP first had to define TARP-related crime. That definition expanded and evolved as TARP expanded into multiple industries and as those committing crime found new opportunities to do so.

Beginning in our early years, SIGTARP has been very successful in investigating crime by bank borrowers against TARP banks (often reported by victim banks), crimes related to TARP's housing program HAMP (often reported by victim homeowners or referred by Treasury), and banks that unsuccessfully applied for TARP (that may have high charge offs, be included on the FDIC problem bank list, or fail).

Unlike other TARP-related crime, it has been a much harder road for SIGTARP to bring results against TARP bank officers where the fraud is concealed under

layer upon layer of secrecy, and the bank often looks healthier than it is because the TARP capital covers losses that would otherwise be exposed.

While it took time, SIGTARP honed our expertise in finding crime inside a TARP bank. Since fiscal year 2013, SIGTARP has produced more results with criminal charges against 29 TARP bankers as we gained greater expertise with each case, leading us to find and unravel fraud at TARP banks even with no whistleblower or regulatory referral. We have gotten smarter about how to look behind false books by learning with each bank case how insiders at banks conceal their crime.

***Significant criminal prosecutions from a young agency are not the norm. SIGTARP investigations combined with the difference we have been able to make by bringing transparency and improvements to TARP through audit reports, other reports, and recommendations have protected taxpayers.***

SIGTARP has always used a combination of audits and investigations to protect TARP for taxpayers. Protecting the more than \$450 billion bailout dollars in 13 different TARP programs, and enforcing the law, is a daunting challenge that those of us at SIGTARP accepted. We accepted that challenge the only way we knew how, by first getting smart about these new out-of-the-ordinary programs spanning different industries, recommending ways to reduce vulnerabilities, and conducting criminal investigations where fraud seeped in.

This continues today. As Treasury actively disburses \$372 million in TARP to six states for the demolition of vacant houses, SIGTARP is protecting taxpayers and conducting oversight.

SIGTARP published an audit showing how Treasury has designed the program so that much of the decision making is in the hands of city or county/land banks/non-profit or for-profit partners that are unknown to Treasury and whose decisions are unknown to Treasury.

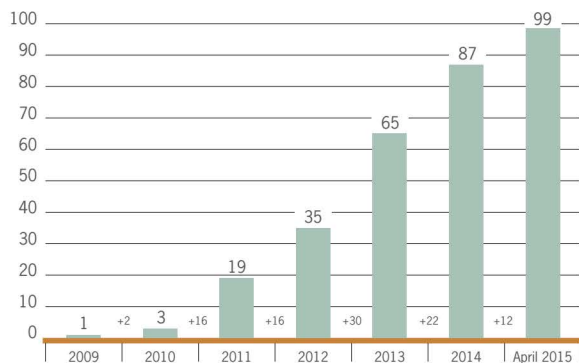
SIGTARP made nine recommendations to Treasury to increase the effectiveness of this use of TARP funds. SIGTARP also announced a new audit to assess risk factors that could impact the program's effectiveness. By raising these recommendations and risk factors early, SIGTARP is acting to strengthen this TARP program's effectiveness and protect it from fraud, waste, and abuse.

***99 defendants investigated by SIGTARP sentenced to prison for their crimes related to the Government's response to the financial crisis known as TARP.***

This month, SIGTARP nears a significant milestone, with 99 defendants who were investigated by SIGTARP sentenced to prison for their crimes, all of which are crimes related to TARP, the Government's response to the financial crisis. Sentencing follows years of SIGTARP's investigation and criminal prosecution. With 52 additional defendants investigated by SIGTARP already convicted and awaiting court sentencing, we expect that number to rise.

FIGURE ES.1

## INCREASE IN DEFENDANTS INVESTIGATED BY SIGTARP WHO WERE SENTENCED TO PRISON (CUMULATIVE)



The convictions of 178 defendants, 99 of which have already been sentenced by courts to prison, showcase the difference SIGTARP can make, after only six years, by combining forces with the DOJ and other law enforcement partners.

