Office of Inspector General

Semiannual Report to the Congress

October 1, 2011 – March 31, 2012

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 7,975 individuals carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured about $6.97 trillion in deposits in 7,357 institutions, of which the FDIC supervised approximately 4,597. As a result of institution failures in the recent crisis, the balance of the Deposit Insurance Fund (DIF) turned negative during the third quarter of 2009 and hit a low of negative $20.9 billion by the end of that year. The FDIC subsequently adopted a Restoration Plan, and with various assessments imposed over the past few years, the DIF balance steadily increased to a positive $11.8 billion as of December 31, 2011. Receiverships under FDIC control as of March 31, 2012 totaled 447, with $21 billion of assets in liquidation.

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Inspector General's Statement

The Federal Deposit Insurance Corporation (FDIC) and the Office of Inspector General (OIG) continue to transition to a post-crisis period and work with counterparts in the other regulatory agencies to help sustain and build upon a sense of restored stability and confidence.

Of special note, for the first time since July 2011, the FDIC Board is operating with a full complement of Members, several of whom are new to the FDIC. Mr. Martin Gruenberg continues to serve as Acting Chairman of the Board. Mr. Tom Curry has assumed a new position as Comptroller of the Currency, but in that new capacity is still a Member of the FDIC Board. Mr. Richard Cordray, Director of the Consumer Financial Protection Bureau, assumed his role on the Board, and Messrs. Thomas Hoenig and Jeremiah Norton were recently sworn in as Members. Thus, a new group has assumed governance responsibilities at the FDIC, and the OIG looks forward to working with them in support of the successful accomplishment of the FDIC mission.

Given more stable economic conditions, the number of bank failures has decreased over the past months. This downward trend, along with a change in the material loss review threshold under the Dodd-Frank Act has substantially reduced the OIG's workload in the realm of statutorily mandated failed bank reviews and has allowed us to refocus resources on other areas of FDIC operations. Specifically, we have continued to examine some of the FDIC's risk-sharing arrangements for managing and disposing of receivership assets—namely, shared-loss agreements and structured asset sales, looking at compliance with the agreements and at the FDIC's monitoring of the agreements. Given that the FDIC's financial exposure in such agreements is in the billions of dollars, it is important to ensure the FDIC's interests are protected to the maximum extent possible. We reviewed other resolution and receivership matters during the reporting period as well, for example, with respect to private capital investors interested in acquiring or investing in failed institutions and the FDIC's acquisition and management of securities obtained through receivership activities. With available resources, we have also been able to conduct reviews of some of the FDIC's internal business processes, involving for example information security, contracting, and conference planning and spending. Results of our efforts in these areas over the past 6 months are presented in this report, and FDIC management officials have taken responsive actions to both the monetary and nonmonetary recommendations we made to them.

Significantly, our office has been impacted by H.R. 2056, legislation that was enacted on January 3, 2012, and that calls for the FDIC Inspector General to conduct a comprehensive study on the impact of the failure of insured depository institutions and submit a report, along with any recommendations, to the Congress not later than 1 year after the date of enactment. The scope of the study must include institutions regulated by the FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency. We are coordinating our work with the Department of the Treasury and FRB OIGs and have assignments underway to examine specific aspects of shared-loss agreements, risk management enforcement actions, appraisals, loan workouts, and private capital investments. Of additional importance, along with the Treasury, FRB, and National Credit Union Administration, we have been asked by the Chairman of the Senate Banking Committee to review examination timelines, consistency, and appeals processes. We have again been coordinating work with our fellow OIGs as we respond to the Committee's request. This Congressional work is and will continue to be resource-intensive, and our Office of Audits and Evaluations is playing a key role in carrying out the various assignments to support it.

Over the past 6-month period, our Office of Investigations has continued to partner with law enforcement colleagues in combating financial institution fraud throughout the country. We report on numerous investigative successes during the reporting period, some involving former senior officers and directors at our nation's banks and other professionals who have misused their positions of trust to perpetrate fraud. Other cases involve individuals across the country committing mortgage fraud by taking advantage of a distressed housing market, thus undermining the strength of the financial services industry and the economy.

In closing, our current workload truly reflects our dual responsibility to report independently to both the head of the agency and the Congress. I reaffirm our commitment to FDIC leadership and the Congress as we carry out the OIG mission. We appreciate corporate and Congressional support of our office and will continue to make every effort to conduct our work efficiently, effectively, economically, and with utmost integrity.

Jon T. Rymer
Inspector General
April 2012

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Abbreviations and Acronyms

ADC	acquisition, development, and construction
AI	acquiring institution
ASB	Atlantic Southern Bank
CBRE	CB Richard Ellis, Inc.
BDO	BDO USA, LLP
CCB	Colorado Capital Bank
CEO	Chief Executive Officer
CFI	Office of Complex Financial Institutions
CFO	Chief Financial Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CRE	commercial real estate
CSDO	collateral secured debt obligations
DIF	Deposit Insurance Fund
DOI	Department of the Interior
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRR	Division of Resolutions and Receiverships
ECU	Electronic Crimes Unit
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FIL	Financial Institution Letter
FISMA	Federal Information Security Management Act
FRB	Board of Governors of the Federal Reserve System
GPRA	Government Performance and Results Act of 1993
IG	Inspector General
IRS CID	Internal Revenue Service Criminal Investigation Division
IT	Information Technology
MDH	Metro Dream Homes
MLR	Material Loss Review
NIST	National Institute of Standards and Technology
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORE	owned real estate
OTS	Office of Thrift Supervision
P&A	purchase and assumption
P&I	principal and interest
PCA	Prompt Corrective Action
PCI	private capital investor
Plan	Joint Implementation Plan
RMS	Division of Risk Management Supervision
RTC	Resolution Trust Corporation
SAR	Suspicious Activity Report
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLA	Shared-Loss Agreement
SOP	Statement of Policy on Qualifications for Failed Bank Acquisitions
SPB	Security Pacific Bank
TBW	Taylor, Bean & 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, a portion of our work during the reporting period 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 audit and evaluation resources to conduct work in support of our fourth goal and have completed a number of assignments in those areas. We have devoted fewer resources to the goal area involving consumer protection but anticipate future work in that regard. We completed several reviews of 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. During the reporting period, we completed three reports on institutions whose failures resulted in material losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. We also completed failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the threshold of $200 million and determined whether unusual circumstances existed that would warrant an in-depth review in those cases.

Ongoing work in this goal area at the end of the reporting period included a number of assignments in response to H.R. 2056. H.R. 2056, as amended, requires that the FDIC Inspector General conduct a comprehensive study on the impact of the failure of insured depository institutions and submit a report, along with any recommendations, to the Congress not later than 1 year after the date of enactment (i.e., by January 3, 2013). Our work will include, among other items, reviewing aspects of the FDIC's shared-loss agreements, risk management enforcement actions, appraisals, loan work-outs, and private capital investments.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failure. For example, the former president and chief executive officer of Orion Bank, Naples, Florida, pleaded guilty to charges of conspiring to commit bank fraud, misapply bank funds, make false entries in the bank's books and records, and obstruct a bank examination. In another case, the leader of a large-scale identity theft ring and a co-conspirator pleaded guilty for their roles in a fraud enterprise that defrauded multiple credit card companies, banks, and lenders out of about $4 million. In connection with our previously reported case involving the failure of Colonial Bank and Taylor, Bean, & Whitaker (TBW), a private mortgage company, an eighth person, the former chief financial officer of TBW pleaded guilty to conspiracy to commit bank and wire fraud and making false statements for his role in a scheme contributing to the failures of Colonial Bank and TBW. In another case, an Arkansas attorney was sentenced to 121 months of incarceration and was ordered to pay $33.8 million in restitution for defrauding nine financial institutions of nearly $50 million.

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

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships, and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-22.)

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

We did not conduct specific assignments to address this goal area during the reporting period. However, our failed bank work fully supports this goal, as does the investigative work highlighted above in strategic goal 1. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses and losses to the Deposit Insurance Fund. (See pages 23-24.)

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

We did not devote audit or evaluation resources to specific consumer protection matters during the past 6-month period because for the most part, we continued to devote those resources to FDIC activities in the resolution and receivership realms and to material loss review-related work. Our Office of Investigations, however, supports this goal through its work. For example, during the reporting period, as a result of an investigation, a co-conspirator in a securities fraud scheme involving misrepresentation of FDIC insurance was sentenced to 54 months in prison and ordered to pay restitution of nearly $13 million. His co-conspirator pleaded guilty to money laundering. In a similar case, the former owner of two AmeriFirst companies was convicted in a fraud scheme that victimized more than 500 investors—many retired and living in Texas and Florida.

Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The OIG also continued to respond to a growing number of inquiries from the public, received both through our Hotline and through other channels. We addressed about 250 such inquiries during the past 6-month period. (See pages 25-28.)

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

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

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

From an investigative standpoint, our Electronic Crimes Unit continued its efforts to support investigative activities at bank closings. Additionally, the Electronic Crimes Unit is participating in a corporate project related to efficiently and effectively collecting and preserving electronic data at bank closings. (See pages 29-34.)

Strategic Goal 5

Resources Management: ***Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources***

In support of this goal area, we issued the results of our 2011 review under the Federal Information Security Management Act, making seven recommendations in the areas of plans of action and milestones, remote access management, identity and access management, and contractor systems. In a billing review of an FDIC contract for real estate management and marketing services, we questioned $398,227 and provided observations to enhance the economy, efficiency, and effectiveness of similar existing or future contracts. Management disallowed $42,015 but decided not to pursue projected questioned costs of $356,212. Our work on FDIC conference-related activities and expenses, conducted at the request of the Acting Chairman, identified opportunities to strengthen policies and reduce costs. The FDIC took immediate responsive action. In connection with the Dodd-Frank Act, we issued the results of a third coordinated review of the status of the implementation activities of the Joint Implementation Plan prepared by the FRB, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). We reported that FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Joint Implementation Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate.

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 35-40.)

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 permanently filled our Assistant Inspector General for Management position. We subsequently focused on a number of initiatives to monitor and track OIG spending, particularly costs involved in travel, and to explore options for a better system to capture investigative cases. We also provided our FY 2013 budget to cognizant Congressional committees. This budget reflects $34.6 million to support 130 full-time equivalents.

We conducted several internal quality assessment reviews to ensure quality work. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to supplement our efforts and provide additional subject-matter expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by supporting individuals in our office pursuing certified public accounting and other professional certifications. We also employed college interns on a part-time basis to assist us in our work. We supported an OIG staff member attending a graduate school of banking to further his expertise and knowledge of the complex issues in the banking industry and supported staff taking FDIC leadership training courses.

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

In the area of risk management, in connection with SAS 99 and the annual audit of the FDIC's financial statements, we provided comments on the risk of fraud at the FDIC to the U.S. Government Accountability Office. We provided the OIG's 2012 assurance statement to the Acting Chairman regarding our efforts to meet internal control requirements. We also participated regularly at meetings of the National Risk Committee to further monitor risks at the Corporation and tailor OIG work accordingly. We shared OIG perspectives with Corporation's Chief Risk Officer, who is charged with assisting the FDIC Board and senior management in identifying risks facing the Corporation and in setting the Corporation's risk management objectives and direction. In keeping with the Reports Consolidation Act of 2000, we provided our assessment of management and performance challenges facing the Corporation for inclusion in its annual report. (See pages 41-45.)

Significant Outcomes (October 2011 – March 2012)	
Audit and Evaluation Reports Issued	13
Questioned Costs	$27,267,051
Nonmonetary Recommendations	17
Investigations Opened	36
Investigations Closed	34
OIG Subpoenas Issued	6
Judicial Actions:	
Indictments/Informations	53
Convictions	46
Arrests	27
OIG Investigations Resulted in:	
Fines of	$275,300
Restitution of	$400,291,208
Asset Forfeitures of	$2,777,154
Total	**$403,343,662**
Cases Referred to the Department of Justice (U.S. Attorney)	23
Cases Referred to FDIC Management	1
Proposed Regulations and Legislation Reviewed	9
Proposed FDIC Policies Reviewed	6
Responses to Requests Under the Freedom of Information 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 4,600 FDIC-insured, state-chartered institutions that are not members of the FRB—generally referred to as "state non-member" institutions. Historically, the Department of the Treasury (the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS)) or the FRB have supervised other banks and thrifts, depending on the institution's charter. The winding down of the OTS under the Dodd-Frank Act resulted in the transfer of supervisory responsibility for about 60 state-chartered savings associations to the FDIC, all of which are considered small and that have been absorbed into the FDIC's existing supervisory program. About 670 federally chartered savings associations were transferred to the OCC. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 3,380 national banks, state-chartered banks that are members of the FRB, and those savings associations now regulated by the OCC.

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

The passage of the Dodd-Frank Act brought about significant organizational changes to the FDIC's supervision program. That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (CFI) and a Division of Depositor and Consumer Protection, and the Division of Supervision and Consumer Protection was renamed the Division of Risk Management Supervision (RMS). CFI continues to evolve 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 incurs a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded $25 million and 2 percent of the failed institution's total assets. With the passage of Dodd-Frank Act, the loss threshold was increased to $200 million through December 31, 2011. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the FRB perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal regulatory agency (including compliance with the Prompt Corrective Action (PCA) requirements of the FDI Act), and generally propose recommendations to prevent future failures. Importantly, under the Dodd-Frank Act, the OIG is now required to review all losses incurred by the DIF under the $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 of the loss. The OIG conducts and reports on material loss reviews (MLR) and in-depth reviews of failed FDIC-supervised institutions, as warranted, and continues to review all failures of FDIC-supervised institutions for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" as of December 31, 2011 was 813, indicating a probability of more failures to come and an additional asset disposition workload. Total assets of problem institutions were $319.4 billion. Importantly, however, the number of institutions on the Problem List continues to fall—and total assets of problem institutions do likewise.

