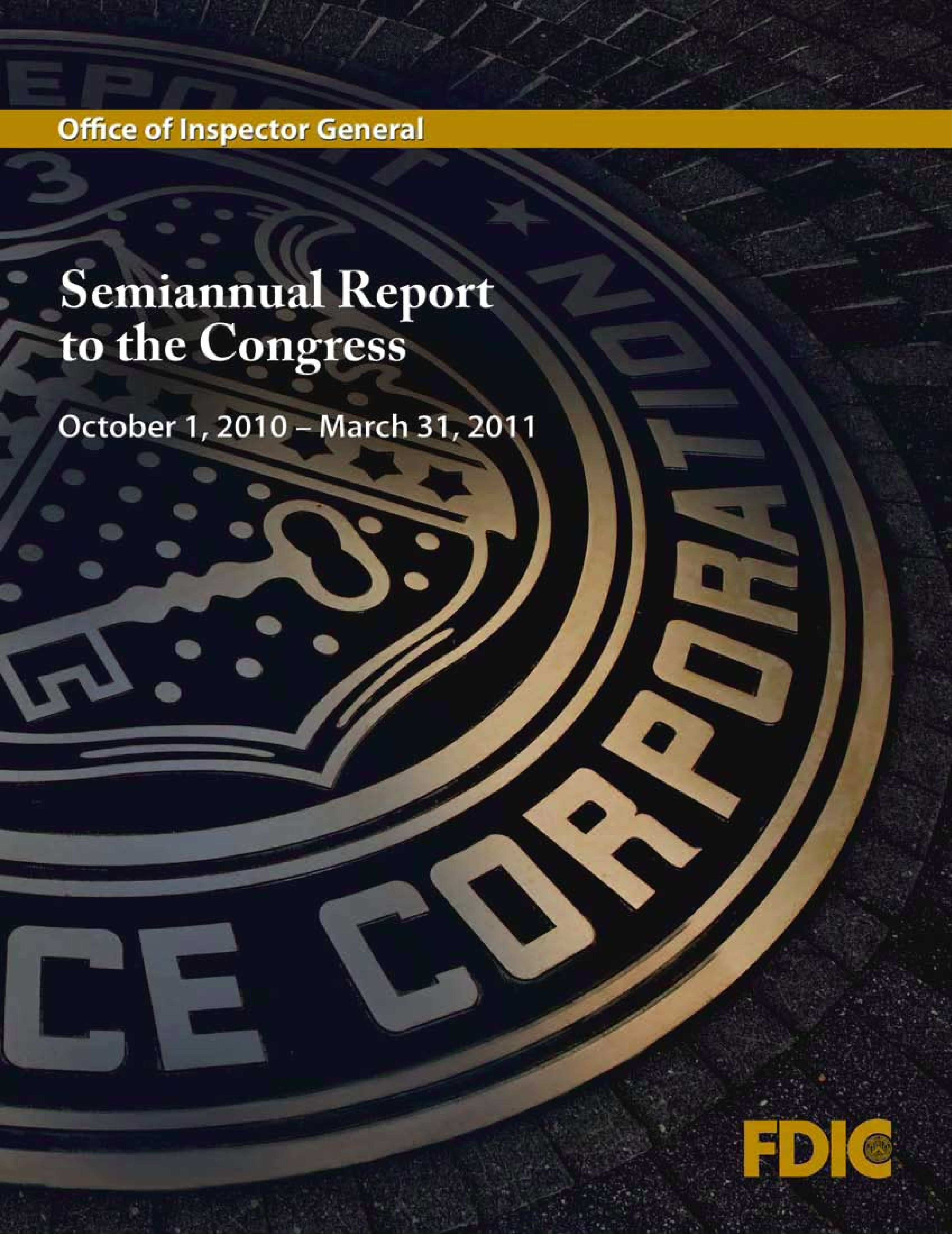
Office of Inspector General

Semiannual Report to the Congress

October 1, 2010 – March 31, 2011



FDIC

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 8,150 individuals within seven specialized operating divisions and other offices carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured about \$6.2 trillion in deposits in about 7,657 institutions, of which the FDIC supervised approximately 4,715. Although the balance of the Deposit Insurance Fund (DIF) declined by \$38.1 billion during 2009, and totaled negative \$7.4 billion as of December 31, 2010, the fund's liquidity was enhanced during the fourth quarter of 2009 by 3 years of prepaid assessments that positioned the DIF to fund resolution activity during 2010 and into 2011.

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Inspector General's Statement

As this reporting period comes to a close, the crisis of the past 2½ years has eased some, and regulators are implementing Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) reforms. The economic climate, however, remains uncertain and instability of the financial markets lingers. This is a critical juncture for the Federal Deposit Insurance Corporation (FDIC) and the Office of Inspector General (OIG) as we transition to a post-crisis period and continue to work with the other regulatory agencies to help sustain a sense of restored stability and confidence.

In reflecting on the OIG's audit and evaluation work throughout the crisis and to date, we are proud of the positive and cooperative working relationships we established with the FDIC and the outcomes of our work. In particular, we issued more than 85 reports on bank failures and conveyed the results of those reviews to FDIC management. Our perspectives on the causes of institution failures and the FDIC's supervision of those institutions were well received, and we believe that body of work helped inform the Corporation, the Congress, and the public as to the underlying circumstances of each failure. Our work on the failure of Washington Mutual Bank also brought to light important issues regarding the FDIC's role as insurer and back-up regulator.

Importantly, we also issued a sort of capstone report outlining the steps that the Corporation has taken in response to issues identified in our work and to address matters of concern on the part of senior FDIC management. Overall, the Corporation took a number of steps to strengthen its supervision activities and continues to do so. Such actions range from adopting an overarching "forward looking supervision" approach to developing new performance goals, to clarifying guidance for examiners, and these efforts are ongoing. We believe such actions will go a long way toward enhancing both onsite and offsite supervisory activities and preventing a recurrence of certain practices contributing to the crisis.

With enactment of the Dodd-Frank Act and a new definition of "material loss" as a loss exceeding $200 million, the OIG is now facing a considerably lighter workload of mandatory material loss reviews. In fact, during the reporting period, we dissolved our temporarily created Office of Material Loss Reviews and shifted our focus to the FDIC's role as receiver to address the challenges the Corporation faces in that capacity. In effect, the FDIC is on a par with some of the largest banks in the country with an asset portfolio of billions of dollars.

We have examined several of the risk-sharing arrangements that the FDIC has engaged in with acquiring institutions and/or limited liability companies. The FDIC's exposure in these arrangements is significant. We are working closely with FDIC management and the FDIC Audit Committee to address the risks inherent in these arrangements and to ensure that the FDIC's interests are protected as these agreements run their course long into the future. We will review other aspects of resolution and receivership activity in the coming months as well as other risk areas in the Corporation as we return to a more steady state of operations and can conduct more discretionary assignments.

Our Office of Investigations continues to partner with law enforcement colleagues in combating financial institution fraud throughout the country. One recent and highly complex case that we devoted substantial resources to deserves special mention--a case worked jointly by the Department of Justice, U.S. Attorney's Office for the Eastern District of Virginia, the Federal Bureau of Investigation, the Internal Revenue Service Criminal Investigation Division, and several other OIGs. As a result of the coordinated efforts of these parties, the former Chairman of Taylor, Bean, and Whitaker (TBW), a private mortgage company, was convicted for his part in a $2.9 billion fraud scheme. This scheme contributed to the failures, in August 2009, of Colonial Bank, one of the 25 largest banks in the United States at the time, and TBW, one of the largest privately held mortgage lending companies in the country. The former Chairman of TBW was convicted on 14 counts of bank, wire, and securities fraud and faces a maximum prison term of 30 years. Six other Colonial or TBW executives also pleaded guilty for their part in the scheme.

This case demonstrates the value of leveraging investigative resources to uncover the fraudulent activities contributing to bank failures. It also illustrates our ongoing commitment to help ensure integrity in the financial services industry and to bring to justice those who would undermine that integrity.

In closing, I would like to acknowledge FDIC Chairman Sheila Bair who has announced her intention to leave the FDIC at the conclusion of her term which expires at the end of June 2011. Chairman Bair has provided extraordinary leadership to the FDIC throughout her tenure and particularly during a time of unparalleled economic and financial crisis. We sincerely appreciate her support of our office and wish her success in every future endeavor.

Jon T. Rymer
Inspector General
April 2011

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Abbreviations and Acronyms

ADC	acquisition, development, and construction
ATM	automated teller machine
BDO	BDO USA, LLP
BSA	Bank Secrecy Act
CDCI	Community Development Capital Initiative
CFI	Office of Complex Financial Institutions
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CRE	commercial real estate
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
DSC	Division of Supervision and Consumer Protection
ECIE	Executive Council on Integrity and Efficiency
ECU	Electronic Crimes Unit
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FISMA	Federal Information Security Management Act
GPRA	Government Performance and Results Act of 1993
HUD	Department of Housing and Urban Development
IDFPR	Illinois Department of Financial and Professional Regulation
IDR	in-depth review
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology
LLC	limited liability corporation
LSA	loss share agreement
MDH	Metro Dream Homes
MLR	Material Loss Review
NIST	National Institute of Standards and Technology
NYCB	New York Community Bank
OCC	Office of the Comptroller of the Currency
OCFI	Office of the Commissioner of Financial Institutions
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
P&A	purchase and assumption
PCA	Prompt Corrective Action
PCIE	President's Council on Integrity and Efficiency
RMS	Division of Risk Management Supervision
SDOs	secured debt obligations
SEC	Securities and Exchange Commission
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
TARP	Troubled Asset Relief Program
TBW	Taylor, Bean, and Whitaker

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. Given our statutorily mandated workload involving reviews of failed financial institutions, most of our efforts during the reporting period have continued to focus 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. However, based on the risks inherent in the resolution and receivership areas, we have shifted resources to conduct work in support of our fourth goal. We have not devoted as much coverage as in the past in the two goal areas involving consumer protection and the FDIC's internal operations during the past 6-month period. 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. In early May 2009, we conveyed to the FDIC Audit Committee and the Division of Supervision and Consumer Protection (DSC), now the Division of Risk Management Supervision (RMS), our perspectives on the commonalities in the eight material loss review (MLR) reports we had drafted or finalized to date. The Corporation has taken and continues to take a number of actions that address our concerns since that time. We continue a very cooperative working relationship with RMS on these matters. During the reporting period, we completed 17 reports on institutions whose failures resulted in substantial losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. Many of our initial MLR observations were confirmed in our more recent work, and we continued to share and supplement our views on trends in the failures and the FDIC's supervision of the institutions during the reporting period. Of note, during the reporting period, we also completed a follow-up review of the actions DSC has taken in response to issues and trends identified in MLRs. Given requirements of the Dodd-Frank Act, we completed 39 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the new threshold of $200 million and determined whether any unusual circumstances existed that would warrant an in-depth review in those cases.

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 achieved successful results in combating 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' failure. For example, five executives associated with the failure of Colonial Bank and Taylor, Bean and Whitaker, a private mortgage company, pleaded guilty to conspiracy to commit bank , wire, and securities fraud, for their part in a $2.9 billion scheme. In another case, a former bank president was sentenced to 6 years and 6 months in prison and ordered to pay $5 million in restitution to the FDIC for falsifying loan documents and concealing problem loans. In yet another case, a former director of Troy Bank who engaged in an $8 million check kiting scheme was sentenced to 58 months in prison and ordered to pay $8 million in restitution. In yet another case, six defendants were sentenced for their roles in an equipment leasing scheme and ordered to pay $172 million jointly and severally to 85 financial institutions that were defrauded. Also of note during the reporting period was our success in several mortgage fraud cases, one involving a scheme in the Washington metropolitan area, and another worked in connection with the Mortgage Fraud Strike Force, Southern District of Florida.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision, the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with DSC and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-26.)

Strategic Goal 2

Insurance: Help the FDIC Maintain the Viability of the Insurance Fund

Our MLR work fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the 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. (See pages 27-28.)

Strategic Goal 3

Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy

Audits and evaluations can contribute to the FDIC's protection of consumers in several ways. We did not devote substantial resources of this type to specific consumer protection matters during the past 6-month period because for the most part, we have continued to devote resources to MLR work and more recently to critical FDIC activities in the resolution and receivership realms. Our Office of Investigations, however, supports this goal through its work. As a result of an ongoing investigation, a former managing director of AmeriFirst was sentenced to 25 years in prison for his role in a securities fraud involving misrepresentation of FDIC affiliation that targeted elderly investors in Florida and Texas. Of note, our Electronic Crimes Unit responded to instances where fraudulent emails and facsimiles purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The Electronic Crimes Unit successfully deactivated three fraudulent email accounts used for such purposes. (See pages 29-32.)

Strategic Goal 4

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

We completed four assignments in this goal area during the reporting period. We issued the results of an assignment related to loss share agreements between the FDIC and an acquiring institution, a structured asset sale, and an audit of the franchise marketing of AmTrust Bank. With respect to the impact of our audits of the FDIC's various risk-sharing arrangements with acquiring institutions and/or limited liability companies, during the period, FDIC management agreed with $10.6 million in monetary benefits and is taking action on other nonmonetary recommendations to address our concerns. We also issued an evaluation report, conducted at the request of the Ranking Member of the House Financial Services Committee and the Ranking Member of the Subcommittee on Oversight and Investigations related to recapitalization and resolution efforts involving ShoreBank, Chicago, Illinois. As of the end of the reporting period, ongoing work included additional audits of loss share agreements, structured sales, and asset management and marketing activities.

From an investigative standpoint, we continued to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed. (See pages 33-38.)

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 completed work on the FDIC's information security practices pursuant to the Federal Information Security Management Act (FISMA). The objective of that audit is to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Act and related policies, procedures, standards, and guidelines. The final report concluded that the FDIC's information security program generally met FISMA requirements and the National Institute of Standards and Technology security guidance. The final report did, however, make 12 recommendations to enhance security practices and related internal controls.

We promoted integrity in FDIC internal operations through ongoing OIG Hotline and other referrals and coordination with the FDIC's Divisions and Offices, including the Ethics Office, as warranted. (See pages 39-42.)

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, among other activities, we reorganized our audit and evaluation resources, continued realignment of the OIG investigative resources with FDIC regions and satellite offices, and examined staffing plans and budget resources to ensure our office is positioned to handle our increasing workload and risks to the FDIC. We monitored OIG expenses for Fiscal Year 2010 and our funding status for Fiscal Year 2011 to ensure availability of funds, particularly in light of the budget impasse, continuing resolutions, and uncertainty about the status of appropriations. We also provided our FY 2012 budget request to the House and Senate Appropriations Committees. This budget requests $45.3 million to support 144 full time equivalents.

We continued a new process for reviewing all failures of FDIC-supervised institutions not meeting the Dodd-Frank Act $200 million threshold triggering an MLR and captured this and other reporting information now required under the Dodd-Frank Act. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our 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 certification. We also sponsored a college intern on a part-time basis to assist us in our investigations work. We supported OIG staff attending graduate schools of banking to further their expertise and knowledge 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; and coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the Government Accountability Office. Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the Association of Government Accountants, the American Institute of Certified Public Accountants, Department of Justice, and FDIC Divisions and Offices. The OIG participated in corporate diversity events, and we continued to refine a new 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 activities, in connection with SAS 99 and the annual financial audit of the FDIC's funds, we provided comments on the risk of fraud at the FDIC to the Government Accountability Office. We provided the OIG's 2010 statement of assurance to the Chairman regarding our efforts to meet internal control requirements. We also participated regularly at meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. 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. (See pages 43-47.)