As a law enforcement team standing firm together against bailout-related crime, we are getting better and better at bringing more accountability and justice to reprehensible crimes related to the Government's extraordinary action and funded by taxpayers in TARP.

SIGTARP desires constant improvement, always acting with a sense of urgency. That sense of urgency has led SIGTARP to gain in expertise and momentum in finding complex crimes never meant to be seen, and painstakingly gathering the evidence needed to prosecute those committing the crimes. We are applying that same grit to find and investigate crime inside TARP banks.

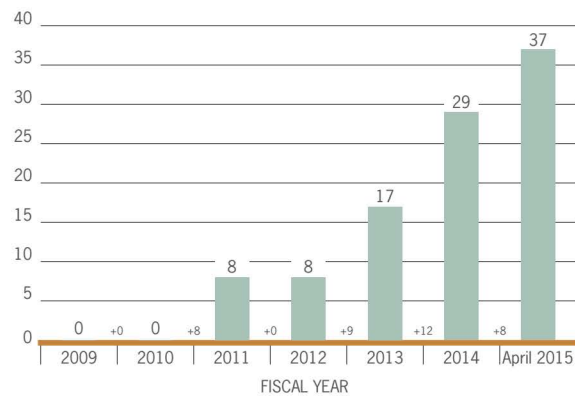
***SIGTARP has much more to do in the fight against TARP-bailout related crime, particularly investigating crime inside TARP banks and supporting prosecutions of TARP bankers.***

SIGTARP has much more to do in the fight against TARP bailout-related crime. We are only on the cusp of bringing justice through prosecutions in our highest priority cases — crime inside TARP banks, like UCB. Only 6 of the 99 defendants sentenced to prison so far are TARP bankers (along with four of their co-conspirators). SIGTARP faced a steep learning curve to find crime inside of banks because unlike the Savings and Loan crisis, where investigators received thousands of referrals from regulators to develop patterns and criminal clues, whistleblowers were not calling and regulators were not referring TARP banks to law enforcement.

SIGTARP expects the number of TARP bankers committing crime who will be sentenced to prison to rise significantly over the next years. Figure ES.2 shows SIGTARP's escalating ability to investigate crime by TARP bankers to the point where prosecutors bring criminal charges.

FIGURE ES.2

### TARP RECIPIENT BANKERS CRIMINALLY CHARGED RESULTING FROM A SIGTARP INVESTIGATION (CUMULATIVE)



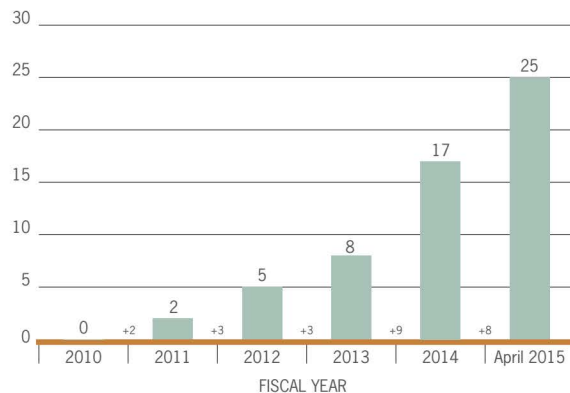
So far, 37 TARP bankers investigated by SIGTARP have been charged with a crime, 29 of which have been charged since 2013, evidencing the difficulty in getting these complex cases to prosecution.