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

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

When investigating instances of financial institution fraud, the OIG also defends the vitality of the FDIC's examination program by investigating associated allegations or instances of criminal obstruction of bank examinations and by working with U.S. Attorneys' Offices to bring these cases to justice.

The OIG's investigations of financial institution fraud currently constitute about 90 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in interagency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, 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 2012 performance goals** are as follows:

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

OIG Work in Support of Goal 1

The OIG issued three reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. These reports communicated the results of MLRs of three failed institutions regulated by the FDIC. We also completed failure reviews of additional failures to determine whether unusual circumstances existed to pursue an in-depth review. Appendix 2 in this report presents the results of the failure reviews that we conducted.

To provide readers a sense of the findings in our MLRs, we have summarized the results of one MLR conducted during the reporting period in this report, that of Colorado Capital Bank. We also briefly comment on the other two institution failures and corresponding reports issued, each of which is similar in nature to our results in the Colorado Capital Bank MLR. In each case, our objectives in conducting the reviews were to determine the causes of the institution's failure and the resulting material loss to the DIF and evaluate the FDIC's supervision of the institutions, including the FDIC's implementation of the PCA provisions of section 38 of the FDI Act. Our most recent MLRs continue to validate earlier-identified causes of failure and the nature and extent of the FDIC's supervisory activities.

From an investigative perspective, we also include case write-ups involving fraud in both open and closed institutions. As in the past, we also discuss a number of our mortgage-fraud related investigations. Importantly, our results would not be possible without the collaboration and assistance of our colleagues at the FDIC and our law enforcement partners throughout the country.

Material Loss Review of Colorado Capital Bank, Castle Rock, Colorado

On July 8, 2011, the Colorado Division of Banking closed Colorado Capital Bank (CCB), and the FDIC was appointed receiver. On August 17, 2011, the FDIC notified the OIG that CCB's total assets at closing were $681.8 million and that the estimated loss to the DIF was $283.8 million. The FDIC OIG engaged KPMG LLP to conduct an MLR of CCB.

By way of background, CCB was established in 1998 under the name of Bank West, which was a subsidiary of Bank West Holdings Inc., Castle Rock, Colorado. In August 2003, a newly formed holding company, BankVest Inc., took control of Bank West Holdings Inc. BankVest Inc. was the surviving entity and had a 100-percent ownership interest in the bank. On May 15, 2005, the bank changed its name to Colorado Capital Bank. The change in control resulted in significant changes to the composition of the bank's Board of Directors and senior management team. The change also resulted in a new business strategy focused on aggressive growth through commercial real estate (CRE) lending, especially acquisition, development, and construction (ADC) lending, in Colorado.

Causes of Failure and Material Loss: CCB failed primarily because its Board of Directors and management did not effectively manage the risks associated with the institution's aggressive loan growth and resulting heavy concentrations in CRE and ADC loans. Notably, the bank did not implement adequate concentration risk management controls, such as prudent ADC loan limits or portfolio-level stress testing. CCB also failed to maintain capital at levels that were commensurate with its risk profile, reducing the bank's ability to absorb losses in the event of a sustained downturn in the real estate market. CCB relied extensively on non-core funds, especially brokered deposits, Internet deposits, Federal Home Loan Bank advances, and capital injections from its parent holding company, to support its loan growth. Access to non-core funding became limited when the bank's financial condition deteriorated, straining the institution's liquidity position. Finally, lax lending practices, particularly when the institution's lending markets declined, contributed to CCB's problems. Specifically, the Board of Directors and management failed to promptly recognize deterioration in the bank's loan portfolio and took certain actions that further elevated CCB's risk profile.

During 2007, economic conditions in CCB's primary lending markets began to decline. By year-end 2009, the quality of CCB's loan portfolio had deteriorated significantly, with the majority of problems centered in ADC loans. Further deterioration occurred in 2010 and 2011. The associated provisions for loan losses depleted CCB's earnings, eroded its capital, and strained its liquidity. The Colorado Division of Banking closed CCB on July 8, 2011 because the institution was unable to raise sufficient capital to support its operations.

The FDIC's Supervision of CCB: The FDIC, in coordination with the Colorado Division of Banking, provided ongoing supervisory oversight of CCB through regular onsite examinations, visitations, and various offsite monitoring activities. Through its supervisory efforts, the FDIC identified risks in the bank's operations and brought these risks to the attention of the institution's Board of Directors and management through examination and visitation reports, correspondence, and supervisory actions. Such risks included concerns with Board of Directors and management oversight, the bank's heavy concentrations in CRE and ADC loans, less than satisfactory earnings, reliance on non-core funding sources, and weak loan underwriting and credit administration practices.

Like many institutions that failed in recent years, CCB developed a significant exposure to CRE and

ADC loans at a time when the bank's financial condition and lending markets were generally favorable. This exposure made the bank vulnerable to a sustained downturn in the real estate market. In retrospect, a more forward-looking supervisory approach to the risk profile and weak risk management practices identified by examiners during earlier examinations may have been warranted, considering CCB's significant exposure to CRE and ADC loans and their associated vulnerability to economic cycles, rapid loan growth supported by non-core funds, lack of concentration risk management practices, and capital levels in relation to its risk profile. Examiners made a number of suggestions and recommendations to address CCB's risk management practices during the 2004-2008 examinations. However, the actions taken by the Board of Directors and management to address the suggestions and recommendations were not adequate. In addition, the FDIC and the Colorado Division of Banking issued a Memorandum of Understanding in July 2009 and a Consent Order in September 2010. However, by that time, the institution's lending markets were rapidly deteriorating, making remedial efforts difficult.

The FDIC has taken a number of actions to enhance its supervision program based on the lessons learned from failures during the financial crisis. Such actions include instituting a training initiative for examiners on forward-looking supervision and issuing additional supervisory guidance on CRE and ADC concentrations and funds management practices.

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

In the written response to our report, the RMS Director reiterated the causes of failure and the supervisory activities described in the report. Further, RMS stated that it has recognized the threat that institutions with high-risk profiles, such as CCB, pose to the DIF and issued to FDIC-supervised institutions a 2008 Financial Institution Letter (FIL), entitled, *Managing Commercial Real Estate Concentrations in a Challenging Environment*. This FIL re-emphasized the importance of robust credit risk management practices for institutions with concentrated CRE exposures and set forth broad supervisory expectations. Additionally, RMS issued a 2009 FIL, entitled, *The Use of Volatile or Special Funding Sources by Financial Institutions That are in a Weakened Condition.* According to RMS, this FIL heightened its supervision of institutions with aggressive growth strategies or excessive reliance on volatile funding sources.

Similar Results in Two Additional MLRs

In our two other MLRs, we found similar circumstances with respect to the failures. **Atlantic Southern Bank**, Macon, Georgia, (ASB) had total assets of $726 million at the time of closing and caused an estimated loss to the DIF of $273.5 million. We determined that ASB failed primarily because its Board of Directors and management did not effectively manage the risks associated with the institution's aggressive growth and heavy concentration in CRE loans, particularly ADC loans. Notably, ASB did not maintain capital at levels that were commensurate with the increasing risk in its loan portfolio, reducing the institution's ability to absorb losses due to unforeseen circumstances. Lax oversight of the lending function also contributed to the asset quality problems that developed when economic conditions in ASB's lending markets deteriorated. Specifically, the bank exhibited weak ADC loan underwriting, credit administration, and related monitoring practices. Further, ASB relied on non-core funding sources, especially brokered deposits, to support its lending activities and maintain adequate liquidity. These funding sources became restricted when ASB's credit risk profile deteriorated, straining the institution's liquidity position.

ASB's heavy concentration in ADC loans, coupled with weak risk management practices, made the institution vulnerable to a sustained downturn in the real estate market. During 2007, conditions in ASB's primary lending areas began to decline, but notably, ASB's assets increased by $96 million (or 14 percent) during the first 6 months of 2008. By year-end 2008, the quality of ASB's loan portfolio had deteriorated significantly, with the majority of problems centered in ADC loans. Further deterioration occurred in 2009. The associated provisions for loan losses depleted ASB's earnings, eroded its capital, and strained its liquidity. The Georgia Department of Banking and Finance closed ASB on May 20, 2011 because the institution was unable to raise sufficient capital to support its operations.

As for the failure of **Bank of Choice**, Greeley, Colorado, its total assets at closing were $979.4 million and the estimated loss to the DIF was $213.6 million. Similar to the other MLRs, in this instance we found that BOC failed primarily because the Boards of Directors and management of BOC and its predecessor banks did not effectively manage the risks associated with heavy concentrations in CRE and ADC loans. Among other things, the Boards and management did not establish prudent CRE and ADC loan concentration limits or maintain capital at levels that were commensurate with the risk in the banks' loan portfolios. Again, lax lending practices also contributed to the asset quality problems that developed when economic conditions in BOC's lending markets deteriorated. BOC's risk profile was further elevated by its reliance on non-core funding sources, in this case brokered deposits, large time deposits, and Federal Home Loan Bank advances, which were used by BOC's predecessor banks to support loan growth and operations. These funding sources became restricted when BOC's financial condition deteriorated, straining the institution's liquidity position.

As noted above, during 2007, conditions in the Colorado real estate market began to decline. By year-end 2009, the quality of BOC's loan portfolio had deteriorated significantly, with the majority of problems centered in CRE and ADC loans. BOC was impacted by further deterioration that occurred in 2010. The associated provisions for loan losses depleted BOC's earnings, eroded its capital, and strained its liquidity. The Colorado Division of Banking closed BOC on July 22, 2011 because the institution was unable to raise sufficient capital to support its operations.

Successful OIG Investigations Uncover Financial Institution Fraud

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

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

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

Successful Bank Fraud Cases

Bank President Pleads Guilty and Others Are Sentenced for Their Roles in Orion Bank Fraud Scheme

On February 3, 2012, the former president and chief executive officer (CEO) of Orion Bank, Naples, FL, pleaded guilty to a three-count criminal Information in which he was charged with conspiring to commit bank fraud, misapply bank funds, make false entries in the bank's books and records, and obstruct a bank examination. The charges relate to his role in a scheme to make $82 million in loans to straw borrowers acting on behalf of an Orion Bank borrower who had reached the bank's legal lending limit. Additionally, the loans concealed $15 million in bank funds to be used for the borrower to purchase Orion stock in violation of banking laws and regulations. Orion Bank proceeded to fund the loan transactions even though the former president and CEO and two other bank officers (his co-conspirators) became aware prior to the loans closing that the borrower's entire loan relationship, which was already in excess of $40 million, was based on fraudulent financial documents.

According to the plea agreement, the individuals involved in this case conspired to mislead state and federal regulators to believe that Orion Bank was in a better capital position than it actually was. The conspiracy had two objectives: (1) to finance the sale of promissory notes secured by mortgages held by Orion Bank on distressed properties, thereby creating the illusion that non-performing loans were performing loans and (2) to conceal the financing for the sale of Orion Bancorp, Inc. stock to a borrower, thus creating the illusion of a legitimate capital infusion into the bank. The conspirators accomplished these objectives by falsifying the books and records of Orion Bank and deceiving state and federal regulators over a period of 7 months, from May 2009 until November 13, 2009. Based upon these transactions and other actions by the bank, the FRB issued a Cease and Desist Order to Orion Bank on September 18, 2009. The Florida Office of Financial Regulation closed Orion Bank on November 13, 2009, and appointed the FDIC as receiver.

By way of background, in 2009, Orion Bank was in danger of being declared "critically undercapitalized" by the bank's primary regulator, the FRB. The former president and CEO declared that the bank was in the process of raising $75 million in additional capital. After unsuccessful attempts to raise capital conventionally, he and his bank colleagues developed a plan to increase loans in process to two borrowers—one of whom was the primary borrower in this scheme—in order to provide financing to both individuals for the purchase of bank stock. The former president and CEO took this action despite knowing that banking laws and regulations prohibited such loans. He directed that $82 million dollars in additional loans be made to straw borrowers acting for the primary borrower. The former president and CEO directed that the bank continue with the loans to this borrower despite learning prior to closing the loans that this borrower's entire relationship with the bank was based on false financial documents. Based on agreements between the former bank president and CEO and two borrowers, a total of $25 million of Orion Bancorp, Inc. stock was purchased in violation of banking laws and regulations. Following the illegal stock transactions, the former president and CEO repeatedly lied to the bank's regulators regarding the source of the capital infusion. During the course of the scheme, the former president and CEO also sold in excess of $750,000 of his personal bank stock to other investors based on false pretenses.

Earlier in the reporting period, on October 25, 2011, the co-conspirators were sentenced for their participation in the fraud. The former executive vice president was sentenced to 2 1/2 years in prison. The former senior vice president was sentenced to 2 years in prison. The primary borrower was sentenced to 5 1/2 years in prison. The former bank officers were ordered to pay $33,512,618 in restitution to the FDIC. The court ordered the borrower to pay restitution to the FDIC in the amount of $65,214,491.