Significant Outcomes (October 2010– March 2011)	
Material Loss and In-Depth Review, Audit, and Evaluation Reports Issued	25
Questioned Costs	$8,099,197
Funds Put to Better Use	$2,509,576
Nonmonetary Recommendations	58
Investigations Opened	39
Investigations Closed	11
OIG Subpoenas Issued	8
Judicial Actions:	
Indictments/Informations	80
Convictions	62
Arrests	50
OIG Investigations Resulted in:	
Fines of	$140,000
Restitution of	$239,643,608
Asset Forfeiture of	$8,393,267
Total	**$248,176,875**
Cases Referred to the Department of Justice (U.S. Attorney)	61
Cases Referred to FDIC Management	0
OIG Cases Conducted Jointly with Other Agencies	116
Proposed Regulations and Legislation Reviewed	5
Proposed FDIC Policies Reviewed	8
Responses to Requests and Appeals Under the Freedom of Information Act and the Privacy Act	7

Strategic Goal 1

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

1

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 4,715 FDIC-insured, state-chartered institutions that are not members of the Board of Governors of the Federal Reserve System (Federal Reserve)—generally referred to as "state non-member" institutions. The Department of the Treasury (the Office of the Comptroller of the Currency and the Office of Thrift Supervision) or the Federal Reserve supervise other banks and thrifts, depending on the institution's charter. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 2,940 national banks, state-chartered banks that are members of the Federal Reserve, and savings associations.

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 (BSA), 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 BSA examination.

The passage of the Dodd-Frank Act brought about significant organizational changes to the FDIC's current supervision program in the FDIC's former DSC. That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (CFI) and a Division of Depositor and Consumer Protection. In that connection, DSC was renamed the Division of Risk Management Supervision (RMS). CFI began its operations and is focusing on overseeing bank holding companies with more than $100 billion in assets and their corresponding insured depository institutions. CFI 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. CFI and RMS will 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 incurred a material loss. Under the Federal Deposit Insurance Act (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 the Dodd-Frank Act, the loss threshold was increased to $200 million. 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 Federal Reserve 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

$200 million threshold 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 (IDR) of the loss. The OIG has implemented processes to conduct and report on MLRs and IDRs of failed FDIC-supervised institutions, as warranted, and continues to review all failures for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" has continued to rise. As of December 31, 2010, there were 884 insured institutions on the "Problem List," indicating a probability of more failures to come and an increased asset disposition workload. Total assets of problem institutions were $390 billion.

The OIG's audits and evaluations are generally designed to 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 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 85 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, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers 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 2011 performance goals** are as follows:

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

OIG Work in Support of Goal 1

The OIG issued 18 reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. The majority of these reports communicated the results of MLRs and IDRs. We also conducted failure reviews of an additional 39 failures to determine whether unusual circumstances existed to pursue an IDR. Appendix 2 in this report presents the results of the failure reviews that we conducted.

To provide readers a sense of the findings in our MLRs and IDRs, we have summarized the results of five MLRs in this report. Three involve banks in Puerto Rico. The fourth illustrates a failure involving a monoline credit card bank, and the fifth involves an institution whose failure caused an estimated loss to the DIF of about $1.27 billion. We also completed a review of the actions that the FDIC has taken over the past year or more in response to the issues identified in our failed bank audits and matters of concern to RMS management. That assignment is also summarized below.

OIG Audits Address Failed Banks and the FDIC's Supervision Program Enhancements

Material Loss Reviews of Westernbank Puerto Rico, Mayaguez, Puerto Rico; Eurobank, San Juan, Puerto Rico; and R-G Premier Bank of Puerto Rico, Hato Rey, Puerto Rico

We conducted MLRs of Westernbank Puerto Rico (Westernbank), Eurobank, and R-G Premier Bank of Puerto Rico (R-G Premier), 3 of 10 FDIC-insured institutions operating in Puerto Rico prior to their closure on April 30, 2010. Together, these institutions had total assets at closing of $19.2 billion. The estimated loss to the DIF resulting from their failure was $5.2 billion. All three banks had relatively diverse loan portfolios, which included commercial real estate (CRE) loans and acquisition, development, and constructions (ADC) loans.

Understanding the economic environment in Puerto at the time of the three failures is important. As we pointed out in our reviews, Puerto Rico's economy has been in the midst of a severe recession for a number of years. In fact, while the U.S. recession is considered to have ended in June 2009, Puerto Rico's economy remains in a recession. Specifically, the Puerto Rico Planning Board reported that the gross national product for the fiscal year ending June 2010 marked the island's fourth consecutive year of economic contraction.

Reported factors contributing to the economic contraction include the significant increase in oil prices, the budgetary pressures on government finances, and continuous loss of manufacturing jobs. The decline in employment on the island has been acute, and the percentage of jobs lost has been nearly double the U.S. rate.

With regard to the housing sector, similar to the U.S., home prices and new home construction on the island have declined steadily since 2006 and contributed to a sharp decline in the number of construction jobs. The reduction in new construction activity in Puerto Rico occurred about the same time as it did in the U.S., but the percentage declines have been more severe. For example, between June 2004 and June 2009, the island lost one-third of its construction-sector workforce. In contrast, construction-related job losses started 2 years later across the U.S., down approximately 19 percent from 2006.

Causes of Failures and Material Losses: We identified a number of factors common to all three failures. Overall, the Boards and management did not provide effective oversight of the institutions and failed to implement adequate risk management controls that would have positioned the banks to address the downturn in the Puerto Rico real estate market. Additionally, each bank increased its exposure to CRE and ADC loans but failed to implement adequate credit administration and related monitoring controls to promptly recognize and address loan problems as they developed. Lax loan underwriting, particularly at Westernbank, and to a lesser extent at R-G Premier, contributed to the loan quality problems that developed. Although ADC loans represented no more than 20 percent of each bank's loan portfolio, the losses associated with this loan type were a key factor in the banks' failures.

Additionally, all three banks maintained a high reliance on non-core funding sources, particularly brokered deposits, to provide liquidity and support their operations (including lending activities). The elimination of certain tax incentives and competition for retail deposits made brokered deposits an appealing funding source for banks in Puerto Rico. In fact, between 1999 and 2009, brokered deposits increased from 13 percent to 40 percent of total deposits held by insured institutions on the island. After the Puerto Rico economy fell into recession and the banks' asset quality deteriorated, access to brokered deposits became restricted, placing a severe strain on the three institutions' liquidity positions. Ultimately, the Office of the Commissioner of Financial Institutions (OCFI) of the Commonwealth of Puerto Rico closed the banks because their liquidity was severely strained and the institutions did not have sufficient capital to continue safe and sound operations.

Of note, in our report on R-G Premier, we pointed out several factors that were unique to the failure of that institution. In 2005, R-G Premier's parent holding company determined that certain transactions involving the transfer of mortgage loans to other banks had not been properly accounted for and that the company's consolidated financial statements would need to be restated. R-G Premier wrote off assets totaling $101 million and $68 million in 2006 and 2009, respectively, which reduced the bank's earnings and capital. It took R-G

Premier's holding company nearly 2 years to issue revised financial statements for the periods covered by the transactions, and financial statements for subsequent periods were significantly delayed. The lack of current financial statements reduced financial transparency, impacted R-G Premier's Call Reports, and limited the ability of the bank to attract needed capital. Management turnover during 2006 and 2007 presented additional disruptions, and newly hired bank officials were not successful in addressing R-G Premier's problems.

Supervision of the Three Banks: With respect to the FDIC's oversight of the institutions, the FDIC, in coordination with the OCFI, provided ongoing supervisory oversight of Westernbank, Eurobank, and R-G Premier through regular onsite risk management examinations, visitations, targeted asset quality reviews, and various offsite monitoring activities. Notably, in 2006, the New York Regional Office recognized the need to closely monitor economic and banking trends in Puerto Rico. These efforts led to the development of an integrated supervisory strategy in the fall of 2007 for all institutions on the island. Through its supervisory efforts, the FDIC identified risks in the banks' operations and brought these risks to the attention of the institutions' Boards and management at examinations. The FDIC also implemented formal and informal enforcement actions in an effort to return the institutions to a safe and sound condition. The FDIC's supervisory activities were instrumental in implementing a well-coordinated resolution for the three Puerto Rico banks.

As we have pointed out in other reviews of failed institutions, a general lesson learned with respect to weak risk management practices, particularly as they relate to the lending function in general and CRE and ADC loan concentrations in particular, is that early supervisory intervention is prudent, even when an institution is considered *Well Capitalized* and has relatively few classified assets. In this regard, stronger supervisory action to address the weak risk management practices identified by examiners at earlier examinations may have been prudent. Such action could have included implementing formal or informal enforcement actions and requiring the banks to hold additional capital. We believe that stronger supervisory action may have better positioned the banks to work through their loan problems when the Puerto Rico real estate market subsequently deteriorated, thereby mitigating, to some extent, the financial problems later experienced by the banks.

Our reports further noted that while banks in Puerto Rico faced unique challenges in attracting core deposits, earlier supervisory attention to, and criticism of, the banks' heavy reliance on brokered deposits might also have been prudent. Earlier concern in this regard may have: influenced the banks to reduce their reliance on brokered deposits, thereby reducing their liquidity risk profiles, and limited, to some extent, the banks' ADC lending activities.

With regard to R-G Premier, we noted that to address the improper accounting for mortgage loan transactions, the FDIC downgraded the bank's supervisory ratings, implemented an enforcement action, and coordinated with the Federal Reserve and the OCFI to conduct a review of the holding company and its affiliates for potential safety and soundness concerns. Such a supervisory response was comprehensive and consistent with the risks that the mortgage loan accounting issues presented to the bank.

Based on the supervisory actions taken with respect to Westernbank, Eurobank, and R-G Premier, the FDIC properly implemented applicable PCA provisions of section 38.

FDIC management provided written responses to the draft reports on the three failures. In the responses, DSC reiterated the causes of failure and supervisory activities described in the reports, noted that the institutions were not able to adequately address supervisory recommendations and enforcement measures, and described supervisory program enhancements undertaken in response to recent failures.

Material Loss Review of Advanta Bank Corp.

Another MLR from the reporting period addressed the March 19, 2010 failure of Advanta Bank Corp. (Advanta), Draper, Utah, a monoline credit card bank. Advanta's total assets at closing were $1.1 billion and the estimated loss to the DIF is $459.1 million.

By way of background, Advanta was a state-chartered non-member industrial bank that was

Failure Reviews

The Dodd-Frank Wall Street Reform and Consumer Protection Act amends section 38(k) of the Federal Deposit Insurance Act (FDI Act) by increasing the material loss review (MLR) threshold from $25 million to $200 million for losses that occur for the period January 1, 2010 through December 31, 2011.

The Act also requires the OIG to review all other losses incurred by the DIF 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 (IDR) of the loss. We make our determination regarding the need for an IDR based upon the following criteria: (1) the dollar value and/or percentage of loss; (2) the institution's background, such as charter type and history, geographic location, affiliations, business strategy, and de novo status; (3) an uncommon cause of failure based on prior MLR findings; (4) the existence of unusual supervisory history, including the nature and timing of supervisory action taken, noncompliance with statutory examination requirements, and/or indications of rating disagreements between the state regulator and the FDIC; and (5) other factors, such as apparent fraud, or a request by the FDIC Chairman or management, a Member of Congress, or the Inspector General.

As required under Dodd-Frank Act, Appendix 2 of this report updates our reporting of 6 months ago and summarizes the results of our new reviews of institution failures for which the loss was not material, as now defined by the Act. As shown in the appendix, we finalized 39 failure reviews of institutions whose losses to the DIF did not exceed $200 million.

insured in 1991 and headquartered in Draper, Utah. Advanta had no branches but conducted its operations on a national level. The bank marketed depository services though a corporate Web site, provided online banking services, and communicated with customers via the telephone, wire, and mail systems. As a monoline credit card bank, Advanta's primary focus was on prime small business credit card customers, and it did not have any other significant banking operations. Advanta was wholly-owned by Advanta Corp., Spring House, Pennsylvania. The parent holding company also wholly-owned Advanta Bank, Wilmington, Delaware. Advanta had one subsidiary, Advanta Business Receivables Corporation (ABRC). ABRC was involved in Advanta's credit card securitization activities, which, as described below, were a contributing factor in the bank's failure.

To fully understand the failure, it helps to be knowledgeable of certain concepts associated with securitizations. Generally defined, the securitization of credit card receivables is the process by which these financial assets are transformed into securities. Simply stated, a securitization involves an institution selling its credit card receivables to a special purpose trust, which pays for the receivables by selling securities to investors. The securities sold are backed by the cash flows generated from the credit cards.

Securitizations, when used properly, provide financial institutions with a useful funding, capital, and risk management tool. Securitization activities are susceptible, however, to economic influences and present other risks that need to be managed and controlled. Weak underwriting standards, poor servicing, or inadequate liquidity and capital planning are examples of risks, which, if poorly managed, can damage a credit card issuer's reputation and cause serious financial problems.

Performance and termination triggers are embedded in the structure of most credit card securitizations. These triggers are intended to protect investors against deteriorating credit quality of the underlying pool of credit card receivables by returning principal to the investors as quickly as possible. Decisions regarding early amortization, or a wind-down event, are made by the trustee or, under certain circumstances, upon a vote by the investor certificate holders. If a securitization goes into early amortization, there are immediate implications for the credit-card-issuing bank's capital and liquidity. Longer term, the bank's reputation as a credit card originator or servicer is damaged and its revenue stream is impaired.

Causes of Failure and Material Loss: We reported that Advanta failed due to insolvency brought on by the Board of Directors (Board) and management's failure to implement risk management practices commensurate with the risks associated with the bank (1) being a monoline small business credit card bank and (2) engaging in significant securitization activity. In particular, Advanta's Board and management failed to develop adequate contingency plans for responding to an early amortization of the bank's securitizations and failed to incorporate those plans into the bank's capital planning model. The bank's plan did not include an early amortization event because management believed it could avert an early amortization by supporting the securitization trust through various means. However, when faced with such an event, those means did not materialize, and the Board and management's handling of the situation resulted in increased loan losses, which ultimately led to the bank's insolvency.

Overall, Advanta's Board and management created a high-risk business strategy that focused on credit card loans to small business customers. These loans were unsecured, revolving lines-of-credit, with average credit lines greater than an average consumer credit card. In the years preceding the bank's failure, the FDIC and the UDFI each expressed concern about Advanta's risk management practices and made recommendations for improvement. However, the actions taken by Advanta's Board and management to address these concerns and recommendations were neither timely nor adequate.

The FDIC's Supervision of Advanta: The FDIC, in conjunction with the UDFI, provided supervisory oversight of Advanta in the form of risk management and compliance examinations, a visitation, and off-site monitoring and, overall, supervision was quite extensive. We noted that the FDIC's supervisory functions (risk management and consumer protection) coordinated effectively when inter-disciplinary concerns emerged. In particular, the FDIC's consumer protection function identified, reported on, and coordinated a unified supervisory response with the FDIC's risk management function. Notably, as a result of this coordination, substantive violations associated with Advanta's credit card re-pricing campaign were identified and corrective actions and penalties were pursued.

The FDIC also prepared semiannual capital market reviews of the bank intended to identify key risks and assist with supervision. Further, from the start of the November 2008 examination to the bank's closing on March 19, 2010, examiners were frequently onsite conducting examinations or monitoring the institution's liquidity position.

The FDIC's off-site review program did not detect any significant emerging risks early enough to impact the FDIC's supervisory strategy. Advanta was flagged for off-site review one time between January 2005 and July 2009. Specifically, the FDIC's off-site review system identified Advanta for review in May 2009 based on the FDIC's automated review criteria. The review was completed in July 2009 and identified a high and increasing risk profile. However, by this time, the bank's credit card securitization had already entered into early amortization, and the FDIC had downgraded the bank on an interim basis to a composite "4" rating.