- No TARP banker investigated by SIGTARP was charged with crimes in fiscal years 2009, 2010, or 2012. In 2011, eight TARP bankers investigated by SIGTARP were charged with crimes, including UCB officers.
- During these years, while SIGTARP successfully investigated other TARP-related crime, we doubled our proactive efforts to find crime inside TARP banks using information we learned from our investigations of banks that applied unsuccessfully for TARP. Since fiscal year 2013, SIGTARP's effectiveness at finding and unraveling crime inside TARP banks soared, after doubling our efforts, building on expertise gained from earlier cases.
- In fiscal year 2013, nine TARP bankers investigated by SIGTARP were charged with a crime.
- In fiscal year 2014, 12 additional TARP bankers investigated by SIGTARP were charged with a crime.
- In this first half of fiscal year 2015, already an additional eight TARP bankers investigated by SIGTARP were charged with a crime.

Criminal charges are the first step to bring justice. SIGTARP works with the end in mind – conviction and sentencing. It is the important role of SIGTARP to ensure that prosecutors have all of the evidence to prove guilt beyond a reasonable doubt. In some cases, such as the case against UCB officer Shahudin, the case will go to a trial. The trial against Shahudin took six weeks, and SIGTARP played an integral part during the trial. Our work supporting prosecutions has been very successful, with escalating results as cases reached the trial stage or guilty plea. As Figure ES.3 shows, 25 of the 37 charged TARP bankers investigated by SIGTARP have already been convicted of their crime, 20 of those convictions happening since 2013.

FIGURE ES.3

## TARP RECIPIENT BANKERS CONVICTED RESULTING FROM A SIGTARP INVESTIGATION (CUMULATIVE)



*While TARP bank investigations are a high priority, over SIGTARP's six year journey, our ability to make a difference through a combination of audits and investigations has grown stronger and stronger with time spanning different industries.*

TARP's quick and ever-changing evolution required SIGTARP to be nimble, adapting to new TARP programs, assessing and reporting on new vulnerabilities, and enforcing the law, with a three-pronged strategy.

- First, SIGTARP learns the intricacies of TARP programs and their industry, to recommend improvements, and to reduce vulnerabilities for fraud, waste, and abuse (making our first recommendation our first week).
- Second, we provide never-before-seen transparency to the American public. SIGTARP's impact gives the public insight into the emergency bailout and informs Congress of SIGTARP's recommendations to improve and make TARP programs more efficient and less susceptible to losses attributable to fraud, waste, and abuse.
- Third, we develop ways to find TARP-related crime, a task that is not easy, and has evolved as the definition of TARP-related crime keeps changing and spans different industries.

We rise to the challenge. SIGTARP applies the knowledge gained from earlier investigations and audit work to protect the interests of taxpayers, shareholders, communities, and the broader financial system. We dig deeper. Our knowledge continues to grow.

## THE EVOLUTION OF SIGTARP DURING THE EARLY YEARS 2009 THROUGH MID-2012

***SIGTARP audits of the largest TARP investments:*** With much of SIGTARP's criminal investigations confidential, SIGTARP's early years, 2009 through 2012, were publicly marked by significant audit work that brought transparency and oversight over Treasury's and Federal regulator's decisions. This included, for example, audits covering decisions to allow for payments of 100 cents on the dollar to AIG's counterparties, and to reduce GM's and Chrysler's dealership networks.

***SIGTARP audit and investigation of Bank of America:*** SIGTARP published an audit on Treasury and the Federal Reserve's decision to provide Bank of America with an additional TARP bailout. SIGTARP also investigated misrepresentations that Bank of America's former CEO and CFO made to the Government about the Merrill Lynch merger to get the additional TARP funds. In 2010, the New York Attorney General sued the CEO and CFO under the Martin Act.

***SIGTARP audits of, and investigations related to, TARP housing programs:*** Through these early years of TARP, Treasury rolled out TARP's two signature housing programs: HAMP and the Hardest Hit Fund. SIGTARP published hard-hitting audits of Treasury's administration of both programs, published a series of recommendations, and testified before Congress.