Responsible Agencies: *This is a joint investigation by the Federal Bureau of Investigation (FBI), the Internal Revenue Service Criminal Investigation Division (IRS CID), FRB OIG, Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and FDIC OIG. The case is being prosecuted by the U.S. Attorney's Office for the Middle District of Florida.*

Leader of Large-Scale Identity Theft Ring and Co-conspirator Plead Guilty for Roles in Fraud Enterprise

During the reporting period, the leader of a fraud ring engaging in identity theft and financial crimes that have led to charges against 54 individuals admitted to directing the large-scale, sophisticated criminal enterprise, and pleaded guilty to a five-count Information. The Information charges him with conspiracy to unlawfully produce identification documents and false identification documents, conspiracy to commit wire fraud affecting financial institutions and bank fraud, aggravated identity theft, money laundering, and conspiracy to defraud the Internal Revenue Service. A co-conspirator who fraudulently established credit scores for the enterprise's customers and fraudulently obtained hundreds of thousands of dollars in commercial loans for others also pleaded guilty to a three-count Information charging him with conspiracy to commit wire fraud affecting financial institutions. Victim institutions include Provident Bank, Citibank, and TD Bank.

The leader of the fraud ring ran a criminal enterprise headquartered in Bergen County, N.J., that obtained, brokered, and sold identity documents to customers for the purpose of committing credit card fraud, bank fraud, and tax fraud. As part of the scheme, the enterprise obtained social security cards beginning with the prefix "586." Social security cards with that prefix were issued by the United States to individuals, usually from China, who were employed in American territories, such as American Samoa, Guam, and Saipan. The head of the enterprise ran advertisements in local newspapers to attract customers interested in his illegal services, met with customers and other co-conspirators, and otherwise directed the activities of the criminal enterprise. He obtained and sold 586 social security cards to his customers, and members of his criminal enterprise escorted more than 100 customers to various states so they could fraudulently obtain identification cards and driver's licenses using the 586 social security cards and other fraudulent documents – such as counterfeit Chinese passports.

Subsequently, the enterprise engaged in the fraudulent "build up" of credit scores associated with these fraudulently obtained identities. It did so by adding these identities as authorized users to the credit card accounts of various co-conspirators who received a fee for this service – members of the enterprise's credit build-up teams. By attaching the identities to these existing credit card accounts, the teams increased the credit scores associated with the identities to between 700 and 800. The members of the build-up teams knew neither the real person to whom the identity belonged nor virtually any of the customers who had purchased the identities.

After building the credit associated with these identities, the ring-leader and his co-conspirators directed, coached, and assisted their customers to open bank accounts and obtain credit cards. He and his co-conspirators then used these accounts and credit cards to commit fraud. In particular, he relied on several collusive merchants who possessed credit card processing, or swipe, machines. For a fee, known as a "kkang fee," these collusive merchants charged the fraudulently obtained credit cards, although no transaction took place. After receiving the money into their merchant accounts from the credit card related to these fraudulent transactions, the collusive merchants gave the money to the ring-leader and his co-conspirators, minus their "kkang fee."

In total, the ring-leader defrauded various credit card companies, banks, and lenders out of approximately $4 million. He admitted to laundering portions of the money he obtained through the fraud by wiring the money to various accounts in South Korea. He and his co-conspirators also claimed more than $182,000 in tax refunds from the Internal Revenue Service through the filing of false and fictitious tax returns and accompanying documents.

A principal co-conspirator in the fraud ring admitted his role in three separate conspiracies, including that from 2001 through 2002, he conspired with others to fraudulently obtain hundreds of thousands of dollars in small business loans for unqualified borrowers. To obtain these commercial loans, he and other co-conspirators submitted false loan applications and supporting documents to a lender. The vast majority of these loans defaulted, resulting in significant losses to the lender.

He also admitted that between 2006 and January 2009, he conspired with others to obtain hundreds of thousands of dollars in personal business loans for unqualified borrowers. In furtherance of this conspiracy, he and a co-conspirator manufactured false tax returns and W-2 forms and submitted them with bogus loan applications to lenders. The vast majority of these loans defaulted, resulting in significant losses to the lenders.

Finally, he admitted that he conspired with the ring-leader and others by fraudulently building credit scores for the customers who were using 586 identities. He acknowledged that he received approximately $500 in cash for each identity he added to his accounts. In total, he and his co-conspirators caused in excess of $2.5 million in losses to banks, credit card companies, and other lenders.

Sentencing for both individuals was scheduled for April 23, 2012.

Source: *This investigation was initiated by the FBI and the FDIC OIG based on information from a cooperating witness in another OIG case.* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG, FBI, U.S. Immigration and Customs Enforcement, and Bergen County Prosecutor's Office. The case is being prosecuted by the U.S. Attorney's Office for the District of New Jersey.*

Former CFO Pleads Guilty in Colonial Bank/Taylor Bean & Whitaker Case

The former chief financial officer (CFO) of Taylor, Bean & Whitaker (TBW), a private mortgage lending company, pleaded guilty to a two-count criminal Information in which he was charged with conspiracy to commit bank and wire fraud and making false statements for his role in a fraud scheme that contributed to the failures of Colonial Bank and TBW. In August 2009, the Alabama State Banking Department, Colonial Bank's regulator, seized the bank and appointed the FDIC as receiver. Colonial BancGroup and

TBW also filed for bankruptcy in August 2009.

The former CFO admitted that from 2006 through August 2009, he and his co-conspirators engaged in a scheme to defraud Ocala Funding, a subsidiary of TBW; its investors; Colonial Bank; Ginnie Mae; and Freddie Mac. He admitted that he knowingly and intentionally misled investors and auditors about Ocala Funding's assets by issuing financial reports that overstated Ocala Funding's assets to mislead investors to invest in the facility or to dissuade them from pulling their investments out of the facility.

Specifically, the former CFO became aware of a significant shortfall in assets in Ocala Funding that grew from $150 million in 2006 to a deficit of over $700 million by June 2008. The former CFO knew that these collateral deficits were misrepresented in Ocala Funding's financial statements and, as a result, in TBW's financial statements as well. He knew that similar misrepresented financial reports were sent to Ocala Funding investors and other third parties, and made no efforts to object to, or correct, the outgoing reports. He and others also falsely explained to investors and regulators that there was no collateral shortfall.

In other schemes, the former CFO and others changed mortgage loan data in order to inflate the value of mortgage servicing rights that served as collateral for a working capital line at Colonial Bank. He also directed a co-conspirator to inflate a TBW receivable account to increase the assets TBW allegedly owned. He knew this information was provided to Colonial Bank and to Ginnie Mae and Freddie Mac for purposes of renewing TBW's authority to service and sell guaranteed securities. Finally, when TBW's independent auditor recommended TBW retain outside counsel to conduct an investigation, the former CFO edited a letter to Ginnie Mae attributing TBW's delay in submitting audited financial statements to other matters and failed to disclose the auditors' concerns and the hiring of outside counsel for investigation purposes.

The former CFO is the eighth person convicted as a result of this investigation. The former Chairman of TBW was convicted by a jury on April 19, 2011, and was sentenced to 30 years in prison. Six other individuals pleaded guilty and were sentenced for their roles in the fraud scheme, including: the former CEO of TBW; the former president of TBW; the former treasurer of TBW; the former senior vice president of Colonial Bank and head of its mortgage warehouse lending division; the former operations supervisor for Colonial Bank's mortgage warehouse lending division; and a former senior financial analyst at TBW. Prison sentences for these six individuals have ranged from 3 months to 8 years.

Source: *This investigation was initiated by SIGTARP.* ***Responsible Agencies:*** *The failure of Colonial Bank, Montgomery, Alabama was investigated by the FDIC OIG, FBI, SIGTARP, Department of Housing and Urban Development OIG, and was 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 of Hometown Bank of Villa Rica Sentenced in $2.5 Million Fraud Scheme

The former president of Hometown Bank, Villa Rica, Georgia, was sentenced in November 2011 to serve 6 years in federal prison to be followed by 5 years of supervised release, on charges of bank fraud. He was also ordered to pay restitution of $2,424,301 to SunTrust Bank, which acquired Hometown Bank in 2008. Another individual—a borrower at the bank—previously pleaded guilty to conspiring with the former president to defraud the bank.

The former president defrauded the bank by issuing multiple loans to the borrower and then misappropriating the funds from those loans, all without the knowledge or authorization of Hometown Bank's loan committee. As part of his scheme, the former president directed that the minutes of loan committee meetings be falsified to indicate that loans to the borrower had been approved, when, in fact, the committee had not approved, and was not even aware of, the loans. According to the borrower, he paid the former president over $130,000 in cash kickbacks for making the loans.

To perpetrate the scheme, the former president approved loans for the borrower's companies, acquired cash back from borrower, and also required the borrower to give false invoices for fraudulent draws on loans. The former president asked the borrower to provide him with $1 million in false invoices to place in the loan file prior to FDIC bank examiners reviewing the file. The borrower sent in the false invoices and the former president presented the documentation to the bank examiners as legitimate. He also subordinated a loan that was made to the borrower, causing an additional loss to Hometown Bank of over $2 million. The borrower received over $10 million in loans from Hometown Bank for which he gave not only cash kickbacks to the former president, but also provided free vacations, tickets to the Masters golf tournament, the down payment on a Porsche, and other lavish gifts.

Source: *The investigation was initiated based upon information received from FDIC RMS.* ***Responsible Agencies:*** *This case was conducted by the FDIC OIG and was prosecuted by the U.S. Attorney's Office for the Northern District of Georgia.*

Former Bank Officer Sentenced for $4.45 Million Bank Fraud

The former executive vice president of Jersey State Bank, Jerseyville, Illinois, was sentenced to serve 63 months in prison to be followed by 60 months of supervised release for embezzling approximately $4.45 million from the bank. She previously pleaded guilty and agreed to forfeit property and proceeds traceable to the scheme, including her residence, two condominiums in Missouri, a 38-foot boat, various other vehicles, and bank stock. The bank fraud took place from at least 2003 through January 2011.

The former executive vice president electronically transferred funds from the bank's corresponding accounts to her own accounts, inflated expenses to a prepaid expense account and then electronically transferred the funds to her account, took money from a certificate of deposit account, and concealed the money in the bank's general ledger. In order to perpetuate the scheme, she provided false information in the monthly reports to the Board. She also provided false information to FDIC examiners and to state bank examiners.

Source: *FDIC RMS.* ***Responsible Agencies:*** *This investigation was conducted by the FDIC OIG and the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Southern District of Illinois.*

Arkansas Attorney Sentenced for Bank Fraud

An attorney in Little Rock, Arkansas, was sentenced to 121 months of incarceration to be followed by 3 years of supervised release for bank fraud. He was also ordered to pay $33,826,326 in restitution. The attorney defrauded nine financial institutions out of nearly $50 million, and those institutions still had outstanding losses of over $39 million at the time of the attorney's sentencing in December 2011.

Until around October 2010, the attorney operated several businesses throughout the state in addition to running his law practice. He primarily concentrated on developing property owners' improvement districts and issuing special assessment bonds to fund these districts. These assessment bonds are also known as special improvement district bonds.

The attorney admitted that between December 31, 2008, and September 29, 2010, First Southern Bank, located in Batesville, Arkansas, purchased special improvement district bonds, totaling approximately $23 million, from him. Prior to the purchase of each bond, the attorney would provide the bank with offering documents describing the details of bonds. At his plea hearing, the attorney acknowledged that these bonds were fraudulent. Around August 2009, the attorney, through PA Alliance Trust, a trust he formed in February 2009, purchased a controlling interest, approximately 53 percent, in First Southern Bank. To facilitate this purchase, he borrowed approximately $4.6 million from First State Bank in Lonoke. He pledged the First Southern Stock as collateral for this loan. In or around September 2010, through his PA Alliance Trust, he purchased an additional $5.5 million in First Southern stock, which increased his ownership in the bank to 64.9 percent. To facilitate this purchase, he, in part, used funds from the sale of two fraudulent bonds to First Southern Bank.

Other victim banks in the fraud were Centennial Bank, Citizens, Liberty Bank, First Community, Allied, Simmons, Regions Bank, and Bank of Augusta.

Source: *This investigation was initiated based on a referral from FDIC RMS.* ***Responsible Agencies:*** *This is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Eastern District of Arkansas.*

Former Chairman of Security Pacific Bank and Former Controller of Intermediary Company Sentenced for Wire Fraud Scheme

On October 11 and 12, 2011, the former chairman of Security Pacific Bank (SPB) Los Angeles, California, and majority owner of Security Pacific Bancorp, and the former controller for Namco Financial Exchange Corp., were sentenced for their roles in a wire fraud scheme. The former chairman was sentenced to serve 84 months in prison to be followed by 3 years of supervised release. The former controller was sentenced to serve

21 months in prison to be followed by 3 years of supervised release. They were also ordered to pay $20,930,648 in restitution; the restitution order is joint and several. SPB failed on November 8, 2008.

Section 1031 of the Internal Revenue Code permits an owner of investment property to defer capital gains tax by purchasing a replacement property within a certain time frame. Investors can deposit proceeds from real estate sales into a qualified intermediary company and then, when a replacement property is identified, the investor retrieves the money from the intermediary and uses the money to purchase the replacement property.

The former chairman of SPB established Namco Financial Exchange Corp. to act as a qualified intermediary company and then he obtained about $25 million from various clients. The money was deposited into Namco Financial Exchange Corp.'s deposit accounts at SPB. The money was supposed to remain in those accounts until the investors needed it to purchase replacement properties. However, the two conspirators removed the money from SPB prior to SPB's failure and used it to prop up the former chairman's other businesses.