During its examinations, the FDIC routinely recognized that Advanta maintained a monoline operational structure with assets being primarily funded through securitization activities, and that its operational strategies resulted in a unique and potentially increased risk profile for the bank. In addition, the FDIC identified and reported on the bank's significant loan growth as early as the September 2006 examination. However, the FDIC considered the bank's structure and growth to be largely mitigated by the bank's maintenance of Tier 1 Leverage and Total Risk-Based capital ratios in excess of 20 percent and growing levels of on-balance sheet liquidity in the form of cash and Federal funds sold. In hindsight, earlier and greater supervisory emphasis or concern could have been expressed regarding the failure of the bank's capital allocation model and contingency funding plans to incorporate more extreme stress scenarios. Such action would have helped ensure adequate capitalization and liquidity to support an unwinding of the securitizations through early amortization, a significant risk associated with Advanta's monoline business strategy.

With respect to PCA, based on the supervisory actions taken, the FDIC properly implemented applicable PCA provisions of section 38 in a timely manner.

In responding to our report, FDIC management reiterated our conclusions regarding the causes of

Advanta's failure, pointing out that Advanta failed due to insolvency brought on by the Board and management's failure to implement risk management practices commensurate with the unique nature of Advanta's business model. With regard to our assessment of the FDIC's supervision of Advanta, DSC summarized the supervisory history described in our report and recognized that it could have required Advanta to incorporate an early amortization scenario in its capital allocation model and contingency funding plans. DSC also pointed out that beginning in January 2010, institutions engaged in securitization activity, in the manner followed by Advanta, have been required to consolidate securitized assets for financial reporting purposes as a result of the implementation of Statement of Financial Accounting Standards (FAS) 166 and FAS 167. It is anticipated that this accounting change will minimize the capital and liquidity risks associated with early amortization events for institutions following a business model similar to Advanta.

Material Loss Review of the Failure of Frontier Bank, Everett, Washington

Frontier Bank (Frontier), Everett, Washington, was another institution causing a material loss to the DIF and on which we reported during the past 6-month period. Frontier's total assets at closing were $3.3 billion and the estimated loss resulting from its failure is about $1.27 billion, or about 39 percent of the institution's total assets. Frontier represents one of the largest losses to the DIF over the past year.

Headquartered in Everett, Washington, Frontier was established as a state nonmember bank and insured in 1978. In 2002, citing efficiencies to be derived by having the bank and parent holding company supervised by the same regulator, the bank became a Federal Reserve member. The bank was 100-percent owned by Frontier Financial Corporation (FFC), a one-bank holding company. The parent company's stock was publicly traded and widely held, with directors and officers controlling less than 10 percent. In November 2005, citing a desire to be supervised locally, the institution reverted to a state nonmember bank. In 2006 and 2007, FFC acquired North Star Bank and the Bank of Salem, respectively, and merged them into Frontier.

Frontier operated 48 branches in western Washington and 3 in Oregon. The bank's main office was located in Snohomish County, Washington. More than half of the bank's total deposits were in Snohomish County, with the institution holding the highest market share in the county at more than 16 percent. The majority of Frontier's lending was in CRE, with a particular focus on residential ADC loans. Frontier relied increasingly on Internet certificates of deposit, brokered deposits, and Federal Home Loan Bank borrowings to fund its loan growth.

Causes of Failure and Material Loss: Frontier's failure was attributed primarily to weak Board and management oversight of its high CRE and ADC loan concentrations. Specifically, the Board and management did not establish risk management practices commensurate with the risks associated with this lending, some of which involved speculative construction lending. Weak credit administration and loan underwriting practices contributed to the asset quality problems that developed when the bank's real estate lending markets deteriorated. Further, although the bank was considered *Well Capitalized* until March 20, 2009, capital levels did not support the risks associated with its high CRE and ADC concentrations.

As the economy and real estate market started to decline, the bank's loan losses and increases in the allowance for loan and lease losses eroded capital, weakened liquidity, and led to negative earnings. The holding company injected $5 million in capital during August 2008 but was unable to provide additional financial support for the bank or raise additional capital through other sources once the economy and real estate market declined. In addition, the bank increasingly relied upon potentially volatile non-core funding sources to support its loan growth. The DFI closed Frontier because the institution was unable to raise sufficient capital to support its operations.

The FDIC's Supervision of Frontier: The FDIC, in coordination with the DFI, provided ongoing supervisory oversight of Frontier through regular onsite risk management examinations and two visitations. Through its supervisory efforts, the FDIC identified key risks in Frontier's operations and brought these risks to the attention of the bank's Board and management through examination and visitation reports. Such risks included the institution's weak credit administration and loan underwriting practices, and reliance on potentially volatile funding sources. Further, examiners consistently reported that Frontier had concentrations in CRE and ADC loans and made recommendations related to establishing limits for and monitoring those concentrations. Examiners also reported apparent violations of laws and regulations and contraventions of statements of policy and guidance associated with the institution's lending practices. As a result of the 2008 examination, the FDIC and the DFI issued a Cease and Desist Order.

Although Frontier's financial performance was considered satisfactory at the time of the 2007 examination, we pointed out that in hindsight, a more proactive approach to the bank's risks and performance may have been warranted to address high concentrations in CRE and ADC loans, increased reliance on non-core funding to support growth, and weak credit administration and loan underwriting practices. Such an approach could have included lowering key supervisory ratings and pursuing informal action to obtain an earlier commitment from the Board to diversify the bank's loan portfolio, and/or requiring the bank to maintain higher capital levels commensurate with the risks associated with high CRE and ADC concentrations.

With respect to PCA, based on the supervisory actions taken, the FDIC properly implemented applicable PCA provisions of section 38 in a timely manner.

The FDIC's response to this report reiterated our conclusions regarding the causes of Frontier's failure. As for our assessment of the FDIC's supervision of Frontier, the response discussed the number of examinations conducted between 2006 and 2010 described in our report. Further, management reiterated that the 2008 joint FDIC/DFI examination revealed that Frontier's condition was unsatisfactory with deficiencies of such magnitude that a composite "4" rating was assigned and a C&D issued. The 2009 examination concluded that asset quality had further deteriorated, operating losses were rapidly eroding capital, and liquidity was inadequate, and Frontier was downgraded to a composite "5" rating. Frontier was unable to raise capital from external sources to support its operations and remain viable.

DSC indicated that strong supervisory attention is necessary for institutions with high CRE and ADC concentrations, such as Frontier, and referenced guidance that the division has issued to remind examiners to take appropriate actions when risks associated with those concentrations are imprudently managed. DSC also stated that supervisory guidance has been issued to enhance the division's supervision of institutions with concentrated CRE/ADC lending and reliance on volatile non-core funding.

Follow-up Audit of FDIC Supervision Program Enhancements

Based on the OIG's body of MLR work, we found it important to conduct a review to determine how the FDIC's supervision program had changed to address issues identified related to the failures of the past few years and any emerging issues. We issued the results of such a review during the reporting period.

As we have reported in past semiannual reports, on May 1, 2009, we issued an internal memorandum that outlined major causes, trends, and common characteristics of FDIC-supervised financial institution failures that had resulted in a material loss to the DIF for eight institutions. That initial communication, in conjunction with results of our subsequent MLR work, has prompted the FDIC to take various actions to address issues we have surfaced and other supervisory matters that senior management believed warrant additional attention. As of August 20, 2010, 118 additional FDIC-insured financial institutions had failed. In addition, as of the same period, we had issued 57 more MLR reports on 64 failures of FDIC-supervised institutions.

We reviewed the broader inventory of failures and reported in our follow-on review that the FDIC has taken a holistic approach to enhancing supervision by (1) involving FDIC officials from various offices and divisions to participate in the Corporation's efforts and (2) implementing a comprehensive review and analysis of the FDIC's approach to supervision. As a result of these collaborative efforts, the FDIC has either implemented or planned actions that substantially address our previously reported MLR-related trends and issues, and other issues identified in subsequent MLRs that will enhance its supervision program.

Of particular note, the FDIC has:

- emphasized a forward-looking supervisory approach, which is embodied in a comprehensive training program and various financial institution and examiner guidance, including guidance related to de novo banks;
- implemented other cross-cutting initiatives such as establishing relevant Corporate Performance Goals in 2009 and 2010 specifically related to some MLR issues;
- implemented a post-MLR assessment process to identify lessons learned from the bank failures and conclusions included in our MLR final reports and solicit input from its examination staff regarding suggested changes to policies and procedures. This process also resulted in the identification of potential best practices related to the FDIC's examinations;
- enhanced offsite monitoring activities;
- enhanced coordination between its risk management and compliance examination functions;
- improved interagency coordination for charter conversions; and
- worked with the other federal regulatory agencies to implement a new agreement associated with the FDIC's backup examination authority.

The FDIC is also involved in interagency efforts to address some of the more systemic MLR trends, such as capital definitions and levels, and liquidity. Although it is too early to evaluate the effectiveness of the actions that the FDIC has taken, we included recommendations for the Corporation to further improve its supervision program based on the high-level policy analysis we performed.

With respect to trends in MLRs issued since May 2009, those reports confirmed the issues previously identified and noted new trends, some of which have already been addressed in the FDIC's forward-looking supervisory approach and other initiatives. Those trends relate to:

- Government Sponsored Enterprises investments,
- collateralized debt obligations, collateralized mortgage obligations, and other mortgage-backed security concentrations and associated losses, and inadequate investment policies or failure to follow such policies;
- inadequate consideration of risk associated with large borrowing relationships/individual concentrations;
- purchased loan participations without adequate due diligence, credit administration, and/or consideration of the associated third-party risk;
- the need for additional enhancements to offsite monitoring activities; and
- the need for consistent notification of restrictions applicable to banks that are deemed to be Adequately Capitalized.

Given the limited time that had elapsed since the FDIC had initiated the various forward-looking supervision initiatives and issued new or updated guidance, we determined it was premature to assess their effectiveness in enhancing the supervision program. However, we recommended that the FDIC review and communicate, when deemed necessary, additional examiner and financial institution expectations in areas that we have found to be central to failures and losses to the DIF.

We made five recommendations intended to improve the FDIC's supervision program. These related to updating or reviewing guidance regarding, for example, CRE and ADC lending, concentrations, de novo bank supervision, dominant bank officials, large borrower relationships, and participation loans. Management concurred with each of the five recommendations and expected to complete corrective actions by June 30, 2011.

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 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 caused 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

Multiple Guilty Pleas in Colonial Bank and Mortgage Lending Company Fraud Scheme

We pursued one of the OIG's most significant investigations to date with colleagues from the Federal Bureau of Investigation (FBI), SIGTARP, the Department of Housing and Urban Development (HUD) OIG, Federal Housing Finance Agency (FHFA) OIG, Internal Revenue Service (IRS) Criminal Investigation Division (CID), Department of Justice, and the U.S. Attorney's Office for the Eastern District of Virginia. This investigation involved a \$2.9 billion fraud scheme that contributed to the failures, in August 2009, of Colonial Bank, one of the 25 largest banks in the United States at the time, and Taylor, Bean, and Whitaker (TBW), one of the largest privately held mortgage lending companies in the country. The investigation targeted a number of co-conspirators who engaged in a complex scheme that misappropriated more than \$1.4 billion from Colonial Bank's Mortgage Warehouse Lending Division in Orlando, FL, and approximately \$1.5 billion from Ocala Funding, a mortgage lending facility controlled by TBW.

According to court documents, the fraud scheme began in 2002, when the co-conspirators ran overdrafts in TBW bank accounts at Colonial Bank in order to cover TBW's cash shortfalls. The co-conspirators at TBW and Colonial Bank transferred money between accounts at Colonial Bank to hide the overdrafts. After the overdrafts grew to more than \$100 million, the co-conspirators covered up the overdrafts and operating losses by causing Colonial Bank to purchase from TBW over time more than \$1.5 billion in what amounted to worthless mortgage loan assets, including loans that TBW had already sold to other investors and fake pools of loans supposedly being formed into mortgage-backed securities. The co-conspirators caused Colonial Bank to report these assets on its books at face value when, in fact, the mortgage loan assets were worthless. By August 2009, approximately \$500 million in fake pools of loans remained on Colonial Bank's books.

The co-conspirators at TBW also misappropriated more than \$1.5 billion from Ocala Funding. Ocala Funding sold asset-backed commercial paper to financial institution investors, including Deutsche Bank and BNP Paribas Bank. Ocala Funding, in turn, was required to maintain collateral in the form of cash and/or mortgage loans at least equal to the value of outstanding commercial paper.

The co-conspirators diverted cash from Ocala Funding to TBW to cover TBW's operating losses, and as a result, created significant deficits in the amount of collateral Ocala Funding possessed to back the outstanding commercial paper. To cover up the diversions, the conspirators sent false information to Deutsche Bank, BNP Paribas Bank, and other financial institution investors and led them to falsely believe that they had sufficient collateral backing the commercial paper they had purchased. When TBW failed in August 2009, the banks were unable to redeem their commercial paper for full value. The co-conspirators also caused approximately \$900 million in loans to be held on Colonial Bank's books when, in fact, the loans had already been sold to the Federal Home Loan Mortgage Corporation and other investors.

In the fall of 2008, Colonial Bank's holding company, Colonial BancGroup Inc., applied for \$570 million in taxpayer funding through the Capital Purchase Program, a sub-program of the U.S. Department of the Treasury's Troubled Asset Relief Program (TARP). In connection with the application, Colonial BancGroup submitted financial data and filings that included materially false information related to mortgage loans and securities held by Colonial Bank as a result of the fraudulent scheme. Colonial BancGroup's TARP application was conditionally approved for $553 million contingent on the bank raising $300 million in private capital. The co-conspirators also falsely informed Colonial BancGroup that they had identified sufficient investors to satisfy the TARP capital contingency. Some of the co-conspirators diverted $25 million from Ocala Funding into an escrow account and falsely represented that the money was on behalf of capital raise investors. They caused Colonial BancGroup to issue a false and misleading financial statement to the Securities and Exchange Commission (SEC) and a press release announcing the success of the capital raise. Ultimately, Colonial BancGroup did not receive any TARP funds.

The co-conspirators also caused Colonial BancGroup to file materially false financial data with the SEC regarding its assets in annual reports contained in Forms 10-K and quarterly filings contained in Forms 10-Q. Colonial BancGroup's materially false financial data included overstated assets for mortgage loans that had little to no value that the co-conspirators caused Colonial Bank to purchase. The co-conspirators also caused TBW to submit materially false financial data to the Government National Mortgage Association (Ginnie Mae) in order to extend TBW's authority to issue Ginnie Mae mortgage-backed securities.

Five individuals involved in this scheme pleaded guilty during the reporting period to conspiring to commit bank, wire, and securities fraud, including: the former president of TBW; former treasurer of TBW; former senior vice president of Colonial Bank and head of its Mortgage Warehouse Lending Division; former operations supervisor for Colonial Bank's Mortgage Warehouse Lending Division; and a former senior financial analyst at TBW. Sentencings will occur in the next few months.

Responsible Agencies: *This is a continuing investigation into the failure of Colonial Bank, Montgomery, Alabama, with the FDIC OIG, FBI, SIGTARP, HUD OIG, FHFA OIG, IRS CID, and prosecuted by the Department of Justice, Criminal Division, Fraud Section, and the U.S. Attorney's Office for the Eastern District of Virginia.*

Former Bank President Sentenced -- the FDIC Is Paid $5 Million in Restitution

The former president of Hume Bank in Bates County, Missouri, was sentenced in federal court for making false statements to the FDIC as part of a bank fraud scheme that caused such significant losses that the bank became insolvent.

He was sentenced on March 9, 2011, to 6 years and 6 months in federal prison without parole. His sentence included 60 months of supervised release, and restitution to the FDIC of over $5 million and $1.5 million in restitution to the former owner of Hume Bank.