SIGTARP evolved after learning about a new criminal threat related to HAMP's promise to modify a homeowner's mortgage to one that was more affordable and sustainable. To lure and trap their prey, con artists, often with a prior criminal record, began despicable "mortgage modification" fraud schemes where they "sold" a service that would guarantee a homeowner's admission into HAMP. To look legitimate, these scammers used fake Federal seals, fake websites, and fake offices. But the damage was real. They stole millions from homeowners across the U.S. who wanted to apply for HAMP. Swiftly, SIGTARP evolved to counter this threat on a regional basis. For example, one early scheme SIGTARP uncovered involved Howard Shmuckler, a disbarred attorney, who guaranteed homeowners in Maryland and Virginia mortgage modifications in exchange for an upfront fee. Shmuckler performed little if any service in return for the fees, and in many cases, the homeowners' properties fell into foreclosure. For his crimes, the court sentenced Shmuckler to 7½ years in prison.

Talking to victimized homeowners, we learned that some homeowners had learned of the "service" from the internet—which meant that fraudsters could expand their criminal reach to harm victims in all 50 states. We used that knowledge to evolve by negotiating with the nation's biggest search providers – Google, Yahoo, and Bing – to stop accepting advertising money from those associated with websites bearing the hallmarks of TARP fraud. To help homeowners avoid becoming a victim, SIGTARP disseminated an alert containing

the hallmarks of the scheme. We also used forensic skills to find the scams on the internet.

## **SIGTARP Audit and Investigations into the TARP Bank Bailout**

SIGTARP issued hard-hitting audits on Treasury's and regulator's decisions to inject \$125 billion in the first nine TARP banks, and to relax criteria for the largest banks to exit TARP. These audits were critical to bring accountability for the Government's bank bailout decisions. SIGTARP could not prevent TARP money from going out to banks that might be committing fraud because Treasury did not inform SIGTARP of the banks it intended to invest TARP funds, with one exception. When Colonial Bank announced that it had raised the capital Treasury required before receiving TARP funds, SIGTARP alerted Treasury to stop the \$553 million approved TARP funds from going to the bank. SIGTARP's investigation uncovered a \$2.9 billion 10-year fraud scheme, putting eight defendants in prison. Most were convicted in early 2011, including Lee Farkas, Chairman of Taylor Bean & Whitaker, who received 30 years behind bars, and his co-conspirator, Colonial Bank officer Cathy Kissick, who got an eight-year prison sentence.

SIGTARP also conducted investigations of bank borrowers who defrauded TARP banks when taxpayers were shareholders in the banks through TARP.

## **TARP Applicant Banks**

As Treasury continued to invest TARP funds in banks, SIGTARP realized the crucial need to bring justice and accountability to any banker that applied for TARP with fraudulent books both to deter future TARP applications laced with fraud and to remove from our precarious financial system those who were willing to commit a crime. Before SIGTARP learned how to best detect and uncover evidence of fraud at TARP banks, we started investigating unsuccessful TARP-applicant banks, such as Colonial Bank. With thousands of banks applying for TARP, and 707 receiving TARP in the first bank bailout, determining which banks to look inside proved difficult. TARP applicant banks initially showed more red flags. Without the TARP capital to help fill holes on their books caused by fraud, losses caused by fraud were exposed. These losses can lead to failure, high charge offs, or the bank ending up on the FDIC's Problem Bank List. In our investigation of Park Avenue Bank, we learned how bank CEO Charles Antonucci used a round-trip transaction to make it appear to regulators that it had the capital needed for TARP; this led to his conviction. We saw a similar round trip transaction in our investigation of Orion Bank; that led to prison sentences of the CEO Jerry Williams, and two bank officers Thomas Hebble and Angel Guerzon. We learned from our Colonial Bank/TBW investigation techniques bank officers used to hide a bank's true financial condition through fraudulent schemes. We applied this new-found expertise to our investigation of TARP-applicant banks including Omni National Bank and FirstCity Bank, and to our investigations of TARP-recipient banks.

**TARP securities trading program:** Treasury rolled out Public-Private Investment Program (PPIP) to unlock frozen trading in mortgage backed securities, by