Source: *Division of Resolutions and Receiverships Resolution Report for the Chairman.* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG and FBI. The case was prosecuted by the U. S. Attorney's Office for the Central District of California.*

Two Convictions in $50 Million Bank Fraud Conspiracy Case

On February 28, 2012, following a 3-week trial, a jury found one individual guilty of one count of conspiracy to commit bank fraud, 11 counts of bank fraud, 6 counts of mail fraud, 2 counts of wire fraud, 4 counts of aggravated identity theft, one count of money laundering conspiracy, and one count of trafficking in false authentication features. In addition, a second individual was convicted of one count of conspiracy to commit bank fraud, four counts of bank fraud, and four counts of aggravated identity theft. Prior to trial, six other co-defendants pleaded guilty in connection with this conspiracy.

During the period of 2006 to March 2011, the two individuals and others devised and participated in a scheme to defraud banks and bank customers using stolen identities, stolen and fraudulently created bank accounts, counterfeit checks, and fraudulently acquired credit card accounts. They recruited numerous individuals to conduct fraudulent transactions and utilized bank employees to fraudulently access victims' account information in Minnesota, California, Massachusetts, Arizona, New York, and Texas. Through this scheme, they intended to defraud financial institutions of more than $50 million. Between March 2006 and December 17, 2010, one of them possessed, stored, and trafficked more than 8,700 stolen identification documents, means of identification, bank account numbers, and other information for the benefit of the network, with the intent being to commit fraud. From 2009 through January of 2010, as part of this conspiracy, the other obtained cash and purchased merchandise from banks as well as from various retailers in the Minneapolis area using fraudulent credit cards.

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

OIG Mortgage Fraud Cases

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

Metro Dream Homes CEO Sentenced to 150-Year Prison Term

On March 30, 2012, the former CEO of Metro Dream Homes (MDH) was sentenced to serve 150 years in prison to be followed by 3 years of supervised release for his role in a massive mortgage fraud scheme that promised to pay off homeowners' mortgages but eventually left the homeowners to fend for themselves. He was also ordered to pay restitution of $34.3 million. A total of six defendants have been convicted and sentenced for their roles in this scheme.

Beginning in 2005, the former CEO and his co-conspirators targeted homeowners and home purchasers to participate in a purported mortgage payment program called the "Dream Homes Program." To give investors the impression that the Dream Homes Program was very successful, MDH spent hundreds of thousands of dollars making presentations at luxury hotels such as the Washington Plaza Hotel in Washington, D.C., the Marriott Marquis Hotel in New York, NY, and the Regent Beverly Wilshire Hotel in Beverly Hills, CA. Participants were told at the presentations that in exchange for a minimum $50,000 investment and an "administrative fee" of up to $5,000, the conspirators would make the homeowners' future monthly mortgage payments, and pay off the homeowners' mortgage 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, flat-screen televisions that would show paid business advertisements, and electronic kiosks that sold goods and services. MDH encouraged homeowners to refinance existing mortgages on their homes in order to withdraw equity and generate the funds necessary to enroll their homes in the Dream Homes Program.

In reality, the automated teller machines, 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. Unbeknownst to the investors, their investments were being used for the personal enrichment of select MDH employees, including the defendants, to: pay salaries and mortgages; employ a staff of chauffeurs and maintain a fleet of luxury cars; and travel to and attend the 2007 National Basketball Association All-Star game and the 2007 National Football League Super Bowl, staying in luxury accommodations in both instances.

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

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

Sentencing in Mortgage Rescue Fraud Case

On March 8, 2012, a loan originator was sentenced to serve 41 months in prison to be followed by 3 years of supervised release for his role in a mortgage rescue fraud scheme. The scheme led to the issuance of over $4.7 million in fraudulent mortgage loans and caused homeowners to lose over $1.2 million in equity.

According to the loan originator's plea agreement and court documents, the loan originator conspired with another individual who operated a mortgage company from her home. The loan originator steered clients to her mortgage brokerage franchise. Beginning in 2005, the loan originator identified homeowners who were in financial distress because they were unable to make the mortgage loan payments on their homes and enticed the homeowners to participate in a foreclosure "rescue" plan. He told the homeowners that he would locate "investors" to purchase their homes and thereafter, the homeowners would pay rent to the "investors," who would pay the mortgage and receive a small percentage of the homeowners' equity. The remainder of the homeowners' equity would be transferred to him, and he would hold it in escrow. He further promised the homeowners that they could buy back their properties after 12 to 18 months, giving them time to "repair" their finances and credit while they continued to live in their homes.

He recruited family members and associates as "investors" to purchase the properties and paid them a small percentage of the seller's equity at the time of settlement. Prior to the sales of the homes, he created and recorded second deeds of trust or promissory notes that purported to show debts owed by the homeowners to him, and that were secured by the existing equity in their home. At the closing of the home sales, the title companies disbursed funds to the loan originator's bank account to pay off the liens he had created. He assured the homeowners and "investors" that he would assist them with their rent and mortgage payments by using the equity that he claimed he was holding in his "escrow account." In fact, both he and his co-conspirator knew that he was simply putting these funds into his personal checking account and using the funds for personal and business purposes, including the purchase of a personal residence with a cashier's check in the amount of $169,132.

The co-conspirators obtained new mortgage loans on the properties in the names of the "investors" with higher monthly mortgage payments, and usually higher interest rates than those the homeowners were currently paying. In the loan applications, the mortgage company operator falsely represented that the "investors" intended to live in the homes as their primary residence and inflated the incomes of the "investors." In some instances, she submitted fraudulent loan applications for the same "investors" to purchase multiple properties as their primary residence in a short period of time. The loan originator assisted the mortgage company owner by procuring false verification of employment letters.

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

Guilty Pleas Entered in Mortgage Fraud Case

The owner of a tax preparation firm and another businessman pleaded guilty to conspiracy to commit bank fraud for their roles in a mortgage fraud scheme. According to the plea agreement, the two produced more than 270 self-employment letters for borrowers who, in turn, used those letters to support mortgage loan applications. These borrowers were not self-employed, would not have qualified for the loans without the self-employment letters, and could not afford to make their mortgage payments. Actual losses to date exceed $9 million.

Responsible Agencies: *This is a joint investigation with the FBI and U.S. Immigration and Customs Enforcement, and is being prosecuted by the U.S. Attorney's Office for the Eastern District of Virginia.*

Los Angeles Man Sentenced in Mortgage Fraud Scheme

On January 18, 2012, the operator of a realty and investment company was sentenced to serve 24 months in prison to be followed by 36 months of supervised release and was ordered to pay restitution of $2,381,636. Earlier, he had pleaded guilty to providing a false statement to a financial institution and money laundering.

Between January 2005 and December 2007, the businessman provided fraudulent loan applications to Indymac Bank, National City Mortgage (a Division of National City Bank), and JP Morgan Chase to obtain mortgage loans in excess of $3.7 million. The loan applications were submitted by straw borrowers and contained false statements regarding employment, assets, and occupancy.

Source: *This case was initiated by the FDIC OIG.* ***Responsible Agencies:*** *This was a joint investigation by the FDIC OIG and the FBI. The case was prosecuted by the U.S. Attorney's Office for the Central District of California.*

Strong Partnerships with Law Enforcement Colleagues

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

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

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

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

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

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

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

Since the FDIC imposed these measures, the DIF balance has steadily improved. It increased throughout 2010 and stood at negative $1.0 billion as of March 31, 2011. The fund balance has risen eight quarters in a row for a cumulative increase of $32.7 billion from the negative $20.9 billion at the end of 2009 and as of year-end 2011, the DIF balance was a positive $11.8 billion. Under the Restoration Plan for the DIF, the FDIC has put in place assessment rates necessary to achieve a reserve ratio (the ratio of the fund balance to estimated insured deposits) of 1.35 percent by September 30, 2020, as the Dodd-Frank Act requires. FDIC analysis of the past two banking crises has shown that the DIF reserve ratio must be 2 percent or higher in advance of a banking crisis to avoid high deposit insurance assessment rates when banking institutions are strained and least able to pay. Consequently, the FDIC established a 2-percent reserve ratio target as a critical component of its long-term fund management strategy.

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

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, offsite 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, Division of Resolutions and Receiverships (DRR), and now CFI. The FDIC's new Chief Risk Officer also plays a key role in identifying risks. To help integrate the risk management process, the FDIC Board authorized the creation of an Enterprise Risk Committee, as a cross-divisional body to coordinate risk assessment and responses across the Corporation. Also, a Risk Analysis Center monitors emerging risks and recommends responses to the Corporation's 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 offsite 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 playing a key role in overseeing these activities.

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

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

OIG Work in Support of Goal 2

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

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

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

- **The Community Reinvestment Act** encourages federally insured banks to meet the credit needs of their entire community.
- **The Equal Credit Opportunity Act** prohibits creditor practices that discriminate based on race, color, religion, national origin, sex, marital status, or age.
- **The Home Mortgage Disclosure Act** was enacted to provide information to the public and federal regulators regarding how depository institutions are fulfilling their obligations towards community housing needs.
- **The Fair Housing Act** prohibits discrimination based on race, color, religion, national origin, sex, familial status, and handicap in residential real-estate-related transactions.
- **The Gramm-Leach Bliley Act** eliminated barriers preventing the affiliations of banks with securities firms and insurance companies and 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.

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

Historically, turmoil in the credit and mortgage markets has presented regulators, policymakers, and the financial services industry with serious challenges. The FDIC has been committed to working with the Congress and others to ensure that the banking system remains sound and that the broader financial system is positioned to meet the credit needs of the economy, especially the needs of creditworthy households that may experience distress. Another important priority is financial literacy. The FDIC has promoted expanded opportunities for the underserved banking population in the United States to enter and better understand the financial mainstream. Economic inclusion continues to be a priority for the FDIC.

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

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

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

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

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

OIG Work in Support of Goal 3

During the reporting period, we did not devote audit or evaluation resources directly to this goal area. However, our 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 the punishment of the perpetrator of a fraud scheme involving misrepresentation of FDIC affiliation. In another case, the owner of a securities firm was convicted for his role in defrauding retired investors.

Sentencing and Guilty Plea for Co-Conspirators in Securities Fraud Scheme Involving the Misrepresentation of FDIC Insurance

On February 24, 2012, a co-conspirator in a securities fraud scheme was sentenced to serve 54 months in prison to be followed by 36 months of supervised release. He was also ordered to pay restitution of $12,993,844. On March 27, 2012, one of his co-conspirators pleaded guilty to a superseding criminal Information charging him with one count of money laundering in connection with the scheme.

The two co-conspirators and one other individual offered and sold to investors collateral secured debt obligations (CSDOs) issued by W Financial Group. They received approximately $17.9 million from the sale of the so-called CSDOs to 175 investors. Advertisements for FDIC-insured certificates of deposit paying a high rate of interest—above the actual market rate—were placed in local newspapers, and when investors responded to the advertisements they were steered into the CSDOs. Investors were deceived into believing that the CSDOs were secure and fully insured by either the FDIC or Lloyds of London. The money obtained from the investors was diverted for personal use and the investors lost the majority of their investment.

Source: *This investigation was initiated based a request for assistance from the FBI and the U.S. Attorney's Office for the Northern District of Texas.* ***Responsible Agencies:*** *This is a joint investigation with the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Texas.*

Owner of AmeriFirst Companies Convicted in Fraud Scheme That Victimized Retired Investors

In December 2011, the owner and chief operating officer (COO) of the now-defunct Dallas-based AmeriFirst Funding Corp. and AmeriFirst Acceptance Corp. (AmeriFirst) was convicted on four counts of securities fraud and five counts of mail fraud related to his role in defrauding investors in connection with sales of securities. Both of his companies have been under control of a court-appointed receiver since the Securities and Exchange Commission brought an emergency action to halt the fraud in July 2007.

In connection with the same scheme, the former managing director of AmeriFirst was convicted on nine counts of securities fraud and is currently serving a 25-year federal prison sentence. The former owner and COO now faces a maximum statutory sentence of 20 years in prison for each securities fraud count and 20 years in prison for each mail fraud count. Each count carries a fine of up to $250,000. Sentencing was set for April 2012.

The two co-conspirators orchestrated offerings of promissory notes called secured debt obligations that raised more than $50 million from more than 500 investors living in Texas and Florida, many of whom were retired and all of whom were looking for safe and secure investments.

The former owner and COO paid the former managing director and brokers working under the managing director to sell the securities, but the former owner and COO also signed documents that went directly to investors. Through the brokers and through documents that he signed, the former owner and COO misled, deceived, and defrauded investors by misrepresenting, and by failing to disclose, material facts concerning the safety of the securities. Among other things, he falsely represented to investors that their investments were guaranteed by a commercial bank, that the investors' principal was secured by an interest in certain types of collateral, that insurance purchased by AmeriFirst companies insured the investors against loss of their money, and that the issuers of the secured debt obligations were acting as the investors' fiduciaries. However, none of these representations was true. Rather, the former owner and COO, acting as the investors' fiduciary, spent investors' money on purchases that investors did not approve or even know about, including an airplane, sports cars, a condominium, real estate for used car lots, and his own personal living expenses.

Another defendant charged in the scheme, a broker who sold secured debt obligations, pleaded guilty in October 2007 and is serving a 60-month federal prison sentence. He was also ordered to pay nearly $16 million in restitution.

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

Electronic Crimes Unit Responds to Email and Other Schemes

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

The ECU is also investigating an individual falsely representing himself to Bank of America that he is an FDIC employee. Specifically, an individual has repeatedly contacted Bank of America in an attempt to work out a past due mortgage about to go into foreclosure. The individual has sent numerous emails and facsimiles that falsely represent that he is with the FDIC. The ECU has determined the name used in the emails and facsimiles is false and continues to track down the individual making these false claims.

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

The OIG's inquiry intake system supplements the OIG Hotline function. The Hotline continues to address allegations of fraud, waste, abuse, and possible criminal misconduct. However, over the past year or so, our office has continued to receive a 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 250 such matters.