The former bank officer became president of Hume Bank in 2001. From January 1, 2004, through August 31, 2007, when he left the bank, he concealed problem loans from state and federal bank examiners. Due primarily to losses on loans that he originated and administered, in which he masked past due loans by altering loan maintenance records, the bank became insolvent and was closed by the Missouri Division of Finance on March 7, 2008. In order to meet obligations to depositors, the FDIC insurance fund sustained a loss of $5,168,580, and the bank's owner suffered a loss of $1.5 million.

The former president admitted that he masked past due loans by altering loan maintenance records. For example, past due principal was reduced to zero in 1,584 instances, past due interest was reduced to zero on 1,460 occasions, and 1,445 maturity dates were changed on the loan maintenance reports. The majority of these changes were not supported by loan modification agreements in the bank files. The former president personally made most of the changes that resulted in false loan maintenance reports that concealed problem loans from state and federal bank examiners and from the bank's board of directors.

The former president also completed fraudulent officer's questionnaires by falsely stating that the bank had no accommodation loans, or nominee loans, and by falsely stating that the bank had no instances of capitalized interest. In truth, he had made accommodation, or nominee loans, to relatives from which he personally profited, and had made loans that capitalized interest.

Source: *FDIC's DSC. Investigated by the FDIC and the FBI. Prosecuted by the U.S. Attorney's Office for the Western District of Missouri.*

Former President of Meriden State Bank (Countryside Bank) and Two Others Sentenced for Conspiracy in Theft of Bank Funds

Three defendants were sentenced for taking part in embezzlement and misapplication of bank funds by a bank officer. On December 20, 2010, the former president and chief executive officer of Countryside Bank, which operated as Meriden State Bank until April 2002, was sentenced to concurrent terms of 72 months and 60 months of incarceration followed by 5 years of probation. He previously pleaded guilty to one count of conspiracy to commit bank employee theft and one count of conspiracy to commit perjury, wire fraud, and money laundering.

Commencing in 1999 and continuing until he was removed from the bank in April 2003, the former president used his knowledge of internal banking operations to facilitate and conceal evidence of his fraudulent activity by, among other things, preparing and executing general ledger debit tickets to obtain access to operating funds of the bank for his own personal use and benefit. He also engaged in nominee loan transactions.

In order to hide his ill-gotten gains, the former president began in 2003 the process of creating the appearance that he was indigent. He was aided and abetted by his wife, and together, they began to systematically liquidate, transfer, and conceal his assets. As an example, they purchased a fully managed corporation in the country of Panama for the sole purpose of liquidating and transferring assets to offshore accounts. In addition, they purchased a yacht through their Panama corporation for the purpose of absconding from the United States. The husband and wife were both indicted on one count of conspiracy to defraud, three counts of perjury, six counts of wire fraud, and four counts of money laundering. The wife awaits trial.

A former bank vice president admitted that she knew the defendant was diverting bank funds for his own use. She was aware that he circumvented proper loan approval processes in order to establish loans that appeared to be made to a bank customer but were in fact made for his own benefit. She was also aware that he used the money to fund the operation of his various personal business interests and to support his personal lifestyle.

The vice president admitted that at the time of the crime, she was a member of the bank's loan committee and board of directors; secretary of Countryside Bank's holding company; and part owner in various business entities controlled by the former president. On October 20, 2010, the former vice president pleaded guilty to one count of misprision of a felony, the crime of failing to report a felony. She was sentenced on January 24, 2011 to 2 years of probation.

A bank contractor admitted that in 2001 and 2002 he helped the former president embezzle bank funds. During that time, the former president convinced the bank's board to construct a branch in Topeka, Kansas, but with the help of the contractor, concealed from the board the fact that the former president would be serving as the undisclosed general contractor on the project. In order to receive approval for the project, the former president falsely represented to the FDIC that no insider would be involved or benefit from construction of the branch.

The contractor concealed the former president's involvement by inflating billings from a construction company to cover draw requests to the bank for construction of the branch. The former president approved draw requests totaling about $385,355. As a result, the contractor collected approximately $115,206 more from the bank than the amount he paid to the construction company. The $115,206 went to the benefit of the former president.

On March 22, 2011, the contractor was sentenced to 15 months in prison after previously pleading guilty to one count of aiding and abetting theft and embezzlement, and misapplication by a bank officer.

The activities of the co-conspirator defendants resulted in the theft, embezzlement, and misapplication of more than $2 million from the bank's operating funds to finance the operation of the former president's various related business interests and to augment his personal lifestyle.

Source: *DRR Failing Bank Report.* ***Responsible Agencies:*** *The case was investigated by the FDIC OIG and the FBI. Prosecuted by the U.S. Attorney's Office, District of Kansas.*

Former Managing Director of Pamrapo Savings Bank Subsidiary Convicted

On March 22, 2011, the former managing director of Pamrapo Service Corporation, a wholly owned subsidiary of Pamrapo Savings Bank (Pamrapo), was convicted of 33 counts of mail fraud. Pamrapo Service Corporation (Service Corporation) provided securities and investment products, such as the sale of stocks and bonds, mutual funds, annuities, various types of insurance products, and other money management services to clients for a fee.

The Service Corporation was required to conduct or "clear" securities transactions, such as the purchase, sale, and transfer of stocks, through a registered broker-dealer because it did not possess any securities licenses. The Service Corporation also provided other investment services through a second subsidiary, an accounting company that was a sister company to the registered broker-dealer. The former managing director was designated as a "registered representative" of these two entities and, as such, was authorized to conduct securities transactions and other investment services for customers on behalf of the Service Corporation through the two entities.

Any commissions or fees generated by the former managing director as a registered representative of the broker-dealer, as a registered investment advisor of the accounting company, or through the insurance products were considered property of the Service Corporation and were to be shared by these two entities and the Service Corporation. After the Service Corporation received its portion of the fees and commissions from the broker-dealer and the accounting company, the Service Corporation paid compensation to the former managing director at rates set by the Board of Directors.

In approximately August 2006, the former managing director's compensation was modified, resulting in a significant pay cut. In approximately 2007, according to the indictment, he created a scheme to divert money belonging to the Service Corporation to himself. Specifically, he sent a letter to the registered broker dealer, which falsely claimed that Pamrapo wanted commissions owed to the Service Corporation to be paid directly to him. Also without the authorization or knowledge of the Board of Directors, he caused a second letter to be signed that directed the registered broker-dealer and the accounting company to pay the vast majority of the fees and commissions owed to the Service Corporation directly to him.

In addition, he caused various insurance companies to issue fees and commissions owed to the Service Corporation directly to him, without the authorization or knowledge of the Board of Directors. He then made false statements to Pamrapo Bank, its chief financial officer, the Board of Directors, the Service Corporation and others, to cover up and conceal his scheme, as well as to allow it to continue. According to the indictment, he received more than $600,000 in checks from the various entities as a result of his scheme. In addition, the indictment alleged that he laundered portions of the fraud proceeds to pay his credit card bills.

Source: *Internal Revenue Service (IRS) Criminal Investigation Division.* ***Responsible Agencies:*** *This is a joint investigation with IRS Criminal Investigation Division. The case is being prosecuted by the U.S. Attorney's Office for the District of New Jersey, Newark, New Jersey.*

Former Bank Director Who Engaged in $8.1 Million Check Kiting Scheme Sentenced to 58 Months in Prison

On January 26, 2011, a former businessman who served as a director of Troy Bank & Trust, was sentenced to 58 months of imprisonment for check kiting and loan fraud. In addition, upon release from imprisonment, he will be subject to supervised release for a period of 3 years. He was also was ordered to pay restitution in the amount of $8.8 million.

Between October 2005 and July 2008, the former director conducted a "check kiting" scheme using bank accounts that he controlled at Citizens Bank, Synovus Bank, Trinity Bank, Troy Bank & Trust, and Wells Fargo Bank, all of which were insured by the FDIC. The former director would continuously draw an insufficient funds check on one of these bank accounts and deposit the check into a separate bank account at another bank. By doing so, he gave the banks a false impression that there were significant balances in the accounts, which caused the banks to honor checks drawn on the accounts. As a result, unbeknownst to the banks, an involuntary overdraft "loan" of approximately $8.1 million was made to the former director's businesses.

In addition, in June 2008, Trinity Bank funded a loan of approximately $1.5 million to a business that the former director owned. To obtain this loan, the former director created and provided Trinity Bank with a falsified sales invoice related to the purported purchase of 600 storage containers for a total purchase price of about $1.8 million. Trinity Bank was to receive a security interest in these storage units; however, since the units did not exist, Trinity Bank ended up making what in effect was an unsecured loan to one of the former director's businesses and suffered a loss on this loan.

On October 25, 2010, the former director pleaded guilty to one count of bank fraud. Specifically, he admitted to "kiting" checks at multiple financial institutions in the amount of approximately $8.1 million and obtaining a loan of approximately $1.5 million by providing a false document. In addition, he agreed to consent to an order prohibiting him from banking.

Source: *This investigation was initiated based upon information contained in bank records.* ***Responsible Agencies:*** *This was a joint investigation with U.S. Secret Service and prosecuted by the U.S. Attorney's Office for the Middle District of Alabama.*

Six Defendants Sentenced for Equipment Leasing Scheme and Ordered to Pay $172 Million in Restitution

Two business owners and their employees conspired to commit a $213 million fraud scheme that defrauded lenders into funding non-existent manufacturing equipment.

On December 2, 2010, the husband and wife business owners of Wildwood Industries were sentenced to 15 years and 7 years in prison, respectively, for their roles in a $213 million fraud scheme lasting nearly 9 years. The owners and their employees conspired with the owner of an equipment manufacturer, W.S. Hudson Converting, Inc. (Hudson), to commit bank fraud. Wildwood borrowed at least $213 million from numerous lending institutions for equipment, which was already pledged as collateral on numerous other loans.

Three Wildwood employees were sentenced on December 9, 2010 for conspiring in the fraud: the former operations manager was sentenced to 84 months in prison, the former bookkeeper received 40 months in prison, and the former external accountant was given 180 intermittent days at a halfway house. Hudson's owner was sentenced on March 17, 2011 to 48 months of imprisonment. All six of the defendants in this case were also ordered to pay $172 million restitution jointly and severally to the 85 financial institutions that were defrauded.

Wildwood manufactured lawn bags and vacuum bags and owned a large facility in Bloomington, Illinois, containing assorted manufacturing equipment. Hudson, at one time, was one of the manufacturers of the machinery used by Wildwood. Hudson provided Wildwood with falsified invoices purporting the purchase of machines, including falsified equipment serial numbers, to be used in Wildwood's manufacturing process. Wildwood provided these invoices to lenders as evidence of the equipment's value in order to obtain funding for equipment leases. Upon receiving funding for the leases from lenders, Hudson, after taking a "fee," wired the loan proceeds to Wildwood.

In Ponzi-scheme fashion, Wildwood's owner used the revenue from the loans to make the lease payments for other fraudulently obtained equipment leases using the same equipment as collateral. He continued to deceive lenders by using new invoices with different serial numbers for the same equipment.

As the economy declined, he requested larger values for the equipment on the fictitious invoices provided by Hudson. Eventually, he was unable to make the payments on all of the loans he obtained. On March 5, 2009, a group of Wildwood's creditors petitioned for Chapter 11 involuntary bankruptcy against Wildwood Industries. Wildwood employed more than 700 people before being forced into bankruptcy.

Source: *U.S. Attorney's Office for the Central District of Illinois.* ***Responsible Agencies:*** *Joint investigation by the FDIC OIG, FBI, IRS, Postal Inspection Service, DOL OIG. Prosecuted by the U.S. Attorney's Office for the Central District of Illinois.*

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. Our involvement in such cases is often the result of our participation in a growing number of mortgage fraud task forces. Mortgage fraud has continued to take on new characteristics in the

Electronic Crimes Unit Assists in Metro Dream Homes Case

The OIG's Electronic Crimes Unit (ECU) received 87 computers that were seized from Metro Dream Homes (MDH) and its various companies. Many of the computers had no identifying information. The ECU examined each computer to determine who had actually used the computer and was able to identify those that were used by three MDH executives. Forensic analysis was conducted on those computers, which included extracting hundreds of emails, many of which showed knowledge of the fraudulent activity engaged in by the executives. OIG investigators testified to the procedures for identifying the executives' computers and extracting incriminating emails at MDH trials. The introduction of the emails at the trials was critical in proving the executives were aware of their fraudulent activity and also corroborated the testimony of other former MDH employees.

ongoing economic crisis as perpetrators seek to take advantage of an already bad situation. 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.

Three Conspirators Convicted in $78 Million "Dream Home" Mortgage Fraud Scheme

Three individuals were convicted of fraud conspiracy, wire fraud, and conspiracy to commit money laundering in connection with their 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. In addition, the chief financial officer of Metro Dream Homes (MDH), was convicted of making a false statement in a federal court proceeding.

According to evidence presented at the 6-week trial, beginning in 2005, the defendants targeted homeowners and home purchasers to participate in a purported mortgage payment program called the "Dream Homes Program." In exchange for a minimum of $50,000 as an initial investment and an "administrative fee" of up to $5,000, the conspirators promised to make the homeowners' future monthly mortgage payments, and pay off the homeowners' mortgages within 5 to 7 years.

Dream Homes Program representatives explained to investors that the homeowners' initial investments would be used to fund investments in automated teller machines (ATMs), flat screen televisions that would show paid business advertisements, and electronic kiosks that sold goods and services. 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.

Trial testimony showed that in February 2007, the Dream Homes Program added a second program called "POS Dream Homes" that offered similar promises of paying off investor mortgages in 5 to 7 years in exchange for an up-front investment of $50,000 or more. Collectively, these programs had offices in Maryland, the District of Columbia, Virginia, North Carolina, New York, Delaware, Florida, Georgia, and California.

According to trial testimony, the defendants 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, including the defendants, to: pay salaries of up to $200,000 a year as well as their 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. Nor were investors told that investor funds were used to: pay off investors in a prior failed ATM investment venture called Bankcard Group; make multiple donations of up to $50,000 each to charitable organizations to give MDH the appearance of being financially successful; and transfer millions of dollars in investor funds to third-party businesses for purposes not disclosed to investors.

To perpetuate the fraud, 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 legitimate. MDH used a third-party company to pay investors to advertise the Dream Homes Program to friends and family. 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.

On August 15, 2007, the Maryland Securities Commissioner issued a cease-and-desist order to MDH and other related companies directing them to immediately cease the offering and sale of unregistered securities in connection with their promotion of the Dream Homes Program. However, the defendants thereafter called meetings in which investors were told that MDH was earning up to $10 million in one month and that the company's legal difficulties were the result of either misunderstandings or racial animus against company leaders.

On September 4, 2007, the defendants filed a legal challenge in federal court in Maryland to the cease-and-desist order. Trial testimony established that at a hearing in September 2007, the former chief financial officer testified that the financial success of the Dream Homes Program did not rely upon new investor funds, when in fact he knew that the sole source of meaningful revenue for MDH was new investor funds.

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 mortgage payments, the homeowners were left to attempt to make the mortgage payments MDH had promised to make in full.

All three defendants face a maximum sentence of 20 years in prison for the fraud conspiracy; 20 years in prison on each of the 15 counts of wire fraud; and 20 years in prison for conspiracy to commit money laundering. The former CFO also faces a maximum sentence of 5 years in prison for making false statements. Sentencings are scheduled for June and July 2011.

Two other individuals pleaded guilty to conspiracy to commit wire fraud in connection with their participation in this scheme. Both await sentencing on a date to be scheduled.

Source: *This prosecution is being brought jointly by the Maryland and Washington, D.C. Mortgage Fraud Task Forces, which are comprised of federal, state, and local law enforcement agencies in Maryland, Washington, D.C., and Northern Virginia.*

Seven Sentenced for Their Roles in a Conspiracy to Defraud Financial Institutions of over $4.5 Million

On December 3, 2010, six individuals received sentences for conspiracy to commit wire fraud ranging from 36 months of probation to 63 months of imprisonment as a result of their participation in a mortgage fraud scheme that took place in Miami-Dade County, Florida. Another individual was sentenced to 3 years of probation for her role in the scheme.

