



SIGTARP

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

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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Media Inquiries:

202-927-8940

FORMER CHIEF FINANCIAL OFFICER OF TAYLOR, BEAN & WHITAKER PLEADS GUILTY TO FRAUD SCHEME WHICH CONTRIBUTED TO THE FAILURES OF TBW AND COLONIAL BANK

*Colonial Bank Had Received Conditional Approval to Receive \$553 Million in TARP Funding
Which SIGTARP Prevented from Being Disbursed*

WASHINGTON, DC – Delton de Armas, a former chief financial officer (CFO) of Taylor, Bean & Whitaker Mortgage Corp. (TBW), pleaded guilty today to making false statements and conspiring to commit bank and wire fraud for his role in a more than \$2.9 billion fraud scheme that contributed to the failures of TBW and Colonial Bank.

The guilty plea was announced today by Christy Romero, Deputy Special Inspector General for the Office of the Special Inspector General for the Troubled Asset Relief Program; Assistant Attorney General Lanny A. Breuer of the Criminal Division; U.S. Attorney Neil H. MacBride for the Eastern District of Virginia; Assistant Director in Charge James W. McJunkin of the FBI's Washington Field Office; David A. Montoya, Inspector General of the Department of Housing and Urban Development (HUD-OIG); Jon T. Rymer, Inspector General of the Federal Deposit Insurance Corporation (FDIC-OIG); Steve A. Linick, Inspector General of the Federal Housing Finance Agency (FHFA-OIG); and Rick A. Raven, Acting Chief of the Internal Revenue Service Criminal Investigation (IRS-CI).

De Armas, 41, of Carrollton, Texas, pleaded guilty before U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. De Armas faces a maximum penalty of 10 years in prison when he is sentenced on June 15, 2012.

“With our nation in a housing crisis, de Armas, as chief financial officer of TBW, one of the country’s largest mortgage lenders, papered over a gaping hole in the balance sheet of TBW subsidiary Ocala Funding and lied to regulators and investors to cover it up,” said Christy Romero, Deputy Special Inspector General for SIGTARP. “The fraud provided cover to others at TBW to misappropriate more than \$1 billion in Ocala funds and sell fraudulent, worthless securities to conspirators at Colonial BancGroup. SIGTARP and its law enforcement partners stopped \$553 million in TARP funds from being lost to this fraud and brought accountability and justice that the American taxpayers deserve.”

According to court documents, de Armas joined TBW in 2000 as its CFO and reported directly to its chairman, Lee Bentley Farkas, and later to its CEO, Paul Allen. He admitted in court that from 2005 through August 2009, he and other co-conspirators engaged in a scheme to defraud financial institutions

that had invested in a wholly-owned lending facility called Ocala Funding. Ocala Funding obtained funds for mortgage lending for TBW from the sale of asset-backed commercial paper to financial institutions, including Deutsche Bank and BNP Paribas. The facility was managed by TBW and had no employees of its own.

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

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

In addition, de Armas admitted in court to aiding and abetting false statements in a letter the CEO sent to the U.S. Department of Housing and Urban Development, through Ginnie Mae, regarding TBW’s audited financial statements for the fiscal year ending on March 31, 2009. De Armas reviewed and edited the letter, knowing it contained material omissions. The letter omitted that the delay in submitting the financial data was caused by concerns its independent auditor had raised about the financing relationship between TBW and Colonial Bank and its request that TBW retain a law firm to conduct an internal investigation. Instead, the letter falsely attributed the delay to a new acquisition and TBW’s switch to a compressed 11-month fiscal year.

In April 2011, a jury in the Eastern District of Virginia found Lee Bentley Farkas, the chairman of TBW, guilty of 14 counts of conspiracy, bank, securities and wire fraud. On June 30, 2011, Judge Brinkema sentenced Farkas to 30 years in prison. In addition, six individuals have pleaded guilty for their roles in the fraud scheme, including: Paul Allen, former chief executive officer of TBW, who was sentenced to 40 months in prison; Raymond Bowman, former president of TBW, who was sentenced to 30 months in prison; Desiree Brown, former treasurer of TBW, who was sentenced to six years in prison; Catherine Kissick, former senior vice president of Colonial Bank and head of its Mortgage Warehouse Lending Division (MWLD), who was sentenced to eight years in prison; Teresa Kelly, former operations supervisor for Colonial Bank’s MWLD, who was sentenced to three months in prison; and Sean Ragland, a former senior financial analyst at TBW, who was sentenced to three months in prison.

The case is being prosecuted by Deputy Chief Patrick Stokes and Trial Attorney Robert Zink of the U.S. Department of Justice Criminal Division’s Fraud Section and Assistant U.S. Attorneys Charles Connolly and Paul Nathanson of the Eastern District of Virginia. This case was investigated by SIGTARP, the FBI’s Washington Field Office, FDIC-OIG, HUD-OIG, FHFA-OIG and IRS-CI. The Financial Crimes Enforcement Network (FinCEN) of the U.S. Department of the Treasury also provided support in the investigation. The U.S. Securities and Exchange Commission also provided substantial assistance in the investigation.

This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

About SIGTARP

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