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

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

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

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

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

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

In addition to the activities associated with exercising this new resolution authority in the future, the Corporation is currently dealing with a challenging resolution and receivership workload. To date during the crisis, approximately 433 institutions have failed, with total assets at inception of $669.7 billion. Estimated losses resulting from the failures total approximately $89 billion. As of December 31, 2011, the number of institutions on the FDIC's "Problem List" was 813, indicating the potential of more failures to come and an increased asset disposition workload. As referenced earlier in this report, these problem institutions contain total assets of about $319.4 billion.

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, as of March 31, 2012, through purchase and assumption (P&A) agreements with acquiring institutions, the Corporation had entered into 285 shared-loss agreements (SLA) involving about $212.4 billion in assets at closing. 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 (AI) with regard to those assets, for a period of up to 10 years. In addition, as of March 31, 2012, the FDIC had entered into 32 structured asset sales involving 42,314 assets with a total unpaid principal balance at closing of about $25.5 billion. 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 about 447 receiverships holding about $21 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 increased its permanent resolution and receivership staffing and significantly increased its reliance on contractor and term employees to fulfill the critical resolution and receivership responsibilities associated with the ongoing FDIC interest in the assets of failed financial institutions. At the end of 2008, on-board resolution and receivership staff totaled 491, while on-board staffing as of November 30, 2011 was 1,858. As of year-end 2010, the dollar value of contracts awarded in the resolution and receivership functions accounted for approximately $2.4 billion of the total value of $2.6 billion. As of December 31, 2011, the dollar value of DRR-related contracts awarded for 2011 totalled $1.2 billion of a total $1.4 billion for all contracts.

The significant surge in failed-bank assets and associated contracting activities has required 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 with DRR on concealment of assets cases that may arise. In many instances, the FDIC debtors do not have the means to pay fines or restitution owed to the Corporation. However, some individuals do have the means to pay but hide their assets and/or lie about their ability to pay. The Office of Investigations works with both DRR and the Legal Division in aggressively pursuing criminal investigations of these individuals.

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

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

OIG Work in Support of Goal 4

During the reporting period, the OIG continued to carry out and plan varied assignments involving a range of 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. Several such assignments are summarized below. We also conducted work in the areas of private capital investment and examined the FDIC's acquisition and management of securities obtained through resolution and receivership activities. The results of our efforts in these areas are also presented below.

OIG Audit Work Focuses on Resolution and Receivership Challenges

The FDIC's Monitoring of SLAs

During the reporting period, we reviewed the FDIC's overall efforts to monitor and ensure compliance with the terms and conditions of the SLAs and summarized the findings and recommendations in the five OIG reports on SLA compliance that we had issued to date and associated actions that the FDIC has taken. We reported that as of September 30, 2011, the FDIC had entered into 269 SLAs with an initial covered asset base of $209.5 billion and paid claims totaling $14.6 billion. We initiated our evaluation to assess the FDIC's efforts to monitor the program and the controls the FDIC put in place to protect its interests.

The FDIC provides shared-loss coverage for single-family and commercial assets. Single-family SLAs typically cover a 10-year period. Commercial SLAs typically cover an 8-year period, with the first 5 years for losses and recoveries and the final 3 years for recoveries only. The AI is paid by the FDIC when it experiences certain loss events on the covered assets, as described in the SLAs. The FDIC introduced loss-sharing into selected P&A agreements in 1991 and since 2008, most P&A agreements have included a loss-sharing feature.

DRR is responsible for the FDIC's Risk Sharing Asset Management Program and provides primary oversight of the SLA program. As a means of evaluating and monitoring AI compliance with the SLAs, the FDIC also uses third-party contractors, referred to as Compliance Monitoring Contractors, to evaluate and monitor AI compliance and to complement DRR staff.

We found that the FDIC has a number of controls in place to monitor and ensure compliance with the terms and conditions of the SLAs. The suddenness and severity of the financial crisis and the large volume of failed bank assets challenged the FDIC to quickly establish and implement an SLA monitoring program. The FDIC had to promptly hire staff and contractors and develop procedures and systems to manage the growing program. The SLA program is continuing to mature, as evidenced by the finalization of policies and procedures, initiation of training programs, strengthened AI compliance monitoring efforts, and implementation of data resources to manage program data.

In any program of this size, there will be emerging issues and risks that require monitoring and attention. In that regard, our report contains five recommendations that are intended to strengthen the SLA program. These relate to the timeliness of contractor task orders; the efficiency of evaluating contractor performance; the consistency of AI monitoring efforts; and the sufficiency of guidance for pursuing and reporting recoveries and monitoring non-compliant AIs. The FDIC concurred with our recommendations and is taking responsive action.

We reported that with respect to the OIG's five previously issued SLA reports, the FDIC had implemented corrective actions to address 79 of the 85 recommendations made in those reports and planned to implement corrective actions to address the remaining recommendations by March 2012. These reports questioned $67.4 million in SLA claims paid by the FDIC, and the FDIC had recovered $32.4 million of these claims as of September 30, 2011. DRR determined that $6.2 million of the questioned costs were allowable and therefore did not pursue recoveries on those amounts. DRR continued to work with the AIs to resolve the outstanding questioned costs and expected to resolve these issues by March 2012.

Other SLA Compliance Reviews

We continued to report on the compliance of specific AIs with their SLAs with the FDIC and the FDIC's oversight of the SLAs. During the reporting period, we issued an additional two such reports. The first covered the FDIC's commercial loan SLA with Banco Popular, and the second the Corporation's SLAs with BankUnited.

Banco Popular

On April 30, 2010, the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico closed Westernbank Puerto Rico, Mayaguez, Puerto Rico (Westernbank), and appointed the FDIC as receiver. To protect depositors, the FDIC entered into a P&A agreement with Banco Popular de Puerto Rico, San Juan, Puerto Rico (Banco Popular). The FDIC also entered into SLAs with Banco Popular covering $8.77 billion in assets from Westernbank.

The FDIC's P&A agreement with Banco Popular covering Banco Popular's acquisition of Westernbank included two SLAs - one for commercial assets and one for single-family asset portfolios. Banco Popular acquired 43,873 commercial assets totaling $7.8 billion. Under the SLA, the FDIC pays Banco Popular 80 percent of the incurred losses, as reported on the loss claim certificates, in accordance with the SLA. As of June 30, 2011, Banco Popular had submitted three commercial shared loss certificates totaling $699 million.

Overall, we found that Banco Popular had acted proactively to facilitate compliance with the SLA and cooperated with the FDIC in managing its commercial shared-loss portfolio. Nonetheless, we questioned claims related to: accrued interest on non-accrual loans, estimated costs in charge-off calculations, recoveries on charged-off loans, unsupported reimbursable expenses, and unsupported loss claims.

We made five recommendations for the FDIC to disallow the questioned claims. Banco Popular officials agreed with our findings and the bank is continuing to work to identify supporting documentation regarding unsupported expenses and loss claims. We identified $16.6 million as questioned costs (of which $6.7 million were unsupported costs).

With respect to the FDIC's oversight of the Banco Popular SLA, DRR has established an approach that involves three primary components: ongoing communication between the bank and DRR specialists assigned to monitor and facilitate the bank's compliance; a validation, review, and approval process for shared-loss certificates filed by Banco Popular; and on-site reviews conducted by DRR contractors to evaluate the bank's overall SLA compliance.

DRR has also taken program-wide steps that facilitate its oversight of the Banco Popular SLA, including: establishing procedures for oversight of SLAs; conducting information-sharing sessions with AIs, oversight staff, and contractors; and establishing a database for tracking AIs' compliance with SLAs.

FDIC management agreed with our five recommendations and is taking responsive action.

BankUnited

On May 21, 2009, the former OTS closed BankUnited, FSB, Coral Gables, Florida, and appointed the FDIC as receiver. To protect depositors, the FDIC entered into a P&A agreement with BankUnited, Miami Lakes, Florida (BankUnited). The FDIC also entered into SLAs with BankUnited covering more than $11 billion of the acquired assets. We contracted with BDO USA, LLP (BDO) to assess BankUnited's compliance with the terms of its SLAs with the FDIC related to BankUnited, FSB assets.

The two SLAs with BankUnited involved 46,526 commercial and other loan assets and single-family assets, consisting of loans, other real estate owned, and securities totaling approximately $11.7 billion. In the BankUnited SLAs, the FDIC reimburses 80 percent of losses claimed up to a threshold of a cumulative loss of $4 billion and 95 percent of losses above $4 billion. As of June 30, 2011, BankUnited had claimed slightly over $2 billion in losses on assets covered by the SLAs. The FDIC made payments to BankUnited of $1.6 billion (the FDIC's 80-percent share of the $2 billion in losses claimed).

BDO concluded that, overall, BankUnited was in compliance with the terms of the SLAs. It was apparent to BDO that BankUnited had dedicated substantial resources to ensure compliance with the SLAs. For example, BankUnited had developed policies and procedures to ensure compliance, loan files were well organized, and employees were knowledgeable about the agreements. Nonetheless, BDO observed that for early certificates, there was a weakness in the controls over the review process for single-family asset charge-offs. BDO identified one charge-off that was overstated by $501,272 (questioned costs of $401,017, 80 percent of the overstatement).

BDO also noted that the SLAs and DRR guidance did not specifically address how accrued interest on negatively amortizing loans should be calculated or reflected in the loss claim and that DRR did not have specific guidance regarding the capitalization of accrued interest to the unpaid principal balance for negatively amortizing loans. As a result, BankUnited may have overstated accrued interest by approximately $812 (questioned costs of $650, 80 percent of the overstatement) and losses claimed by $41,076 (questioned costs of $32,861, 80 percent of the overstatement).

The report also included an observation related to BankUnited's compliance with a loan sale addendum to the SLA and encouraged the FDIC to monitor BankUnited's asset liquidation efforts to ensure the bank's goals and investment objectives agreed with FDIC SLA program expectations. In total, BDO identified $434,528 in questioned costs.

FDIC management concurred with BDO's findings and recommendations. We also provided BankUnited with a copy of the draft report for its review. In a letter to our office responding to the report, BankUnited agreed with two recommendations. As for the third, regarding negatively amortizing loans, BankUnited considered its methodology to be appropriate and noted that the application of payments on such loans is a complicated matter and entails certain legal implications.

The FDIC's Qualification Process for Private Capital Investors Interested in Acquiring or Investing in Failed Insured Depository Institutions

We contracted with BDO to conduct an audit of the FDIC's process for qualifying a private capital investor (PCI) to bid on failed insured depository institutions. The audit did not include a determination regarding the appropriateness of the FDIC's decisions to grant or deny approval for PCIs to bid on failed insured depository institutions.

By way of background, the FDIC's Final Statement of Policy on Qualifications for Failed Bank Acquisitions (SOP) provides guidance to PCIs interested in acquiring or investing in failed insured depository institutions, including terms and conditions that PCIs are expected to satisfy to obtain bidding eligibility for a proposed acquisition structure. Further, the FDIC has statutory responsibility under the Federal Deposit Insurance Act for acting on applications for federal deposit insurance by all depository institutions, including institutions established and used by PCIs for failed bank acquisitions. In situations where PCIs are investing capital in an existing institution for the purpose of such acquisitions, the FDIC's RMS and Legal Division, in conjunction with the appropriate federal banking agency, review the PCI application to ensure that what is being proposed is consistent with applicable laws, regulations, and policies.

The audit found that the FDIC had established processes and controls that evolved after the issuance of the SOP and that continued to improve during the audit. The FDIC was able to demonstrate that the necessary internal approvals were obtained for private capital investor institutions that were qualified to bid on failed insured depository institutions, and staff involved in the process maintained voluminous documentation in connection with the applications that BDO reviewed. However, the evidence for the approvals and the extent and organization of the supporting documentation varied among the applications BDO reviewed. We reported that the FDIC may benefit from re-evaluating its approach for documenting its application approval process to mitigate the risks associated with staff departures and changes, to ensure consistency in its process, and to more efficiently supply supporting information to support decisions reached when asked to do so.

The report contained a recommendation for RMS and the Legal Division to review the manner in which approvals and analyses pertaining to private capital investor applications are documented and maintained and determine whether current procedures and practices in this area are adequate given the risks involved. FDIC management agreed with the recommendation and also committed to conducting a formal review of the SOP's impact and briefing the FDIC Board on the results.

The FDIC's Acquisition and Management of Securities Obtained Through Resolution and Receivership Activities

We contracted with BDO to conduct an audit of the FDIC's acquisition and management of securities obtained through resolution and receivership activities. The audit covered the securities that were acquired through the resolution and receivership activities of the failed banks that were closed and placed into FDIC receivership from October 1, 2010 through March 31, 2011. The audit did not include securities covered by SLAs.

By way of context, DRR has primary responsibility for managing receivership assets, including securities. Securities may be a substantial portion of failed institutions' assets and may include debt instruments; common and preferred equity, including equity in the institution resolved; equity in subsidiaries owned by the resolved institution; and limited partnerships.

The value of securities retained by the FDIC in its receivership capacity was $12.8 and $12.4 billion on December 31, 2010 and May 31, 2011, respectively.

For the year ended December 31, 2010, principal collections totaled $11.3 billion, and sales of securities in liquidation totaled $9.1 billion. For the period January 1, 2011 through May 31, 2011, principal collections totaled $1.7 billion, and sales of securities totaled $691 million.