From January 2006 through June 2007, two conspirators, who were employed with Infinity Mortgage Solutions (Infinity) in Miami, Florida, were involved in the fraudulent financing of mortgages for at least eight residential properties in Miami-Dade County. The conspirators identified properties that could be used to defraud lenders and then recruited individuals to pose as purchasers of the properties. Throughout the duration of the conspiracy, the conspirators used the mortgage brokerage license of a co-defendant to operate Infinity. During this time, the co-defendant signed off on the mortgage loans without performing the necessary verifications. One of the conspirators at Infinity acted as the main loan processor for Infinity and was the primary contact for the financial institutions and the borrowers.

Among the defendants who were recruited as straw purchasers were an employee of Infinity Mortgage and three other individuals. These straw buyers submitted loan application documents to the conspirators who then falsified bank statements, W-2s, and employment information in an effort to qualify each of them for loans and defraud the eventual lender. The straw buyers allowed their identities and credit information to be used in false and fraudulent mortgage loan applications in exchange for a fee.

The various lenders approved the loan requests based on the false and fraudulent loan applications and HUD-1 Statements submitted to the lenders, which caused approximately $4.6 million in loans to be funded over the course of the fraudulent scheme.

Once a property was purchased, the conspirators would make the mortgage payments until the property could be flipped at an inflated price. They used the profits made from "flipping" the properties to other straw purchasers to buy additional properties and to make payments on the mortgages. Eventually, the defendants stopped making the loan payments and the properties went into foreclosure, resulting in significant losses to Countrywide Home Loans, Fremont Investment & Loan, WMC Mortgage, and other lenders.

The conspirators were sentenced to 63 months and 51 months in prison, respectively, and the mortgage broker was sentenced to 18 months of imprisonment. All three prison terms are to be followed by 3 years of supervised release.

Two of the straw purchasers were each sentenced to 6 months of imprisonment to be followed by 3 years of supervised release. One straw buyer received 36 months of probation and the other was sentenced to 12 months of probation.

Restitution for all seven defendants will be determined at a later date.

Source: *This investigation was initiated based upon a referral from the Mortgage Fraud Strike Force in Miami, Florida.* ***Responsible Agencies:*** *This is a joint investigation with the FDIC OIG, FBI, United States Secret Service, United States Postal Inspection Service, and the Miami-Dade Police Department. This case is being prosecuted by the U.S. Attorney for the Southern District of Florida.*

Keeping Current with Mortgage Fraud Activities Nationwide

The FDIC OIG participates in the following mortgage fraud working groups throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating the growing incidence of mortgage fraud schemes.

National Bank Fraud Working Group	National Mortgage Fraud Working Sub-group.
Northeast 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; Maryland Mortgage Fraud Task Force; the New England Mortgage Fraud Working Group.
Southeast 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.
Midwest Region	Illinois Mortgage Fraud Task Force; Dayton Area Mortgage Task Force; Cincinnati Area Mortgage Fraud Task Force; St. Louis Mortgage Fraud Task Force; Kansas City Mortgage Fraud Task Force; Detroit Mortgage Fraud Task Force; Southern District of Illinois Bank Fraud Working Group; Illinois Bank Fraud Working Group; Indiana Bank Fraud Working Group; Kansas/Missouri Regional Procurement Fraud Working Group.
Western 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 Suspicious Activity Report Working Group, Los Angeles Mortgage Fraud Working Group for the Central District of California.
Southwest Region	Mortgage Fraud Task Force for the Southern District of Mississippi, Oklahoma City Financial Crimes Suspicious Activity Report Review Work Group, North Texas Mortgage Fraud Working Group, the Eastern District of Texas Mortgage Fraud Task Force, and the Texas Attorney General's Residential Mortgage Fraud Task Force, Houston Mortgage Fraud Task Force.

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 states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and in 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.

Strategic Goal 2

The OIG Will Help the FDIC Maintain the Viability of the Insurance Fund

2

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. Coverage of up to $250,000 was subsequently extended through December 31, 2013. Estimated insured deposits based on the current limit rose to $6.2 trillion as of December 31, 2010. A priority for the FDIC is to ensure that the DIF remains viable to protect depositors in the event of an institution's failure. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

The DIF has suffered from the failures of the past several years. Losses from failures in 2008 and 2009 totaled $19.6 billion and $37.1 billion, respectively. As of year-end 2010, failures during 2010 had caused losses of approximately $24.2 billion. In September 2009, the DIF's fund balance—or net worth—fell below zero for the first time since the third quarter of 1992. Although the balance of the DIF declined by $38.1 billion during 2009 and totaled negative $7.4 billion as of December 31, 2010, the DIF's liquidity was enhanced during the fourth quarter of 2009 by 3 years of prepaid assessments and the DIF has been well positioned to fund resolution activity in 2010 and into 2011.

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.

Primary responsibility for identifying and managing risks to the DIF lies with the FDIC's Division of Insurance and Research, RMS, DRR, and now CFI. To help integrate the risk management process, the FDIC established the National Risk Committee, a cross-divisional body. Also, a Risk Analysis Center monitors emerging risks and recommends responses to the National Risk Committee. In addition, a Financial Risk Committee focuses on how risks impact the DIF and financial reporting.

Over recent years, the consolidation of the banking industry resulted in fewer and 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 CFI is now positioned to play a key role in overseeing these activities.

The FDIC Board of Directors voted in December 2010 to set the DIF's designated reserve ratio at 2 percent of estimated insured deposits. The Dodd-Frank Act set a minimum designated reserve ratio of 1.35 percent, and left unchanged the requirement that the FDIC Board set a designated reserve ratio annually. The Board sets the reserve ratio according to risk of loss to the DIF, economic conditions affecting the banking industry, preventing sharp swings in the assessment rates, and any other factors it deems important. The decision to set the designated reserve ratio at 2 percent was based on a historical analysis of losses to the DIF. The analysis showed that in order to maintain a positive fund balance and steady, predictable assessment rates, the reserve ratio should be at least 2 percent as a long-term, minimum goal.

The final rule for the reserve ratio is part of a comprehensive fund management plan proposed by the Board in October 2010. The plan is intended to provide insured institutions with moderate, steady assessment rates throughout economic cycles, and to maintain a positive fund balance even during severe economic times. The Board acted on other aspects of the comprehensive plan—assessments, dividends, assessment base, and large bank pricing—during the first quarter of 2011.

To help the FDIC maintain the viability of the DIF, the OIG's **2011 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

While we did not conduct work specifically addressing the DIF during the past 6-month period, we would note that the OIG's work referenced in Goal 1 also fully supports the goal of helping the FDIC maintain the viability of the DIF. Each institution for which we conduct an MLR or an IDR, 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 and/or deterrence of fraud that can cause losses to the fund.

3

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. For example:

- 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 mandates 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 providing consumers with access to information about their rights and disclosures that are required by federal laws and regulations and 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. 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.

Going forward, the FDIC will be experiencing and implementing changes related to the Dodd-Frank Act that have direct bearing on consumer protections. The Dodd-Frank Act establishes a new Consumer Financial Protection Bureau within the Federal Reserve and transfers 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 Chairman 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 Chairman has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream.

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 depositors 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 depositors. 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 depositors. Such misrepresentations have led depositors to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These depositors 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 **2011 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. However, investigative work related to misrepresentation of FDIC insurance or affiliation, and protection of personal information supported this strategic goal area. Additionally, 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, one of our investigations resulted in a stiff sentence for the perpetrator of a scheme that targeted senior citizens.

Former AmeriFirst Executive Sentenced to 25 Years in Prison in Fraud Scheme that Preyed on Senior Citizens

On March 14, 2011, in the Northern District of Texas, a former managing director of Dallas-based AmeriFirst Funding Corp. and AmeriFirst Acceptance Corp. was sentenced to 25 years of incarceration to be followed by 36 months of supervised release. He was also ordered to pay $7.3 million in restitution. He was previously found guilty of nine counts of securities fraud following a jury trial on April 14, 2010.

The former managing director was the primary subject of a joint FDIC OIG and FBI investigation involving the misrepresentation of FDIC insurance to coax investors into a securities fraud "Ponzi Scheme" that defrauded nearly 600 investors living in Texas and Florida out of more than $50 million. Many of these investors were retired and looking for safe and secure investments.

He offered and sold securities known as secured debt obligations (SDOs) and collateral SDOs to investors. At his trial, the government presented evidence that he misled and deceived investors by making the following material misrepresentations:

- the SDOs were insured;
- the SDOs were guaranteed by a commercial bank;
- the SDOs were protected by a $100,000 (per account) fraud and dishonesty bond (the usual FDIC insurance);
- his family owned and controlled a vast fortune from the Hess Oil Company and would protect the investors from investment losses; and
- he held a Master of Business Administration degree from the Wharton School of the University of Pennsylvania.

He also omitted the fact that he had been fined by the National Association of Securities Dealers (NASD) for executing unauthorized transactions in customer accounts and was permanently barred from associating with any NASD firm.

The former managing director sold the SDOs directly to investors and indirectly through salesmen. Advertisements for FDIC-insured certificates of deposit paying high interest rates (above the actual market rate) were placed in local newspapers, and when investors responded to the advertisements, they were steered into the SDOs.

One of those salesmen pleaded guilty in October 2007 to his role in the scheme and is currently serving a 60-month federal prison sentence. He was also ordered to pay nearly $16 million in restitution. Two other salesmen pleaded guilty in June 2008 and September 2010, respectively, to securities fraud for their role in the scheme. Both are awaiting sentencing.

Another subject pleaded guilty in December 2007 to one count of conspiracy to commit securities fraud, stemming from his role in helping the former managing director to manipulate the stock price of Interfinancial Holdings Corporation (IFCH). Acting at the direction of the managing director, the second subject bought and sold hundreds of thousands of shares of IFCH and matched trades to create the false impression of widespread interest in the stock. He admitted that he derived more than $1.6 million in proceeds from his fraudulent sales of IFCH in the course of the conspiracy.

In 2007, in a related case, the SEC filed civil fraud charges in federal court in Dallas against AmeriFirst and its principals. The SEC charged the former managing director and others with raising as much as $55 million through the fraudulent offer and sale of AmeriFirst's SDOs and collateral SDOs. The SEC also charged that AmeriFirst and its sales agents targeted and lured many elderly investors to invest their retirement savings with AmeriFirst based on promises that the investments had little or no risk and were guaranteed through the protection of a commercial bank and numerous insurance companies.

Source: *SEC.* ***Responsible Agencies:*** *Joint investigation by the FDIC-OIG, FBI, and Texas State Securities Board. Prosecuted by the U.S. Attorney's Office, Northern District of Texas.*

Electronic Crimes Unit Responds to Email and Other Schemes

Identity theft continues to become more sophisticated, and the number of victims is growing. Identity theft includes using the Internet or phone lines for schemes such as "phishing" and "pharming" that attempt to trick people into divulging their private financial information. Schemers pretend to be legitimate businesses or government entities with a need for the information that is requested. The OIG's Electronic Crimes Unit (ECU) responds to these types of scams involving the FDIC and, in some cases, the OIG.

The OIG's ECU responded to allegations of fraudulent emails that represented they were from the FDIC. The ECU had three fraudulent email accounts deactivated during the reporting period that were related to such schemes.

During the reporting period, the ECU also worked with Brandimensions, the FDIC's contractor, to shut down three different FDIC-related phishing sites that appeared to contain malware as part of the link. In one case, the phishing site was hosted on over 20 different domains.

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

The OIG has developed a new inquiry intake system to supplement the OIG Hotline function. The Hotline contines to address allegations of fraud, waste, abuse, and possible criminal misconduct. However, over the past year or so, our office has received 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 275 such matters.

Strategic Goal 4

The OIG Will Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships

4

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.

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.

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by earlier trends in mergers and acquisitions, banks 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 had to deal with in the past. The sheer volume of all failed institutions, big and small, poses tremendous challenges and risks to the FDIC.

Perhaps the most fundamental 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 now gives the FDIC a similar set of receivership powers to liquidate failed systemically important financial firms.

In addition to the future challenges associated with exercising this new resolution authority, the Corporation is currently dealing with a daunting resolution and receivership workload. One-hundred-forty institutions failed during 2009, with total assets at failure of $171.2 billion and total estimated losses to the DIF of approximately $37.1 billion. By year-end 2009, the number of institutions on the FDIC's "Problem List" also rose to its highest level in 16 years. During 2010, an additional 157 institutions failed, and there were 884 insured institutions on the "Problem List" at the end of the year, indicating a probability of more failures to come and an increased asset disposition workload. Total assets of problem institutions were $390 billion as of year-end 2010.

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 (P&A) agreements with acquiring institutions, the Corporation has entered into 223 loss share agreements (LSA) covering $193 billion in assets (at inception). Under these agreements, 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 10 years. In addition, the FDIC has entered into a series of structured asset sales to dispose of assets with an unpaid principal balance of $22.5 billion (at inception). 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 will continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through P&A agreements or involved in structured sales. The FDIC is managing 344 receiverships holding about $27 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.

The FDIC has increased its permanent resolution and receivership staffing and has 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. At the end of 2008, on-board resolution and receivership staff totaled 491, while on-board staffing at the end of 2010 was 2,118. As of year-end 2010, the FDIC also had about 1,900 active contracts valued at $4.5 billion; approximately 1,700 of these were related to the receivership function and accounted for approximately $3.5 billion of the total value.

The significant surge in failed-bank assets and associated contracting activities requires 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, 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 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 closely with DRR on concealment of assets cases. 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 OIG's Office of Investigations works closely with both DRR and the Legal Division in aggressively pursuing criminal investigations of these individuals.

To help ensure the FDIC efficiently and effectively resolves failing banks and manages receiverships, the OIG's **2011 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, the OIG continued to carry out and plan a number of new assignments involving resolution and receivership activities. We continued work related to the FDIC's risk-sharing agreements with acquiring institutions and/or limited liability companies involved in structured asset sales. We also reviewed the franchise marketing process for AmTrust Bank and conducted an assignment at the request of the Ranking Member of the House Financial Services Committee and the Ranking Member of the Subcommittee on Oversight and Investigations to review certain aspects of resolution activities related to Shore Bank, Chicago, Illinois. These efforts are discussed below.

OIG Audit Work Focuses on Resolution and Receivership Challenges

The FDIC's LSAs with an Acquiring Institution

We issued the results of an audit of the FDIC's LSAs with an acquiring institution during the reporting period. Because this report contained sensitive information about the acquiring institution's internal control environment, we did not make the report publicly available. However, it is important to report the overall nature of the findings and recommendations, and the associated potential monetary recoveries to the FDIC as a result of this OIG work.

By way of background, loss sharing is a feature that the FDIC introduced into selected P&A transactions in 1991, and the use of P&A transactions with LSAs was significantly expanded in 2008 and 2009 to a point at which it was the primary means used to resolve failed institutions. Under loss sharing, the FDIC agrees to absorb a portion of the loss on a specified pool of assets in order to maximize asset recoveries and minimize FDIC losses. Loss sharing reduces the immediate cash needs of the FDIC; is operationally simpler for, and more seamless to, failed bank customers; and moves assets quickly into the private sector. As noted earlier, typically, the FDIC absorbs a significant portion of loss on the LSA portfolios, ranging from 80 percent to 95 percent, and acquiring institutions absorb the remaining loss.

We contracted with BDO USA, LLP (BDO) to conduct a performance audit of certain FDIC LSAs with an acquiring institution. The objective of this performance audit was to assess the acquiring institution's compliance with the terms of the LSAs.

The FDIC and the acquiring institution entered into two LSAs related to the acquiring institution's acquisition of commercial and single-family assets, primarily loans, totaling approximately $1.3 billion. As of June 30, 2010, the acquiring institution claimed approximately $96.3 million in losses on assets covered by the LSAs, and the FDIC made payments to the acquiring institution of $77.1 million (the FDIC's 80-percent share of the $96.3 million in losses claimed).

Overall, BDO concluded that the acquiring institution was not in full compliance with the commercial and single-family LSAs based on review of a sample of charge-off losses, recoveries, and related accrued interest claimed on LSA certificates. In particular, the asset claims reviewed often did not have sufficient supporting documentation for charge-off calculations, including unsupported discounts applied to gross appraisal values. Additionally, the acquiring institution reported charge-off amounts for multiple assets against incorrect asset numbers on the listing of assets covered by the LSAs, significantly complicating future tracking of recoveries on those assets, and did not properly report two recoveries totaling $53,132. As a result of these issues, BDO questioned $9.5 million based on its sample of the assets that, in total, caused the $96.3 million in losses claimed by the acquiring institution. The FDIC's share for the questioned loss claims is $7,591,658 (80 percent of $9,489,573).

BDO also noted that the acquiring institution did not fully comply with charge-off notification requirements that provide the FDIC with the ability to monitor and assess the acquiring institution's collection efforts and repurchase loss share assets if collection efforts are deemed insufficient.

BDO further identified that the FDIC could strengthen controls regarding reporting on the LSA-covered asset listing of loss share assets with a zero balance at the time of acquisition to ensure the FDIC receives its share of any future recoveries. The FDIC could also (1) clarify its guidance in handling assets covered by other government or private guarantees and (2) improve procedures for providing guidance to acquiring institutions to help ensure uniformity in the guidance and consistency in its implementation.

The report recommends that the FDIC disallow the questioned loss claims, resulting in recoveries of $7.6 million in areas related to charge-off documentation and appraisal discounts and reporting of recoveries. The report also recommends that the FDIC develop guidance to assuming institutions for assets that have a government or other private guarantee in addition to loss share coverage and develop a uniform source of guidance and means of distributing it to all assuming institutions. The FDIC concurred with 13 of the 14 recommendations and associated monetary benefits and concurred with the intent of the remaining recommendation.

Structured Asset Sale Audit

An important liquidation strategy available to the FDIC is the structured asset sale whereby assets of a failed institution, such as loans and real estate owned (REO), are transferred from the receivership to a limited liability corporation (LLC) established by the FDIC. Either a portion or the entire ownership interest of this LLC is then sold to a third party, which then has a right to a percentage of net collections, while the FDIC, as receiver, maintains rights to the remaining share. In addition to receiving a percentage of net collections, the LLC owner is paid a monthly management fee.

DRR is responsible for creating and negotiating the structured asset sale agreements, marketing the agreements, and monitoring the third parties who enter into the agreements with the FDIC. At the time of our audit, the FDIC, acting on behalf of failed bank receiverships, had completed 13 structured asset sale transactions through May 31, 2010, covering a total of 24,086 assets with an unpaid principal balance of about $15.7 billion.

We contracted with Clifton Gunderson LLP (Clifton Gunderson) to conduct a performance audit of a structured asset sale to assess compliance with the agreements related to the structured asset sale and the FDIC's monitoring of the agreements.

The FDIC was appointed receiver of a failed institution with assets of approximately $2.1 billion and total deposits of approximately $1.8 billion at the time of closing. The FDIC created an LLC and completed a structured asset sale of a pool of assets with a combined book value of $1.1 billion. The FDIC, as receiver, received a purchase price of $20.2 million and the right to a participating interest of 80 percent of the net collections from the liquidation the pool of assets. Also, the LLC engaged a third party, referred to as the managing member, to provide servicing and manage the collections and liquidation of the LLC's assets. Once the FDIC receives a total of $280 million from the sale of the failed institution and the net collections from the liquidation of the LLC's assets, the FDIC's participating interest declines to 60 percent. The FDIC has the right to repurchase the remaining LLC assets after 7 years or when the aggregate unpaid principal balance of the loans has been reduced to 10 percent of the balance of such loans when they were first transferred to the LLC, whichever comes first.

Clifton Gunderson reported that during the 14 months subject to audit, January 2009 through March 2010, the LLC had disposed of or liquidated 44 percent of the 1,112 assets in the pool and paid the FDIC $129.8 million. As of March 31, 2010, the LLC had 426 loans and 195 REO properties in the pool of assets with a recorded unpaid principal balance of $798 million.

Overall, Clifton Gunderson concluded that the LLC was generally in compliance with the structured sale agreements. However, the firm's audit identified a number of significant deficiencies in internal control at the LLC which led to instances where the LLC was not in compliance with the structured asset sale agreements. These deficiencies included insufficient documentation of asset disposition strategies and the lack of proper segregation of accounting duties. Clifton Gunderson also concluded that improvements were needed in some areas of the agreements to ensure compliance with DRR's intent regarding structured sales and DRR's monitoring of the LLC and affiliated companies.

Clifton Gunderson questioned costs totaling $634,412, of which the FDIC's 80-percent interest is $507,538, that were primarily incurred by the LLC as a result of treating costs paid to contractors as liquidation costs instead of servicing costs covered by the management fee and not writing off worthless assets. Clifton Gunderson also estimated that the FDIC prospectively could achieve $2,509,576 in funds put to better use (the FDIC's 80-percent share of the identified $3,136,970 in funds put to better use) by addressing issues involving the LLC's accounting practices for servicing costs paid to the contractors and for worthless assets.

The report contains 24 recommendations intended to improve the LLC's compliance with, and DRR oversight of, the structured sale agreements as well as enhance future agreements. The FDIC concurred with the recommendations, and its planned actions are responsive to the concerns identified.

Franchise Marketing of AmTrust Bank, Cleveland, Ohio

The FDIC Board of Directors has delegated significant authority to DRR to conduct the activities required to resolve a failing institution in the least costly manner and manage the resulting receivership. To minimize the negative financial effects of failing and failed insured financial institutions on the DIF, DRR resolves institutions using the least costly resolution method. Further, DRR is to resolve the troubled institution and sell assets in the manner that results in the least cost and highest recovery to the FDIC's insurance funds and other creditors of the failed institution.

We contracted with BDO to conduct an audit of the FDIC's franchise marketing of AmTrust Bank, Cleveland, Ohio. We selected AmTrust Bank for the audit because AmTrust was a large bank that failed toward the end of 2010, and the FDIC received bids to acquire the bank from multiple institutions.

When the Office of Thrift Supervision closed AmTrust Bank on December 4, 2009, AmTrust Bank had a total of 66 branches in Ohio, Florida, and Arizona; total assets of approximately $13.0 billion; and total deposits of approximately $8.3 billion. Prior to the bank closing, the Director, DRR, approved a P&A Agreement, including loss sharing, with New York Community Bank (NYCB),Westbury, New York, as the least costly transaction on November 25, 2009. The NYCB bid was compared to the liquidation cost of AmTrust Bank as well as to 13 other bids to determine the least costly resolution. The DRR analysis of the bids ranged from a $2.2 billion cost to the DIF to over $5 billion.

Under the P&A Agreement, NYCB assumed all of the deposits of AmTrust Bank and purchased, at a discount, AmTrust Bank assets with a book value of about $9.2 billion. The P&A Agreement included a loss-share transaction on approximately $6.3 billion of the $9.2 billion in assets purchased by NYCB. In addition, the FDIC acquired a value appreciation instrument, valued at $10.7 million, and transferred to NYCB all qualified financial contracts to which AmTrust Bank was a party. The FDIC estimated that the costs of the NYCB acquisition to the DIF would be approximately $1.6 billion less than if the bank had been liquidated, meaning that the FDIC makes a payout to all insured depositors and liquidates the assets taken into receivership. The FDIC retained approximately $3.8 billion of assets, consisting mainly of acquisition, development, and construction loans and non-performing loans for later disposition. The FDIC estimated that the cost of AmTrust Bank's failure to the DIF would be $2.2 billion.

Overall, BDO concluded that the franchise marketing process for AmTrust Bank was completed in accordance with the FDIC's resolution policies, procedures, and guidelines for the franchise marketing of failed banks. BDO found that the FDIC had implemented controls designed to ensure that the resolution of AmTrust Bank was managed effectively and potential losses to the DIF were minimized for AmTrust Bank's failure. While these controls are positive, BDO also found that updated and additional internal control procedures and certain control enhancements were warranted.

BDO recommended that the FDIC update key manuals and establish adequate information security controls to ensure the completeness, accuracy, and integrity of the data that is ultimately submitted to the FDIC Board of Directors. BDO also recommended improving the bidding process by establishing procedures for documenting the FDIC's approval of potential bidders. In addition, BDO recommended enhancements related to the methodology and assumptions used in the asset valuation process and improved procedures to ensure that contractor confidentiality agreements are completed and documented for contractors involved in the resolution process. The FDIC concurred with the nine recommendations in the report. In fact, during and subsequent to the performance of our audit, the FDIC began remediating some of the findings discussed in this report. The FDIC's planned and completed actions are responsive to the recommendations.

Recapitalization and Resolution Efforts Associated with ShoreBank, Chicago, Illinois

On August 20, 2010, the Illinois Department of Financial and Professional Regulation (IDFPR) closed ShoreBank, Chicago, Illinois, and appointed the FDIC as receiver. On August 5, 2010, prior to ShoreBank's failure, the Ranking Member of the House Financial Services Committee and the Ranking Member of the Subcommittee on Oversight and Investigations requested that we review private-sector efforts to recapitalize ShoreBank and the FDIC's consideration of ShoreBank's application for funds under the U.S. Department of the Treasury's (Treasury) Community Development Capital Initiative (CDCI) program. The Members requested that we determine whether the Administration or Members of the Congress exerted political influence over the FDIC associated with efforts to recapitalize ShoreBank.

The objectives of this audit were to determine (1) the timeline of events pertaining to the FDIC's supervision and CDCI consideration for ShoreBank; (2) the extent and nature of FDIC involvement in the ShoreBank investor recapitalization effort; (3) whether the FDIC followed its standard process in reviewing ShoreBank's CDCI application and whether ShoreBank met CDCI eligibility requirements; (4) whether the resolution followed selected FDIC policies and regulations related to marketing the bank, assessing purchaser eligibility, and making a least cost decision; and (5) whether there was any indication of political or inappropriate influence imposed on the FDIC in connection with the supervision, investor recapitalization effort, CDCI consideration, or resolution of ShoreBank. (Because ShoreBank's failure resulted in a material loss to the DIF, we also conducted an MLR of ShoreBank, as required by section 38(k) of the FDI Act.)

By way of brief background, ShoreBank was a $2.2 billion, state-chartered, nonmember bank headquartered in Chicago, Illinois. The institution was established in 1939 as a national bank. In 1973, the Illinois Neighborhood Development Corporation (which later became known as the ShoreBank Corporation (SBC)), acquired control of the bank with the goal of profitably investing in community development activities. A key focus for the new owners was rebuilding their local community that had for a decade been increasingly torn by crime and poverty. The bank converted to a state charter in 1978, and subsequently expanded its operations into Michigan and Ohio. ShoreBank was wholly owned by SBC, its bank holding company located in Chicago, Illinois. Shareholders of SBC consisted of financial institutions, foundations, insurance companies, faith-based institutions, trusts, and individuals.

ShoreBank's lending strategy focused on providing financing for affordable housing and economic development activities in underserved and economically disadvantaged areas. The institution's customers included small businesses, not-for-profit organizations, churches, and individuals in low- to moderate income areas, including Chicago's South Side. ShoreBank's asset concentrations and weak risk management practices made the institution vulnerable to a sustained economic downturn in the Chicago real estate market. Ultimately, the losses, provisions, and delinquencies associated with the bank's loan portfolio depleted the institution's earnings and capital, and impaired its liquidity position. The IDFPR closed ShoreBank on August 20, 2010 because the institution did not have sufficient capital to continue normal operations.

The FDIC and IDFPR conducted regular examinations of ShoreBank, as required, and took formal supervisory action to address the bank's deteriorated financial condition in 2009. During 2009 and 2010, the FDIC sought to avoid a difficult and costly failure and took a number of steps to save ShoreBank.

Senior Corporation officials closely monitored ShoreBank's recapitalization effort and provided the Chairman with regular updates. As the recapitalization effort faltered, senior Corporation officials, including the Chairman, contacted banks to discuss their interest in investing in ShoreBank. In addition, based on the bank's ability to raise private capital, the FDIC recommended ShoreBank for CDCI funding. At the time, the bank was poorly rated and met four of the Treasury's six required performance ratios.

All of these actions, and others taken with regard to supervising and resolving Shore Bank, were consistent with the FDIC's broad statutory mission of minimizing costs to the DIF and in compliance with applicable policies and procedures. Further, nothing came to our attention to suggest that there was any indication of political or inappropriate influence imposed on the FDIC in connection with any ShoreBank-related matters.

Because the report contained no recommendations, a written management response was not required. The Director, RMS, elected to provide a written response. In the response, the Director reiterated that the FDIC's actions taken with regard to supervising and resolving ShoreBank were within the FDIC's statutory mission of minimizing costs to the DIF and in compliance with applicable policies and procedures. With regard to the CDCI program, the Director noted that the FDIC followed its standard process and applied the Treasury's viability criteria in reviewing ShoreBank's CDCI application and that DSC conducted a comprehensive analysis to determine a capital level that would be necessary to support lending under worse-than-expected economic scenarios.

Strategic Goal 5

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

5

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 over the past year, and the Corporation will continue to face challenges during 2011.

Importantly, and as referenced earlier, in the coming months, as the Corporation responds to Dodd-Frank Act requirements and continues to pursue its long-standing mission in the face of lingering financial and economic turmoil, the resources of the entire FDIC will be challenged. For example, as required by the Dodd-Frank Act, the Corporation established an Office of Minority and Women Inclusion responsible for all agency matters relating to diversity in management, employment, and business activities. The Corporation has transferred its former Office of Diversity and Economic Opportunity staff to this new office. Other new responsibilities, reorganizations, and changes in senior leadership and in the makeup of the FDIC Board will greatly impact the FDIC workforce in the months ahead. 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 have increased dramatically. The Board approved an authorized 2011 staffing level of 9,252 employees, up about 2.5 percent from the 2010 authorization of 9,029. On a net basis, all of the new positions are temporary, as are 39 percent of the total 9,252 authorized positions for 2011. Temporary employees have been hired by the FDIC to assist with bank closings, management and sale of failed bank assets, and other activities that are 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 Corporation's contracting level has also grown significantly, especially with respect to resolution and receivership work. Over $1.6 billion was available for contracting for receivership-related services during 2010. 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. 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 have placed heavy demands on the Corporation's personnel and administrative staff and operations. When conditions improve throughout the industry and the economy, a number of employees will need to be released and staffing levels will 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, the Corporation will seek to sustain its emphasis on fostering employee engagement and morale.

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 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 appointed by the President and confirmed by the Senate, with no more than three being from the same political party. The FDIC has three internal directors—the Chairman, Vice Chairman, and one independent Director—and two ex officio directors, the Comptroller of the Currency and the Director of OTS. With the passage of the Dodd-Frank Act, the OTS will no longer exist and the Director of OTS will be replaced on the FDIC Board by the Director of the CFPB in mid-2011. The FDIC Chairman has announced her intention to leave the Corporation when her term expires—around the end of June 2011. Given the relatively frequent turnover on the Board, it is essential that strong and sustainable governance and communication processes be in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and to make sound policy and management decisions.