BDO concluded that, for the most part, the FDIC had established adequate draft procedures, processes, and controls for the FDIC's acquisition and management of securities from failed financial institutions. However, BDO concluded that the FDIC had not finalized, approved, and issued its draft Capital Markets Policies and Procedures Manual and that the manual did not include key processes and controls for monitoring principal and interest (P&I) and timing guidelines for the transfer of securities to the FDIC custodian. Additionally, the P&I payments associated with securities were not always received and properly recorded. As part of the audit, BDO requested information and support regarding the monitoring and collection of P&I distributions owed to the FDIC for a sample of securities. In responding to this request, the FDIC identified approximately $9.8 million of P&I distributions associated with 24 securities that were not properly identified, monitored, or collected during the period October 1, 2010 through March 31, 2011.

Accordingly, the report identified $9.8 million in questioned costs. During the audit, the FDIC began a Securities Payment Recapture and Reconciliation Project to identify and collect distributions owed to the FDIC for securities acquired as a result of all bank failures through June 30, 2011. As of September 1, 2011, the project team had identified $44.4 million in payments due to the FDIC from acquirers of failed institutions.

The report included four recommendations intended to enhance the Capital Markets Policies and Procedures Manual and improve controls over the FDIC's acquisition and management of securities. FDIC management concurred with the four recommendations and described planned corrective actions that were responsive to each recommendation.

Electronic Crimes Unit Supports Closed Bank Investigations

The ECU continued to support the OIG's Office of Investigations by providing computer forensic assistance in ongoing fraud investigations. During the reporting period, an ECU agent attended a bank closing where fraud was suspected. The ECU agent coordinated with the case agent and information technology personnel at the closing to ensure collection of all relevant electronic evidence. The ECU is currently processing the collected electronic evidence for information to assist in the investigation.

In another case, the ECU received over 20 pieces of electronic evidence, totaling over 9 terabytes. The electronic evidence was previously obtained during a search warrant but the agency that collected the evidence was unable to process it. An ECU agent processed the evidence and provided the case agents and prosecutor with a report containing information to assist the investigation.

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

Strategic Goal 5:

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

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

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

The Corporation's contracting level also grew significantly, especially with respect to resolution and receivership work. Contract awards in DRR totaled $2.4 billion during 2010 and as of December 2011 totaled $1.2 billion for 2011. To support the increases in FDIC staff and contractor resources, the Board of Directors approved a $4.0 billion Corporate Operating Budget for 2011, down slightly from the 2010 budget the Board approved in December 2009. For 2012, the approved budget was further reduced to $3.28 billion. The FDIC's operating expenses are paid from the DIF, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious.

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

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

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

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. In 2011, the Chairman announced creation of a new Office of Corporate Risk Management to be led by a Chief Risk Officer. In mid-August 2011, that position was filled and the first Chief Risk Officer at the FDIC came on board. The Board also authorized creation of an Enterprise Risk Committee, as a cross-divisional body to coordinate risk assessment and response across the Corporation. The addition of these risk management functions should serve the best interests of the Corporation.

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

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

OIG Work in Support of Goal 5

During the reporting period, we completed several assignments in support of this goal area. We completed our annual audit in accordance with the Federal Information Security Management Act. In connection with the FDIC's increased contracting activity, we also conducted a billing review of the National Owned Real Estate Management and Marketing contract with CB Richard Ellis, Inc. In response to a request from the Acting Chairman, we reviewed the FDIC's policies and controls associated with conference-related activities and expenses. Finally, we joined the Treasury and FRB OIGs in our third review related to the transfer of OTS personnel and functions to the

OCC, FRB, and FDIC, pursuant to the Dodd-Frank Act. These reviews are summarized below.

Independent Evaluation of the FDIC's Information Security Program—2011

The Federal Information Security Management Act of 2002 (FISMA) requires federal agencies, including the FDIC, to perform annual independent evaluations of their information security programs and practices and to report the evaluation results to the Office of Management and Budget (OMB). FISMA states that the independent evaluations are to be performed by the agency Inspector General, or an independent external auditor as determined by the Inspector General. Our 2011 audit evaluated 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.

Key to achieving the FDIC's mission of maintaining stability and public confidence in the nation's financial system is safeguarding the sensitive information that the Corporation collects and manages. Ensuring the confidentiality, integrity, and availability of this information in an environment of increasingly sophisticated security threats requires a strong, corporate-wide information security program.

We evaluated the effectiveness of the FDIC's information security program and practices by designing audit procedures to assess consistency between the FDIC's security controls and FISMA requirements, OMB policy and guidelines, and applicable National Institute of Standards and Technology (NIST) standards and guidelines. In addition, we engaged KPMG LLP to provide audit assistance in certain security control areas.

We concluded that, for the most part, the FDIC had established and maintained information security program controls that were generally consistent with FISMA requirements, OMB policy and guidelines, and applicable NIST standards and guidelines for the security control areas that we evaluated. Of particular note, the FDIC had established security policies and procedures in almost all of the security control areas evaluated. In addition, the FDIC continued its prior-year efforts to implement current and emerging security standards and guidelines published by NIST, such as updating its security plan template to reflect new NIST guidelines. The FDIC had also implemented various security control improvements following our prior-year security evaluation. Most notably, the FDIC made meaningful progress in developing an agency-wide continuous monitoring program to evaluate the security of its information systems and hired additional information security managers to support and administer security over its general support systems and major applications.

Notwithstanding the above achievements, we pointed out that priority management attention continues to be warranted in some security control areas, particularly continuous monitoring management. Specifically, significant work remained before the FDIC's agency-wide continuous monitoring program was fully implemented. In addition, we reported that risk in the area of contractor systems remained elevated as a result of the FDIC's continued heavy reliance on contractors to support its bank resolution and receivership activities. While the FDIC had developed a formal methodology for assessing risks associated with its contractor systems, work remained to fully apply this methodology to all of the FDIC's outsourced information service providers. Maintaining vigilance in these and other areas of the FDIC information security program will continue to be important given other corporate priorities associated with the current banking environment.

Our report included seven recommendations intended to improve the effectiveness of the FDIC's information security program controls in the areas of plans of action and milestones, remote access management, identity and access management, and contractor systems. In many cases, the FDIC was already working to strengthen security controls in these areas during our audit. Our report did not include recommendations in the area of continuous monitoring management as the FDIC was working to fully implement a multi-year effort to address a related recommendation in our prior-year security evaluation report required by FISMA.

The FDIC's Chief Information Officer concurred with all seven of the report's recommendations and described planned corrective actions that were responsive.

The National Owned Real Estate Management and Marketing Services Contract with CB Richard Ellis, Inc.

The FDIC's DRR sought contractor services to assist in the acquisition, management, research and preparations for marketing, and ultimate sale of owned real estate (ORE) property that the FDIC acquires as receiver of failed financial institutions. In November 2008, the FDIC executed such a contract with CB Richard Ellis, Inc., (CBRE). The initial term of the ORE Receivership Basic Ordering Agreement was 3 years with three options, each to extend the contract for 2 years. CBRE and the FDIC agreed in August 2011 to terminate the ORE Receivership Basic Ordering Agreement. The FDIC's plan to transition ORE assets to other receivership basic ordering agreement contractors was completed at the end of December 2011.

FDIC management requested and we completed an audit to determine whether costs that CBRE billed the FDIC under the contract were supported adequately, consistent with the terms and conditions of the contract, allowable, and reasonable. We determined that the FDIC paid CBRE $108,319,278 (not including funding advances, which we excluded from our testing) for contract services and pass-through asset-level expense reimbursements from contract inception through July 31, 2011.

Based on a review of a statistically valid sample of invoice line items, we determined that a preponderance of CBRE's claims paid by the FDIC from contract inception through July 31, 2011 were adequately supported, consistent with the terms and conditions of the contract, allowable, and reasonable. Of $4,094,787 tested from 1,623 sampled claims, we found $42,015 (1.03 percent of amounts tested) in 129 claims (7.95 percent of the number of claims tested) that were not consistent with the contract terms in the four types of invoices that we reviewed.

Based on our testing of a statistically valid sample of items that CBRE claimed and the FDIC paid in that period, we calculated an unbiased projection of questioned costs to be $742,558 (0.69 percent of the sample universe). In addition, we estimated that there is a 90-percent probability that the actual amount of CBRE claims that should be questioned would not be less than $398,227, and that the actual amount of costs not adequately supported would not be less than $57,226. These projections reflected certain instances in which CBRE could have but did not make allowable claims.

In addition, our report included a number of observations that identified opportunities to enhance the economy, efficiency and effectiveness of similar existing or future FDIC contracts.

FDIC management responded to a draft of this report, concurring with the two recommendations to disallow $42,015 in questioned costs. Regarding the third recommendation, management acknowledged that the $356,212 in projected questioned costs may be statistically valid, but decided not to pursue collection of projected questioned costs based on the low error rate in the sample and the probability that collection costs would exceed recoveries.

Conference Expenses Report Identifies Opportunities for Strengthening Policies and Reducing Costs

The FDIC sponsors divisional and office-wide conferences for FDIC employees, and periodically other agency participants, to provide information about emerging issues, divisional priorities and initiatives, group training, and networking opportunities. In September 2011, OMB instructed agencies and departments to review policies and controls associated with conference-related activities and expenses (OMB memorandum M-11-35). While the FDIC is not required to follow the OMB guidance, the Acting Chairman requested that we review the FDIC's policies and controls associated with conference-related activities and expenses to assist the Corporation in complying with the spirit of the instructions.

We conducted an evaluation to assess the FDIC's policies and controls associated with conference-related activities and expenses. We generally focused our assignment on conferences that were conducted from October 1, 2010 through September 30, 2011. At our request, the FDIC provided us with documentation indicating that, during that timeframe, the Corporation incurred about $3.9 million in conference-related costs for 6,005 attendees.

We selected for review a sample of eight conferences, which accounted for substantially all of the conference-related costs the Corporation incurred during that period. We interviewed conference planners and assessed conference costs and supporting documentation against the FDIC's conference policy. We also reviewed conference-related regulations applicable to other government agencies, and obtained conference policies and interviewed representatives from several other agencies to identify other agency practices.

Most government agencies are required to follow the Federal Travel Regulation promulgated by the General Services Administration and other regulations. The Federal Travel Regulation details agency responsibilities for conference planning, allowable per diem rates, and expectations for minimizing conference costs. As an independent agency, the FDIC is not required to follow conference spending criteria applicable to most other government agencies. Instead, as have other independent agencies we contacted during our review, the FDIC established its own internal policies for planning and conducting conferences.

We reported that the FDIC generally complied with its conference policies. Based on our review of eight conferences, FDIC conference planning officials prepared required budgeting and approval documents, ensured that conferences were approved at the appropriate management level, and obtained multiple bids from hotels/conference centers and considered travel costs and other factors required by policy when making best-value determinations for conference sites.

We did identify two compliance exceptions. That is, meals expenses for a dinner and a reception exceeded FDIC policy limits—200 percent of General Services Administration per diem rates—and were not justified or approved as required. The total amount of cost above the FDIC policy limit was $5,801. Second, the FDIC held a dinner/reception for 800 FDIC employees and spouses for which a substantial amount of the expenses related to food and beverages was allowable under FDIC policy, while the remainder—estimated by management to be about $5,200—constituted entertainment expense and was not allowable.

We also concluded that opportunities exist to strengthen conference-related policy and controls and to reduce conference expenses. We pointed out that doing so would be consistent with the spirit of the aforementioned OMB memorandum, Federal Travel Regulation provisions and other regulations, and a recent Executive Order aimed at reducing conference and other agency expenses. These areas included: strengthening the conference approval process; centralizing conference planning and requiring the involvement of the FDIC's Special Services Unit for conferences exceeding a certain dollar threshold; exploring ways to make greater use of FDIC facilities to host conferences when the use of such facilities is cost effective; strengthening controls over meals expenses; reiterating and clarifying corporate policy related to entertainment expenses; reviewing corporate policy related to external speakers; and ensuring that all conference-related expenses are captured in the conference closeout and evaluation process.

In connection with our review, the FDIC revised and reissued FDIC Circular 1010.2, *Conference, Meeting, and Symposium Planning Policies, Procedures, and Approval Requirements for Using FDIC Funds for These Activities,* effective March 22, 2012. We reviewed the revised policy and concluded that it adequately addressed each of the opportunities for improvement that we cited. FDIC management's response to our report indicated that in addition to addressing our opportunities for improvement, the Corporation made other revisions to the conference policy based on its own evaluation of other agencies' best practices and benchmarks. As with the revised policy, the Corporation's written response adequately addressed the issues raised in our report.

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

During the reporting period, we issued the results of our offices' third joint review related to the transfer, pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), of the functions, employees, funds, and property of the OTS to the FRB, the FDIC, and the OCC. In accordance with Title III, the transfer occurred in July 2011.

Our joint reviews are mandated by Section 327 of Title III. Our first joint review was done to determine whether the Joint Implementation Plan (Plan) for the transfer prepared by FRB, FDIC, OCC, and OTS conformed to relevant Title III provisions. Based on that review, we concluded that the Plan generally conformed to the relevant provisions of Title III. We noted, however, that the Plan did not address the prohibition in Title III against the involuntary separation or the involuntary reassignment of a transferred OTS employee outside the employee's locality pay area for 30 months (except under certain circumstances). In response to that recommendation, the agencies amended the Plan in April 2011.

After the initial joint review of the Plan, Section 327 requires that every 6 months we jointly provide a written report on the status of the implementation of the Plan to FRB, FDIC, and OCC, with a copy to the Congress. We issued a report under this requirement on September 28, 2011. In that report, we concluded that FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate. However, we also reported that certain aspects of the Plan were on-going or were not yet required to be completed as provided in Title III.

During the reporting period we issued the next in our series of reports on the status of the implementation of the Plan. In brief, we concluded that since our September 2011 review, FRB, FDIC, OCC, and OTS had continued to implement the actions in the Plan that were necessary to transfer OTS functions, employees, and funds to FRB, FDIC, and OCC. We also concluded that all OTS property was transferred to FRB, FDIC, and OCC; and procedures and safeguards are in place as outlined in the Plan to ensure transferred employees are not unfairly disadvantaged. We again noted that there are certain other activities that are ongoing or are not yet required to be completed as provided in Title III. In accordance with section 327, we will continue to monitor the implementation of the Plan until all aspects have been implemented.

OIG Reports on the FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2011

During the reporting period, we issued a report in which we verified that the FDIC's summary general ledger information agreed with summary information entered into the governmentwide financial report system (GFRS) for the fiscal year ended September 30, 2011. As part of our work, we verified that the FDIC's data submissions in GFRS for the year ended December 31, 2010 agreed with the Corporation's audited financial statements. In that regard, the GAO expressed an unqualified opinion on the financial statements of the Deposit Insurance Fund and the Federal Savings and Loan Insurance Corporation Resolution Fund in its March 2011 report, entitled *Financial Audit: Federal Deposit Insurance Corporation's Funds 2010 and 2009 Financial Statements* (Report No. GAO-11-412). In addition, we provided the requisite reports and representation letters to the Treasury, Government Accountability Office, Office of Management and Budget, and Department of Justice in accordance with Treasury Financial Manual guidance.

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

6

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 has been ensuring that we had 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 in light of the new activities and programs that the FDIC undertook to restore public confidence and stability in the financial system, all of which warrant vigilant, independent oversight.

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

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

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

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

The OIG fully supports and participates in CIGIE activities, and the FDIC IG currently serves as Chair of its Audit Committee. We coordinate closely with representatives from the other the financial regulatory OIGs. In this regard, as noted earlier in this report, the Dodd-Frank Act created the Financial Stability Oversight Council and further established the Council of Inspectors General on Financial

Oversight (CIGFO). This Council facilitates sharing of information among CIGFO member IGs and discusses ongoing work of each member IG as it relates to the broader financial sector and ways to improve financial oversight. CIGFO may also convene working groups to evaluate the effectiveness of internal operations of the Financial Stability Oversight Council. The Treasury IG chairs the CIGFO and the FDIC IG is currently serving as Vice Chair.

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

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

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

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

Effectively and Efficiently Manage OIG Human, Financial, IT, and Physical Resources	
1	Permanently filled the position of Assistant Inspector General for Management so as to bring focused attention to the OIG's management operations and ensure appropriate controls to efficiently and effectively manage OIG resources.
2	Implemented additional controls to monitor, track, and control OIG spending, particularly as it relates to OIG travel-related expenses.
3	Explored options for a new investigative case management system, and worked to better track audit and evaluation assignment costs and to manage audit and evaluation records located on shared drives or SharePoint sites.
4	Provided the OIG's FY 2013 budget proposal to the House and Senate Appropriations Committees on Financial Services and General Government. This budget requests $34.6 million to support 130 full-time equivalents.

5	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.
6	Continued using our new inquiry intake system to better capture and manage inquiries from the public, media, Congress, and Corporation, in the interest of prompt and more effective handling of such inquiries. Participated with the FDIC's group of Public Service Providers to share information on inquiries and complaints received, identify common trends, and determine how best to respond to public concerns.
7	Coordinated with the Assistant Inspectors General for Investigations at the Department of the Treasury and the FRB to leverage resources by planning joint investigative work.
8	Coordinated with counterparts at the Department of the Treasury, FRB, and National Credit Union Administration to efficiently and effectively carry out multiple assignments involving the other regulators in accordance with both HR 2056 and a request from the Chairman of the Senate Banking Committee.
9	Reiterated the Corporation's social media policy to OIG staff to ensure responsible use of new social communication forums and highlighted particular risks and concerns specific to OIG staff using such media.
10	Updated and posted the OIG's Emergency Response Quick Reference Guides to better ensure the physical safety and security of all OIG staff in emergency situations.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Continued to implement the OIG's Quality Assurance Plan for October 2010–March 2013 to ensure quality in all audit and attestation engagement work and evaluations, in keeping with government auditing standards and Quality Standards for Inspection and Evaluation. Issued two quality control reviews—one on contracted audits of risk-sharing agreements and the other a review of selected assignments to ensure compliance with auditing standards and other selected OIG controls.
2	Issued our peer review of the investigative operations of the National Aeronautics and Space Administration OIG as part of the IG community's peer review processes for investigations.
3	Oversaw contracts to qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct audits and evaluations, and closely monitored contractor performance.
4	Continued use of the IG's feedback form to assess time, cost, and overall quality and value of audits and evaluations.
5	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting material loss and other such reviews, resolution and receivership-related work, assignments in connection with HR 2056, and other audits and evaluations, and to support investigations of financial institution fraud and other criminal activity, in the interest of ensuring legal sufficiency and quality of all OIG work.
6	Coordinated the IG community's audit peer review activities for OIGs government-wide as part of our leadership of the CIGIE Audit Committee to ensure a consistent and effective peer review process and quality in the federal audit function.
7	Revised and issued a new policy on public release of OIG products to ensure transparency of OIG efforts and corresponding results.
8	Updated the OIG's Hotline Web page to add new information and alerts. Also added a downloadable Hotline poster for use by contractors and others in efforts to prevent fraud, waste, and abuse and ensure integrity in FDIC operations and programs.
9	Reviewed and updated a number of OIG internal policies related to audit, evaluation, investigation, and management operations of the OIG to ensure they provide the basis for quality work that is carried out efficiently and effectively throughout the office.
10	Monitored and participated in the Corporation's Plain Writing Act initiative to ensure OIG compliance with the intent of the Act.

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

Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by briefing and communicating with various Committee staff on issues of interest to them; providing our Semiannual Report to the Congress for the 6-month period ending September 30, 2011; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest.
2	Communicated with the Acting Chairman, the FDIC's internal Director and Chair of the FDIC Audit Committee, 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 American Institute of Certified Public Accountants, Illinois Bankers Association, American Conference Institute, and international visitors hosted by the FDIC, to provide general information regarding the OIG and share perspectives on issues of mutual concern and importance to the financial services industry.
4	Held quarterly meetings with FDIC Division Directors and other senior officials to keep them apprised of ongoing OIG reviews, results, and planned work.
5	Kept RMS, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing Office of Investigations' quarterly reports to RMS, DRR, the Legal Division, and the Acting Chairman's Office outlining activity and results in our cases involving closed and open banks.
6	Participated at FDIC Audit Committee meetings to present the results of significant completed audits and evaluations for consideration by Committee members.

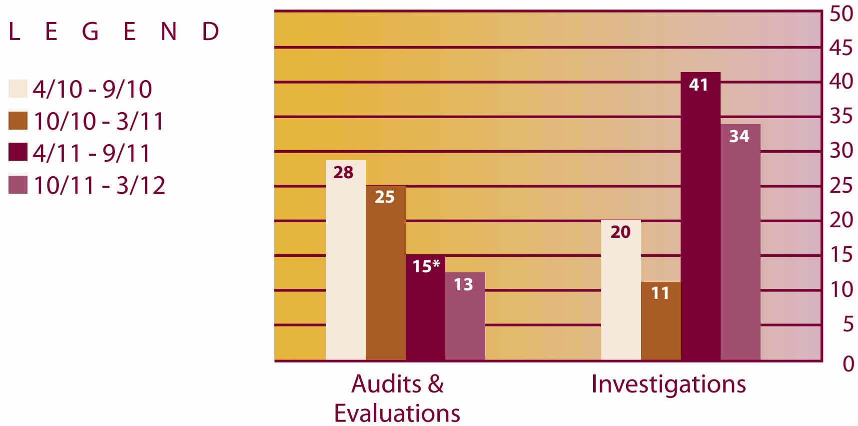
7	Reviewed six proposed or revised corporate policies related to, for example, the FDIC's government-sponsored travel card program; its approval requirements for using FDIC funds for conferences, meetings, and symposiums; and benefits received in the course of official travel. Made substantive suggestions on the FDIC's privacy impact assessment requirements policy and suggestions to other policies to increase clarity and specificity.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including advising on the introductory auditor training and oversight of the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Council of Counsels to the IGs, and Professional Development Committee meetings; commenting on proposed legislation through the Legislative Committee; and providing support to the IG community's investigative meetings.
9	Met regularly and communicated with representatives of the OIGs of the federal banking regulators and others (FRB, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, SIGTARP, Department of Housing and Urban Development) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources. Participated on CIGFO, as established by the Dodd-Frank Act, with the IGs from most of the above-named agencies, a Council on which the FDIC IG currently serves as Vice Chair. Led CIGFO Working Group to review the Financial Stability Oversight Council's security controls over non-public information.
10	Responded, along with others in the IG community, to Senators Grassley's and Coburn's semiannual request for information on closed investigations, evaluations, and audits that were not disclosed to the public.
11	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	Continued to coordinate with the Corporation's Chief Risk Officer as he established his office and function at the FDIC to help ensure that the OIG complements the work of his office, the Division of Finance's Corporate Management Control, and division-level internal review and control staffs to limit the Corporation's risk exposure.
2	Participated regularly at corporate meetings of the National Risk Committee and other senior-level management meetings to monitor emerging risks at the Corporation and tailor OIG work accordingly.
3	Provided the OIG's 2011 assurance letter to the FDIC Acting 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, OMB A-123, and other key legislation.
4	Continued to monitor the management and performance challenge areas that we identified at the FDIC, in accordance with the Reports Consolidation Act of 2000 as we conducted audits, evaluations, and investigations: Carrying Out New Resolution Authority, Resolving Failed Institutions and Managing Receiverships, Ensuring and Maintaining the Viability of the Deposit Insurance Fund, Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program, Protecting and Educating Consumers and Ensuring an Effective Compliance Program, and Effectively Managing the FDIC Workforce and Other Corporate Resources.
5	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.

Cumulative Results (2-year period)

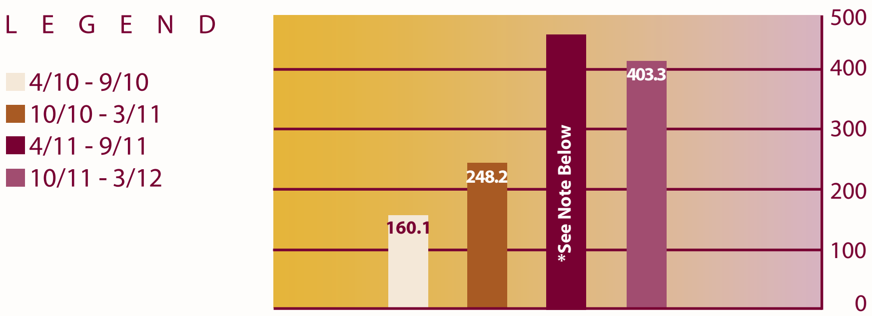
Nonmonetary Recommendations	
April 2010 – September 2010	43
October 2010 – March 2011	58
April 2011 – September 2011	13
October 2011 – March 2012	17

Products Issued and Investigations Closed



*Includes two audit-related memoranda.

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



* **For the period 04/11 – 09/11**
Fines, Restitution, and Monetary Recoveries totaled $3.7 billion.

Reporting Requirements

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

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Evaluation report statistics are included in the tables that follow, 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:

- We analyzed Public Law 111-28 (formerly H.R. 2056)--which requires the FDIC IG to study various aspects of depository failures, including the impact of regulatory actions--with an eye towards assisting the OIG to implement that statute. The statute requires the IG to appear before the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services within 150 days of publishing the report, which is required to be completed by January 3, 2013.
- We analyzed and commented on the proposed Financial Institutions Examination Fairness and Reform Act, H.R. 3461, and the companion bill, S. 2160. The bill would, among other things, establish an ombudsman at the Federal Financial Institutions Examination Council with jurisdiction to review examination results of the federal financial regulators.
- We worked with the CIGIE Legislation Committee's Subcommittee on Information Technology Legislation to analyze and/or comment on proposed legislation addressing cybersecurity-related issues, to include revisions to FISMA. These legislative proposals included:
  - ♦ S. 2151, the Strengthening and Enhancing Cybersecurity by Using Research, Education, Information, and Technology Act of 2012
  - ♦ S. 2105, the Cybersecurity Act of 2012
  - ♦ S. 413, the Cybersecurity and Internet Freedom Act of 2011
  - ♦ H.R. 1136, the Executive Cyberspace Coordination Act of 2011
  - ♦ H.R. 1349, and S. 717 regarding publication of agency information on the Internet
- In addition, we noted the introduction of S. 1732, the *Privacy Act Modernization for the Information Age Act of 2011*, and the enactment of Public Law 112-55, the *Consolidated and Further Continuing Appropriations Act, 2011*, which established an Inspector General for the U.S. Commission on Civil Rights.
- Counsel's Office worked within the OIG to implement Executive Order 13589, *Promoting Efficient Spending*, which required agencies and IGs to control certain expenses such as those for office conferences and employee travel and relocation.

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 the FDIC's Corporate Management Control, Division of Finance and (2) the OIG's determination of closed recommendations. Recommendations are closed when (a) Corporate Management Control notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, after the OIG confirms that corrective actions have been completed and are responsive. The four recommendations from four reports involve monetary amounts of over $31.4 million and improvements in operations and programs. Corporate Management Control has categorized the status of the recommendations as follows:

Management Action in Process: (four recommendations from four 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.