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. To further enhance risk monitoring efforts, the Corporation established six Program Management Offices to address risks associated with such activities as loss share agreements, contracting oversight for new programs and resolution activities, the systemic resolution authority program, and human resource management concerns. Lessons from these areas need to be integrated into corporate thinking and decision-making. Additionally, the FDIC Chairman charged members of her senior staff with planning for and presenting a case to the Board for the establishment of a Chief Risk Officer at the FDIC to better ensure that risks to the Corporation are identified and mitigated to the fullest extent. In 2011, the Chairman subsequently announced creation of a new Office of Corporate Risk Management to be led by a Chief Risk Officer. The addition of such a function is another important organizational change that will require carefully thought-out and effective implementation in order to be successful.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the OIG's **2011 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.

OIG Work in Support of Goal 5

During the reporting period, we completed our annual audit conducted pursuant to the Federal Information Security Management Act of 2002 (FISMA). The objective of that audit is to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Act and related policies, procedures, standards, and guidelines. The audit resulted in 12 recommendations agreed to by management, as further explained below. We also joined the Treasury and Federal Reserve OIGs in reviewing plans for the transfer of Office of Thrift Supervision (OTS) personnel and functions to the Office of the Comptroller of the Currency (OCC), Federal Reserve, and FDIC, pursuant to the Dodd-Frank Act, as discussed below as well.

FISMA Review

FISMA requires federal agencies, including the FDIC, to have an annual independent evaluation by agency Inspectors General of their information security program and practices and to report the results of the evaluation to the Office of Management and Budget. We contracted with KPMG LLP to perform an audit to fulfill the requirements for the 2010 independent evaluation. The objective of the audit was to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with FISMA and related information security policies, procedures, standards, and guidelines. KPMG reviewed a sample of information systems, including three designated by the FDIC as major applications.

FISMA directs the National Institute of Standards and Technology (NIST) to develop information security standards and guidelines. The pertinent NIST documentation includes risk management guidelines that provide a flexible framework for ensuring the adequacy and effectiveness of information security controls over information resources that support federal operations and assets. The standards and guidelines published by NIST are not legally binding on the FDIC, but the FDIC's policy is to voluntarily comply with those standards.

KPMG concluded that the FDIC information security program had a risk management framework that generally meets FISMA requirements and NIST security guidance. KPMG also concluded that the effectiveness of certain internal control activities within five of the seven phases of the risk management framework needed improvement. That is, KPMG determined that internal controls related to the phases *Creating and Maintaining an Inventory* and *Selecting Security Requirements* complied with the risk management framework described in NIST standards and guidance, were consistent with FISMA, and demonstrated effectiveness. However, KPMG also determined that certain internal controls in the phases *Categorizing Information Systems, Implementing Security Controls, Assessing Security Controls, Authorizing Information Systems*, and *Monitoring Security Controls* needed improvement.

Importantly, the FDIC needed to improve its processes for categorizing information systems that input, store, process, or output information assigned a high-potential-impact level by the FDIC; addressing common security controls that are relied upon by multiple systems; ensuring the timeliness and support for system authorization decisions; and continuously monitoring security controls.

KPMG also evaluated whether the FDIC had completed corrective actions in response to the security deficiencies identified during the 2009 FISMA performance audit. KPMG concluded that while the FDIC had completed corrective action on 12 of 18 prior-year issues, 6 prior-year issues required additional action. Of particular note, the FDIC had not implemented an enterprise-wide approach for reviewing audit logs of the FDIC's inventory of information systems. A similar deficiency was also reported during the previous two annual FISMA audits.

KPMG made 12 recommendations. The Chief Information Officer (CIO) and Director, Division of Information Technology, generally agreed with KPMG's recommendations or provided alternative actions that meet the intent of the recommendations. Planned actions include issuing guidance on processes for categorizing information and systems, implementing an approach for addressing common security control requirements, and completing and implementing a tactical plan for the FDIC's continuous monitoring of security requirements.

OIGs Review Plan for Transfer of OTS Personnel and Functions to the OCC, Federal Reserve, and FDIC

We joined our OIG colleagues at the Treasury and Federal Reserve OIGs to review a Joint Implementation Plan (Plan) prepared by the FRB, FDIC, OCC, and OTS. The Plan details the steps the agencies will take to implement the provisions of Title III, *Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors*, of the Dodd-Frank Act. Section 327 of Title III mandated the preparation of the Plan and our offices' review.

We conducted the review to determine whether the Plan conforms to the relevant provisions of the Dodd-Frank Act, to include determining whether the Plan (1) sufficiently takes into consideration the orderly transfer of personnel, (2) describes procedures and safeguards to ensure that OTS employees are not unfairly disadvantaged relative to employees of OCC and FDIC, (3) sufficiently takes into consideration the orderly transfer of authority and responsibilities, (4) sufficiently takes into consideration the effective transfer of funds, and (5) sufficiently takes into consideration the orderly transfer of property.

In brief, we concluded that the Plan generally conforms to the provisions of sections 301 through 326 of Title III. However, we did note an omission in the Plan in that it did not address the prohibition against involuntary separation or relocation of transferred OTS employees for 30 months (except under certain circumstances). We recommended that the Plan be amended to address this requirement.

We also found that, while not impacting our overall conclusion on the Plan, certain details need to be worked out to ensure that OTS employees are not unfairly disadvantaged and an orderly transfer of OTS powers, authority, and employees can be effectively accomplished. For example, neither the number of employees to be transferred to OCC nor the assignment of functions for those employees had been finalized. In addition, OTS officials expressed concerns relating to (1) OCC's assignment of individual employees and (2) additional OCC certification requirements and a newly created pay band for certain transferring OTS examiners. We also noted that OCC is creating new senior-level positions to manage transferred functions. Those positions are being announced as competitive between current OCC employees and former OTS employees. It is important that OCC ensure the selection of personnel for these positions is done in compliance with 5 U.S.C. §3503, Transfer of Functions. Finally, we reported on several other matters associated with the transfer of OTS functions, including an OTS pension fund, savings association assessments, and financial reporting by OTS.

We will monitor these issues and implementation of the Plan, and report on the progress to transfer the OTS functions every 6 months, as required by the Act.

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Strategic Goal 6

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 is 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, and especially in light of the new activities and programs that the FDIC is engaged in to restore public confidence and stability in the financial system that require 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 Inspector General (IG) and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. The OIG adheres to the Quality Standards for Federal Offices of Inspector General, issued by the former President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Further, the OIG conducts its audit work in accordance with generally accepted Government Auditing Standards; its evaluations in accordance with PCIE Quality Standards for Inspections; 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 established by the former PCIE and ECIE, 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 Audit Committee meetings where recently issued MLR, IDR, 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, IDR, audit, and evaluation reports; information related to completed investigations; comments on legislation and regulations; written statements for congressional hearings; contacts with congressional staff; responses to congressional correspondence; and materials related to OIG appropriations.

The FDIC OIG is a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), an organization created by the IG Reform Act of 2008 and that combined the former PCIE and ECIE. We fully support and participate in CIGIE activities and coordinate closely with representatives from the other the financial regulatory OIGs. The IG is a member of the Comptroller General's Yellow Book Advisory Board. 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 fully 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 are continuously seeking to better 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 **2011 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	Dissolved the OIG's Office of Material Loss Reviews and reorganized the OIG's audit and evaluation resources; and continued realignment of the OIG's resources to address the need for additional investigative coverage in FDIC regions and satellite offices.
2	Monitored FDIC OIG expenses for Fiscal Year 2010 and funding status for Fiscal Year 2011 to ensure availability of funds especially in light of the continuing resolutions and uncertainty regarding a possible government shutdown.
3	Provided the OIG's Fiscal Year 2012 budget request to Congressional Appropriations Committees in the House and Senate. This budget requests $45.3 million to support 144 full time equivalents.
4	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.
5	Refined our new inquiry intake system to better capture inquiries from the public, media, Congress, and the Corporation, in the interest of prompt and more effective handling of such inquiries.
6	Coordinated with the Assistant Inspectors General for Investigations at the Department of the Treasury and the Federal Reserve to leverage resources by planning joint investigative work.

7	Coordinated with counterparts at the Department of the Treasury, Federal Reserve, and National Credit Union Administration OIGs to plan for a consistent, efficient and effective response to new requirements of the Dodd-Frank Act.
8	Continued to implement a new assignment management process for FDIC OIG review of failures when losses are not material under the Dodd-Frank Act. Ensured that the OIG's audit tracking system captured information needed for Dodd-Frank Act reporting purposes.
9	Modified the OIG's Web site to reflect changes brought on by the Dodd-Frank Act and to provide timely, relevant information to stakeholders.

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, in keeping with Government Auditing Standards.
2	Coordinated with the Smithsonian Institution regarding our office's peer review of the audit operations of that office as part of the IG community's peer review process.
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 MLRs, IDRs, 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 MLRs, IDRs, audits, and evaluations.
5	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting MLRs, IDRs, resolution and receivership work, 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	Coordinated the IG community's audit peer review activities for OIGs government-wide to ensure a consistent and effective peer review process and quality in the federal audit function.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Continued to support members of the OIG attending long-term graduate banking school programs sponsored by Stonier, the Southeastern School of Banking at Vanderbilt University, and the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry.
2	Sponsored a college intern on a part-time basis in the OIG to provide assistance to the Office of Investigations.
3	Supported individuals seeking certified public accounting certifications by underwriting certain study program and examination costs.
4	Continued implementation of 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.

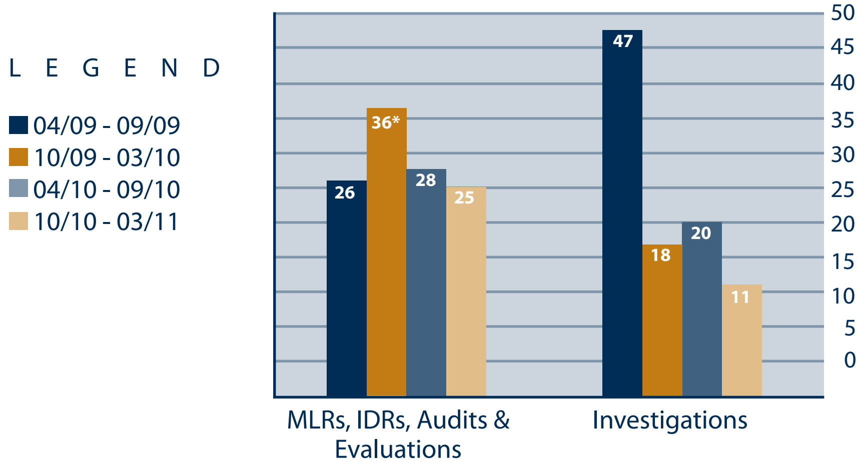
Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by briefing and communicating with various Committee staff on issues of interest to them; providing our Semiannual Report to the Congress for the 6-month period ending September 30, 2010; notifying interested congressional parties regarding the OIG's completed MLR, IDR, 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.
2	Communicated with the FDIC Chairman, Vice Chairman, Director Curry, 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 Federal Financial Institutions Examination Council, the Association of Government Accountants, and the American Institute of Certified Public Accountants, 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 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 MLRs, IDRs, audits, and evaluations for consideration by Committee members.
7	Reviewed eight proposed or revised corporate policies related to, for example, the FDIC's general travel regulations; media contacts; the FDIC's rewards and recognition program; and the roles of RMS, DRR, and the Legal Division in the Cross Guaranty Program.
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 introductory auditor training and oversight of the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Inspection & Evaluation Committee, and Council of Counsels to the IGs meetings; and providing support to the IG community's investigative meetings.
9	Met regularly with representatives of the OIGs of the federal banking regulators and others (Federal Reserve, Department of the Treasury, National Credit Union Administration, SEC, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, SIGTARP, and HUD to discuss audit and investigative matters of mutual interest and leverage knowledge and resources.
10	Responded, along with others in the IG community, to Senator Grassley's and Senator Coburn's joint request for a biannual report on all closed investigations, evaluations, and audits conducted by the OIG that were not disclosed to the public for the period covering May 1, 2010 through September 30, 2010.
11	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.

Enhance OIG Risk Management Activities	
1	Provided the OIG's perspectives on the risk of fraud at the FDIC. We did so in response to the Government Accountability Office's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits.
2	Participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly.
3	Delivered the OIG's 2010 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	Provided the OIG's assessment of the management and performance challenges facing the FDIC, in accordance with the Reports Consolidation Act of 2000. We identified the following overall areas of challenge: Restoring and Maintaining Public Confidence and Stability in the Financial System; Assuming New Resolution Authority, Resolving Failed Institutions, and Managing Receiverships; Ensuring and Maintaining the Viability of the 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)

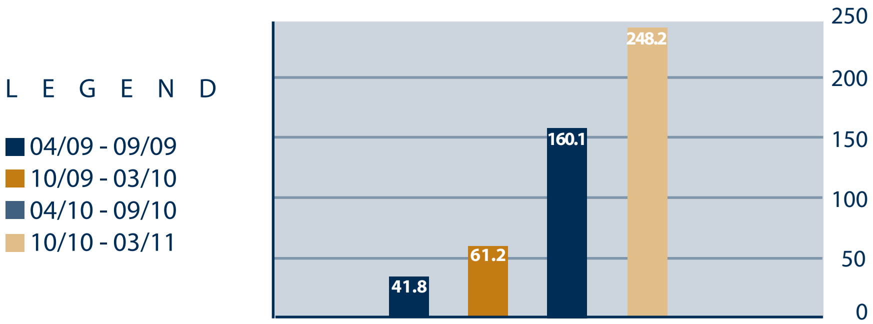
Nonmonetary Recommendations	
April 2009 – September 2009	12
October 2009 – March 2010	11
April 2010 – September 2010	43
October 2010 – March 2011	58

Products Issued and Investigations Closed



*Includes four audit or evaluation memoranda.

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



Reporting Requirements

Index of Reporting Requirements – Inspector General Act of 1978, as amended

Evaluation report statistics are shown on pages 54, 55, and 56, in accordance with the Inspector General Reform Act of 2008.

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:

- Continued monitoring legislative developments regarding cyber security; specifically, we analyzed the portions of S. 3480, the "Protecting Cyberspace as a National Asset Act of 2010," and its counterpart in the 112th Congress, S. 413, the "Cybersecurity and Internet Freedom Act of 2011," that would revise the annual requirements that IGs have under the existing FISMA to evaluate their agencies' information security program and practices.
- Coordinated with other IG offices in substantially finalizing guidelines to implement section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which deals with the IG's semiannual reporting of peer review-related information.
- Considered whether the FDIC OIG would be subject to the study that the Government Accountability Office would be required by section 1505 of the Dodd-Frank Act to conduct relative to the independence, effectiveness, and expertise of certain inspectors general.
- Considered whether the provisions of the Reducing Overclassification Act, regarding the IG's evaluation of agency information-classification practices, applied to the FDIC.

The FDIC OIG also continues to coordinate with others in the IG community through the CIGIE's Legislative Committee in responding to legislation impacting the IG community as a whole.

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, these corrective actions are 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 FDIC's Office of Enterprise Risk Management (OERM) and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. The five recommendations from two reports involve monetary amounts of over $15.9 million and improvements in operations and programs. OERM has categorized the status of these recommendations as follows:

Management Action in Process: (5 recommendations from 2 reports)

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.

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

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

Report Number, Title & Date	Significant Recommendation Number	Brief Summary of Planned Corrective Actions and Associated Monetary Amounts
Management Action In Process		
AUD-10-005 **The FDIC's Loss Share Agreements with an Acquiring Institution** September 10, 2010	1	Disallow $9,437,620 of claimed losses associated with estimated expenses that are not allowable under the LSA and duplicate or incorrectly calculated loan charge-offs (questioned costs of $7,550,096, which is 80 percent of the $9,437,620 questioned loss claims).
	8	Establish guidance that addresses syndication loans.
	15*	Provide the acquiring institution with guidance on: (a) whether the 31 percent debt to income (DTI) provision allows for DTI to be below 31 percent; (b) how to incorporate the additional funds received at the restructuring date into the restructuring loss calculation; (c) discounting the net present value of the restructured loan over 120 months for loss calculation purposes; (d) the date the acquiring institution should use for determining the primary mortgage market survey rate;* and (e) whether rounding the interest rate is acceptable.
AUD-10-006 **The FDIC's Loss Share Agreements with an Acquiring Institution** September 10, 2010	1	Disallow $10,541,591 of the claimed losses related to accrued interest (questioned costs of $8,433,273, which is 80 percent of $10,541,591 in questioned loss claims).
	13▼	Establish policies and implement procedures for preparation, review, approval and monitoring of modification agreements to the purchase and assumption transaction.