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
AUD-11-001 **Independent Evaluation of the FDIC's Information Security Program – 2010** November 8, 2010	12	Complete the design and implementation of an agency-wide continuous monitoring program that addresses continuous monitoring strategies for FDIC information systems. While the FDIC has made meaningful progress in addressing this recommendation, designing and implementing such a program is a multi-year effort that the FDIC expects to complete by the end of 2012.
AUD-11-004 **FDIC's Loss Share Agreements with an Acquiring Institution** January 7, 2011	1*	Disallow the unsupported loss claims. (Questioned Costs of $7,549,153, which is 80 percent of $9,436,441 in questioned loss claims.)
AUD-11-009 **FDIC's Loss Share Agreements with an Acquiring Institution** June 10, 2011	1	Review the acquiring institution's analysis pertaining to $29,825,247 in questioned commercial loan charge-off loss claims (including unsupported questioned costs of $23,860,198, which is 80 percent of the $29,825,247) and disallow any unsupported claims based on the results of the review.
EVAL-11-006 **Prompt Regulatory Action Implementation** September 30, 2011	1	To improve the effectiveness of the Prompt Regulatory Action framework and to meet the section 38 and 39 goals of identifying problems early and minimizing losses to the DIF, the FDIC, FRB, and OCC agency heads will review the matters for consideration presented in this report and work to determine whether the Prompt Regulatory Action legislation or implementing regulations should be modified.

** 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 and Evaluation Reports Issued by Subject Area

Audit and Evaluation Report		Questioned Costs		Funds Put to Better Use
Number and Date	**Title**	**Total**	**Unsupported**	
Supervision				
AUD-12-003 December 16, 2011	Material Loss Review of Atlantic Southern Bank, Macon, Georgia			
AUD-12-006 February 17, 2012	Material Loss Review of Colorado Capital Bank, Castle Rock, Colorado			
AUD-12-007 February 17, 2012	Material Loss Review of Bank of Choice, Greeley, Colorado			
Receivership Management				
EVAL-12-001 October 6, 2011	FDIC's Acquisition and Management of Securities Obtained through Resolution and Receivership Activities	$9,803,488		
AUD-12-001 October 25, 2011	The FDIC's Shared-Loss Agreements with Banco Popular de Puerto Rico, San Juan, Puerto Rico	$16,630,808	$6,661,415	
AUD-12-004 December 22, 2011	FDIC's Qualification Process for Private Capital Investors Interested in Acquiring or Investing in Failed Insured Depository Institutions			
EVAL-12-002 February 17, 2012	FDIC's Monitoring of Shared-Loss Agreements			
AUD-12-008 March 30, 2012	The FDIC's Shared-Loss Agreements with BankUnited	$434,528		
Resources Management				
AUD-12-002 October 31, 2011	Independent Evaluation of the FDIC's Information Security Program - 2011			
AUD-12-005 January 11, 2012	FDIC's Data Submissions through the Governmentwide Financial Report System as of September 30, 2011			
EVAL-12-004 March 21, 2012	Status of the Transfer of Office of Thrift Supervision Functions			
EVAL-12-003 March 23, 2012	National Owned Real Estate Management and Marketing Services Contract with CB Richard Ellis, Inc.	$398,227	$57,226	
EVAL-12-005 March 30, 2012	FDIC Conference-Related Expenses and Activities			
Totals for the Period		**$27,267,051**	**$6,718,641**	

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

Table III: Audit and Evaluation Reports Issued with Questioned Costs

	Number	Questioned Costs	
		Total	Unsupported
A. For which no management decision has been made by the commencement of the reporting period.	0	$0	$0
B. Which were issued during the reporting period.	4	$27,267,051	$6,718,641
Subtotals of A & B	**4**	**$27,267,051**	**$6,718,641**
C. For which a management decision was made during the reporting period.	4	$27,267,051	$6,718,641
(i) dollar value of disallowed costs.	4	$26,910,839	$6,680,877
(ii) dollar value of costs not disallowed.	1*	$356,212	$37,764
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

* *The one report not disallowed is also included in the line for costs disallowed because management did not agree with some of the questioned costs.*

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

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

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

Table V: Status of OIG Recommendations Without Management Decisions

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

Table VI: Significant Revised Management Decisions

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

Table VII: Significant Management Decisions with Which the OIG Disagreed

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

Table VIII: Instances Where Information Was Refused

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

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, 2011 through March 31, 2012 for Failures Causing Losses to the DIF of Less than $200 Million (or less than $150 million if occurring after December 31, 2011)

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 Reports						
First Choice Community Bank (Dallas, Georgia)	4/29/11	$92.4	The bank was critically under-capitalized.	No	N/A	N/A
Community Central (Mount Clemens, Michigan)	4/29/11	$183.2	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
First Georgia Banking Company (Franklin, Georgia)	5/20/11	$156.5	The bank was insolvent.	No	N/A	N/A
First Heritage Bank (Snohomish, Washington)	5/27/11	$34.9	The bank was insolvent.	No	N/A	N/A
McIntosh State Bank (Jackson, Georgia)	6/17/11	$82	The bank was critically under-capitalized.	No	N/A	N/A
First Commercial Bank of Tampa Bay (Tampa, Florida)	6/17/11	$30.5	The bank was imminently insolvent.	No	N/A	N/A
Mountain Heritage Bank (Clayton, Georgia)	6/24/11	$43.1	The bank was insolvent.	No	N/A	N/A
High Trust Bank (Stockbridge, Georgia)	7/15/11	$66	The bank was critically under-capitalized.	No	N/A	N/A
First Peoples Bank (Port Saint Lucie, Florida)	7/15/11	$7.4	The bank was imminently insolvent.	No	N/A	N/A
CreekSide Bank (Woodstock, Georgia)	9/2/11	$29.3	The bank was critically under-capitalized.	No	N/A	N/A
First International Bank (Plano, Texas)	9/30/11	$55.6	The bank was insolvent.	No	N/A	N/A
New Reviews						
Signature Bank (Windsor, Colorado)	7/8/11	$22.3	The bank's insolvency was inevitable.	No	N/A	N/A
One Georgia Bank (Atlanta, Georgia)	7/15/11	$44.4	The bank was unable to maintain minimum capital levels.	No	N/A	N/A
Summit Bank (Prescott, Arizona)	7/15/11	$11.3	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
Southshore Community Bank (Apollo Beach, Florida)	7/22/11	$8.3	The bank was insolvent.	No	N/A	N/A

* As first reported by the FDIC Division of Finance to the OIG.

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, 2011 through March 31, 2012 for Failures Causing Losses to the DIF of Less than $200 Million (or less than $150 million if occurring after December 31, 2011)

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						
Public Savings Bank (Huntingdon Valley, Pennsylvania)	8/18/11	$11	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
First Choice Bank (Geneva, Illinois)	8/19/11	$31	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
Patriot Bank of Georgia (Cumming, Georgia)	9/2/11	$46.5	The bank was unable to maintain minimum capital levels.	No	N/A	N/A
Citizens Bank of Northern California (Nevada City, California)	9/23/11	$39	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
Sun Security Bank (Ellington, Missouri)	10/7/11	$118.3	The bank's insolvency was inevitable.	No	N/A	N/A
The RiverBank (Wyoming, Minnesota)	10/7/11	$71.4	The bank was operating in an unsafe and unsound condition.	No	N/A	N/A
Decatur First Bank (Decatur, Georgia)	10/21/11	$32.6	The bank was critically under-capitalized.	No	N/A	N/A
Old Harbor Bank (Clearwater, Florida)	10/21/11	$39.3	The bank was insolvent.	No	N/A	N/A
Reviews in Process						
Blue Ridge Savings Bank, Inc. (Asheville, North Carolina)	10/14/11	$37.9	♦			
Country Bank (Aledo, Illinois)	10/14/11	$66.3	♦			
Piedmont Community Bank (Gray, Georgia)	10/14/11	$71.6	♦			
First State Bank (Cranford, New Jersey)	10/14/11	$45.8	♦			
Community Capital Bank (Jonesboro, Georgia)	10/21/11	$62	♦			
All American Bank (Des Plaines, Illinois)	10/28/1	$6.5	♦			
Mid City Bank, Inc. (Omaha, Nebraska)	11/4/11	$12.7	♦			
SunFirst Bank (Saint George, Utah)	11/4/11	$49.7	♦			

* As first reported by the FDIC Division of Finance to the OIG.

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

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, 2011 through March 31, 2012 for Failures Causing Losses to the DIF of Less than $200 Million (or less than $150 million if occurring after December 31, 2011)						
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
Reviews in Process						
Community Bank of Rockmart (Rockmart, Georgia)	11/10/11	$14.5	♦			
Central Progressive Bank (Lacombe, Louisiana)	11/18/11	$58	♦			
Polk County Bank (Johnston, Iowa)	11/18/11	$12	♦			
Premier Community Bank of the Emerald Coast (Crestview, Florida)	12/16/11	$35.5	♦			
Central Florida State Bank (Belleview, Florida)	1/20/12	$24.4	♦			
First Guaranty Bank and Trust Company of Jacksonville (Jacksonville, Florida)	1/27/12	$82	♦			
Patriot Bank Minnesota (Forest Lake, Minnesota)	1/27/12	$32.6	♦			
Central Bank of Georgia (Ellaville, Georgia)	2/24/12	$67.4	♦			
Global Commerce Bank (Doraville, Georgia)	3/2/12	$20.9	♦			
New City Bank (Chicago, Illinois)	3/9/12	$20.4	♦			
Covenant Bank & Trust (Rock Spring, Georgia)	3/23/12	$35	♦			
Premier Bank (Wilmette, Illinois)	3/23/12	$67.1	♦			
Fidelity Bank (Dearborn, Michigan)	3/30/12	$95.8	♦			

* As first reported by the FDIC Division of Finance to the OIG.

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

Appendix 3: Peer Review Activity

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

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

Audit Peer Reviews

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

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

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

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

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

Definition of Audit Peer Review Ratings

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

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

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

FDIC OIG Peer Review of the Smithsonian Institution OIG

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

As is customary, we also issued a Letter of Comment, dated September 21, 2011, that set forth findings and recommendations that were not considered to be of sufficient significance to affect our opinion

Appendix 3: Peer Review Activity (continued)

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

expressed in the system review report. We made 11 recommendations, with which the SI OIG agreed. SI OIG indicated it would complete all corrective actions related to the findings and recommendations no later than March 31, 2012. Our findings and recommendations related to the following areas: standards followed on desk reviews, statements of independence for referencers, disciplinary mechanism for reporting personal impairments, reviews of continuing professional education data, reporting whether audit results can be projected, internal quality assurance program enhancements, and SI OIG's letter related to the annual financial statements audit. SI OIG has posted its peer review report (the system review report and accompanying letter of comment) on its Web site at www.si.edu/oig/.

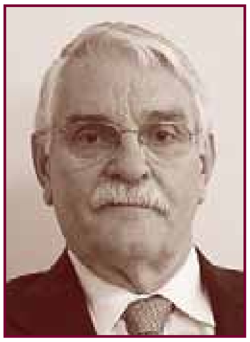
For the current semiannual reporting period, the SI OIG is reporting completed actions on 4 of our 11 recommendations. SI OIG is also currently updating its audit manual to reflect the FY 2011 revision to government auditing standards and recommendations from our peer review.

Investigative Peer Reviews

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

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

Retirements



Tom McDade, Special Agent in Charge, retired from the FDIC after more than 20 years of service to the Corporation. He joined the Resolution Trust Corporation (RTC) in December 1991 following a successful career in the United States Secret Service. Upon the RTC's sunset in 1995, he transitioned to the FDIC OIG as a senior criminal investigator in the Atlanta region. He was later promoted to Special Agent in Charge of the Southeast Region's Atlanta Office, and from 2001-2007, he excelled in that role. In 2007, his transfer to Dallas as Special Agent in Charge gave him further opportunities to lead the OIG's investigators in our Southwest Regional office, a role he carried out with distinction right up to his retirement.

Of special note, Tom supervised some of the largest, most complex, and most significant cases in the history of the FDIC OIG, including the Keystone Bank failure case, Best Bank failure case, Hamilton Bank failure case, Perlman case, Community Bank of Blountsville case, Connecticut Bank of Commerce failure case, and the Roman Mavashev and Property Cash mortgage fraud cases.

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

Tom also gave 3 years of service to the United States Army early on in his career.

Phil Robertson, Senior Special Agent, retired from the FDIC after more than 20 years of service to the Corporation. He joined the RTC OIG in its Baton Rouge Office in December 1991 as a Senior Special Agent following a successful career in the United States Secret Service. Thereafter, he transferred to the RTC's Atlanta Regional Office, and upon the RTC's sunset in 1995, he transitioned to the FDIC OIG and since then continued an impressive investigative career.

Of special note, Phil was the lead agent on the First National Bank of Keystone case. Not only did he help bring about multiple prosecutions in that case, he also shared the lessons learned from that failure with countless groups by way of highly informative and creative presentations throughout the country. He also served with distinction on the New England Bank Fraud Task Force. As Assistant Special Agent in Charge of the Atlanta Regional Office, he supervised many complex and successful criminal investigations.

Phil served as an outstanding representative of the OIG over the past years by helping to foster constructive working relationships with FDIC regional management, U.S. Attorneys' Offices, and fellow law enforcement groups. Most recently, with respect to the failures of three large Puerto Rican banks, he directed the OIG's investigative presence and served as liaison with the FDIC's Division of Resolutions and Receiverships and the Legal Division, and with the U.S. Attorney's Office, Federal Bureau of Investigation, and the Internal Revenue Service.

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