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

▼ The OIG has not yet evaluated management's actions in response to the OIG recommendation.

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

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
MLR-11-001 October 1, 2010	Material Loss Review of Appalachian Community Bank, Ellijay, Georgia			
MLR-11-002 October 1, 2010	Material Loss Review of Advanta Bank Corp., Draper, Utah			
IDR-11-001 October 14, 2010	In-Depth Review of the Failure of George Washington Savings Bank, Orland Park, Illinois			
IDR-11-002 November 2, 2010	In-Depth Review of the Failure of the Bank of Hiawassee, Hiawassee, Georgia			
MLR-11-003 November 12, 2010	Material Loss Review of City Bank, Lynnwood, Washington			
MLR-11-004 November 12, 2010	Material Loss Review of Broadway Bank, Chicago, Illinois			
IDR-11-003 November 23, 2010	In-Depth Review of the Failure of Centennial Bank, Ogden, Utah			
MLR-11-005 December 2, 2010	Material Loss Review of CF Bancorp, Port Huron, Michigan			
MLR-11-006 December 2, 2010	Material Loss Review of Frontier Bank, Everett, Washington			
MLR-11-007 December 2, 2010	Material Loss Review of Westernbank Puerto Rico, Mayaguez, Puerto Rico			
MLR-11-008 December 2, 2010	Material Loss Review of Eurobank, San Juan, Puerto Rico			
MLR-11-009 December 2, 2010	Material Loss Review of R-G Premier Bank of Puerto Rico, Hato Rey, Puerto Rico			
IDR-11-004 December 23, 2010	In-Depth Review of The Park Avenue Bank, New York, New York			
MLR-11-010 December 23, 2010	Follow-up Audit of FDIC Supervision Program Enhancements			

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

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	**Title**	**Total**	**Unsupported**	
Supervision				
IDR-11-005 January 21, 2011	In-Depth Review of the Failure of Wheatland Bank, Naperville, Illinois			
MLR-11-011 January 28, 2011	Material Loss Review of Crescent Bank and Trust Company, Jasper, Georgia			
IDR-11-006 February 14, 2011	In-Depth Review of the Failure of First Lowndes Bank, Fort Deposit, Alabama			
MLR-11-012 February 25, 2011	Material Loss Review of ShoreBank, Chicago, Illinois			
Receivership Management				
AUD-11-002 November 9, 2010	Audit of a Structured Asset Sale	$507,538		$2,509,576
AUD-11-004 January 7, 2011	The FDIC's Loss Share Agreements with an Acquiring Institution	$7,591,659	$7,549,153	
AUD-10-005 March 3, 2011	FDIC's Franchise Marketing of AmTrust Bank			
Resources Management				
AUD-11-001 November 8, 2010	Independent Evaluation of the FDIC's Information Security Program – 2010			
AUD-11-003 December 14, 2010	Verification of the FDIC's Data Submission through the Government-wide Financial Report System as of September 30, 2010			
Totals for the Period		**$8,099,197**	**$7,549,153**	**$2,509,576**

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

Table III: Evaluation Reports Issued

Evaluation Reports & Memoranda		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Receivership Management				
EVAL-11-001 March 8, 2011	Recapitalization and Resolution Efforts Associated with ShoreBank, Chicago, Illinois			
Resources Management				
EVAL-11-002 March 28, 2011	Review of the Joint Implementation Plan for the Transfer of Office of Thrift Supervision Functions			
Totals for the Period		**$0**	**$0**	**$0**

Table IV: Audit 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.	1	$1,637,148	$0
B. Which were issued during the reporting period.	2	$8,099,197	$7,549,153
Subtotals of A & B	**3**	**$9,736,345**	**$7,549,153**
C. For which a management decision was made during the reporting period.	3	$9,736,345	$7,549,153
(i) dollar value of disallowed costs.	2	$8,099,197	$7,549,153
(ii) dollar value of costs not disallowed.	1	$1,637,148	$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 1: Information Required by the Inspector General Act of 1978, as Amended (continued)

Table V: 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.	0	$0	$0
Subtotals of A & B	**0**	**$0**	**$0**
C. For which a management decision was made during the reporting period.	0	$0	$0
(i) dollar value of disallowed costs.	0	$0	$0
(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

Table VI: Audit 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.	1	$2,509,576
Subtotals of A & B	**1**	**$2,509,576**
C. For which a management decision was made during the reporting period.	1	$2,509,576
(i) dollar value of recommendations that were agreed to by management.	1	$2,509,576
- based on proposed management action.	1	$2,509,576
- 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

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

Table VII: 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 VIII: Status of OIG Recommendations Without Management Decisions

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

Table IX: Significant Revised Management Decisions

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

Table X: Significant Management Decisions with Which the OIG Disagreed

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

Table XI: Instances Where Information Was Refused

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

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period October 1, 2010 through March 31, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

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 – Updated From Previous Semiannual Report						
Nevada Security Bank (Reno, NV)	6/18/10	$79.4	The bank was conducting business in an unsafe and unsound manner.	No	N/A	N/A
USA Bank (Port Chester, NY)	7/9/10	$60.8	The bank was conducting business in an unsafe and unsound manner, had an impairment of its capital, and neglected or refused to comply with an order of the Superintendent.	Yes – IDR in progress	De novo status of the bank and actions of a dominant official.	6/17/11
Community Security Bank (New Prague, MN)	7/23/10	$18.7	The bank was insolvent and operating in an unsafe and unsound condition to transact business.	No	N/A	N/A
SouthwestUSA Bank (Las Vegas, NV)	7/23/10	$71.4	The bank was operating in an unsafe and unsound condition and was in imminent danger of becoming insolvent.	No	N/A	N/A
Northwest Bank and Trust (Acworth, GA)	7/30/10	$38.5	The bank was insolvent and in an unsafe and unsound condition to transact business.	No	N/A	N/A
Coastal Community Bank (Panama City Beach, FL)	7/30/10	$94.2	The bank was imminently insolvent.	No	N/A	N/A
The Cowlitz Bank (Longview, WA)	7/30/10	$63.4	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
LibertyBank (Eugene, OR)	7/30/10	$113.0	The bank was imminently insolvent.	No	N/A	N/A
Ravenswood Bank (Chicago, IL)	8/6/10	$67.8	The bank was conducting business in an unsafe and unsound manner.	No	N/A	N/A
Palos Bank and Trust Company (Palos Heights, IL)	8/13/10	$70.3	The bank was conducting business in an unsafe and unsound manner.	No	N/A	N/A

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period October 1, 2010 through March 31, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

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 – Updated From Previous Semiannual Report						
Butte Community Bank (Chico, CA)	8/20/10	$17.1	The bank was conducting business in an unsafe and unsound manner with an inadequate capital position. The bank failed to comply with a Consent Order.	No	N/A	N/A
Sonoma Valley Bank (Sonoma, CA)	8/20/10	$9.5	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
ISN Bank (Cherry Hill, NJ)	9/17/10	$23.9	The bank was in violation of an outstanding Cease and Desist Order and was operating in an unsafe or unsound condition.	No	N/A	N/A
Bank of Ellijay (Ellijay, GA)	9/17/10	$55.1	The bank's capital position had deteriorated to a level that placed it at risk of becoming critically undercapitalized.	No	N/A	N/A
First Commerce Community Bank (Douglasville, GA)	9/17/10	$71.2	The bank's capital position had deteriorated to a level that placed it at risk of becoming critically undercapitalized.	No	N/A	N/A
The Peoples Bank (Winder, GA)	9/17/10	$89.9	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Bramble Savings Bank (Milford, OH)	9/17/10	$14.6	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Haven Trust Bank Florida (Ponte Vedra Beach, FL)	9/24/10	$31.7	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
North County Bank (Arlington, WA)	9/24/10	$70.8	The bank had inadequate capital and severe loan losses.	No	N/A	N/A
New Reviews						
Shoreline Bank (Shoreline, Washington)	10/1/10	$40.6	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Wakulla Bank (Crawfordville, Florida)	10/1/10	$110.4	The bank was imminently insolvent.	No	N/A	N/A

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period October 1, 2010 through March 31, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

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						
WestBridge Bank and Trust (Chesterfield, Missouri)	10/15/10	$18.1	The bank was insolvent.	No	N/A	N/A
The Gordon Bank (Gordon, Georgia)	10/22/10	$8.6	The bank could not raise sufficient capital and its condition was unsafe and unsound.	Yes	Examinations between 2006 and 2008 did not satisfy minimum frequency requirements defined in the FDI Act.	05/10/11
First Bank of Jacksonville (Jacksonville, Florida)	10/22/10	$16	The bank was insolvent.	No	N/A	N/A
Western Commercial Bank (Woodland Hills, California)	11/5/10	$25.2	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
First Vietnamese American Bank (Westminster, California)	11/5/10	$9.6	There was no reasonable prospect for rehabilitating the bank.	No	N/A	N/A
K Bank (Randallstown, Maryland)	11/5/10	$198.4	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Copper Star Bank (Scottsdale, Arizona)	11/12/10	$43.6	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Darby Bank & Trust Company (Vidalia, Georgia)	11/12/10	$136.2	The bank was a risk of becoming critically undercapitalized.	No	N/A	N/A
Tifton Banking Company (Tifton, Georgia)	11/12/10	$24.6	The bank was imminently insolvent.	No	N/A	N/A
Allegiance Bank of North America (Bala Cynwyd, Pennsylvania)	11/19/10	$14.2	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Gulf State Community Bank, (Carrabelle, Florida)	11/19/10	$42.7	The bank was insolvent.	No	N/A	N/A

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period October 1, 2010 through March 31, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

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						
Earthstar Bank (Southampton, Pennsylvania)	12/10/10	$22.9	The bank was operating in an unsafe or unsound condition.	No	N/A	N/A
Chestatee State Bank (Dawsonville, Georgia)	12/17/10	$75.1	The bank had a deteriorated capital position.	No	N/A	N/A
First Southern Bank (Batesville, Arkansas)	12/17/10	$22.8	The bank was insolvent and operating in an unsafe or unsound condition.	Yes (matter referred to State)		
Legacy Bank (Scottsdale, Arizona)	1/7/11	$27.9		*		
Oglethorpe Bank Brunswick, Georgia)	1/14/11	$80.4		*		
CommunitySouth Bank and Trust (Easley, South Carolina)	1/21/11	$46.3	The bank was insolvent.	No	N/A	N/A
Enterprise Banking Company (McDonough, Georgia)	1/21/11	$39.6	The bank was undercapitalized.	No	N/A	N/A
The Bank of Asheville (Asheville, North Carolina)	1/21/11	$56.2		*		
The First State Bank (Camargo, Oklahoma)	1/28/11	$20.1		*		
Evergreen State Bank (Stoughton, Wisconsin)	1/28/11	$22.8		*		
American Trust Bank (Roswell, Georgia)	2/4/11	$71.5	The bank was critically undercapitalized.	No	N/A	N/A
North Georgia Bank (Watkinsville, Georgia)	2/4/11	$35.2	The bank was unable to maintain minimum levels of capitalization.	No	N/A	N/A
Sunshine State Community Bank (Port Orange, Florida)	2/11/11	$30.0		*		
Peoples State Bank (Hamtramck, Michigan)	2/11/11	$87.4		*		
Badger State Bank (Cassville, Wisconsin)	2/11/11	$17.5		*		

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period October 1, 2010 through March 31, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

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						
Citizens Bank of Effingham (Springfield, Georgia)	2/18/11	$59.4		*		
Charter Oak Bank (Napa, California)	2/18/11	$21.8		*		
Habersham Bank (Clarkesville, Georgia)	2/18/11	$90.3		*		
Valley Community Bank (St. Charles, Illinois)	2/25/11	$22.8		*		

* Failure review 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 the 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.

  The letter recommended actions related to:

  - Completing a quality control review of individual engagements for overall compliance with professional standards, policies, and procedures.
  - Enhancing procedures for obtaining independence representations via e-mail.
  - Re-emphasizing existing requirements to obtain Statement of Non-Conflict of Interest certifications from staff.
  - Developing procedures to obtain Annual Independence Representation confirmation from new employees and reassigned staff.
  - Ensuring that the procedures for reviewing work papers prior to report issuance are followed.

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 reason assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We concurred with the recommendations and provided planned and completed corrective actions with which the Railroad Retirement Board OIG agreed. Action had been taken for four of the recommendations, as we reported in our previous semiannual report. Action to implement the fifth recommendation related to completing an overall quality control review of individual engagements was completed on February 23, 2011. The overall review was issued as an internal document entitled, *Quality Control Review of GAGAS Assignments*.

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

- The FDIC OIG has begun a peer review of the audit operations of the Smithsonian Institution OIG. We anticipate completing that assignment by September 30, 2011.

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.
- We have no additional investigative peer review activity to report for the current reporting period.

Congratulations and Farewell

Nancy Grinnell retired from the OIG's Office of Investigations after more than 30 years of federal service. Her career began in 1979 as an investigative aid at the Department of Health, Education, and Welfare OIG in Chicago and then progressed to service as a clerk typist at the Health Care Financing Administration in Chicago, where she advanced to the position of Program Analyst at the Department of Health, Education, and Welfare's successor organization, the Department of Health and Human Services OIG in Chicago in 1983. That same year, her career took a turn when she became a criminal investigator. By 1985 her Department of Health and Human Services duty station shifted to Dallas, Texas, where she continued to serve as a criminal investigator for 10 years. In 1995 Ms. Grinnell was part of a mass transfer to the Social Security Administration in Dallas, Texas, where she was promoted to a supervisory criminal investigator in 1998. In December 2002, she joined the FDIC OIG Office of Investigations in Dallas and led that office as the Special Agent in Charge. In 2007 she was reassigned to lead the OIG's Chicago Office of Investigations, a position she held with distinction right up to her retirement.

Ms. Grinnell holds the distinction of having supervised investigators in multiple offices at once—when in Dallas, she also guided the efforts of our agents in Kansas City, and later, when in Chicago, in addition to also overseeing the Kansas City Office, she helped establish the OIG's presence in the FDIC's temporary Schaumburg, IL site. Success at such undertakings is a testament to her talents and strong leadership skills.

She served as an outstanding representative of the OIG over the past years by developing and fostering constructive working relationships with FDIC regional management, U.S. Attorneys' Offices, and fellow law enforcement groups. Importantly, she did an excellent job coordinating with both the FDIC's Division of Supervision and Consumer Protection and its Division of Resolutions and Receiverships during our nation's very challenging time of financial and economic crisis.

Russell Rau, who served as the FDIC OIG Assistant Inspector General for Audits since May 2001, accepted a position as Deputy Inspector General for Audits with the Federal Housing Finance Agency OIG. Mr. Rau was an essential member of the FDIC OIG executive team, providing outstanding leadership to the audit staff and ensuring quality in all aspects of the OIG's audit operations for the past 10 years. The OIG hosted a reception for Mr. Rau to acknowledge his service to the FDIC and the OIG. He was presented with a plaque and a framed photograph commemorating the Chairman's ringing of the opening bell at the New York Stock Exchange on September 19, 2008 in honor of the FDIC's 75th anniversary. He was one of the lucky lottery winners at the FDIC who accompanied the Chairman and other FDIC Executives on that special occasion.

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 more information on audit and evaluation reports discussed in this Semiannual Report, visit our Web site: http://www.fdicig.gov