FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC

Office of Inspector General

Semiannual Report to the Congress

April 1, 2009 – September 30, 2009

Includes the OIG's Fiscal Year 2009 Performance Report

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 6,550 individuals within seven specialized operating divisions and other offices carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured more than $4.8 trillion in deposits in about 8,200 institutions, of which the FDIC supervised approximately 5,160. The total reserves of the insurance fund were $42.4 billion. Receiverships under FDIC control totaled 142, with $38.3 billion of assets in liquidation.

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Inspector General's Statement

Nearly 8,200 financial institutions make up the banking system, and the Federal Deposit Insurance Corporation (FDIC) is the primary federal regulator for about 5,160 of them. Notwithstanding the financial and economic crisis of recent months, the vast majority of these institutions are viable and continue to serve the American public. Still, problem banks are failing at a rapid pace. Under the Federal Deposit Insurance Act, when failures of FDIC-supervised institutions result in a material loss to the Deposit Insurance Fund, currently defined as a loss of the greater of $25 million or 2 percent of the institution's assets at the time of closing, my office is required to perform a comprehensive review. Those material loss reviews (MLRs) determine the causes of failure and assess the FDIC's supervision of the institution.

Our principal focus over the past 6 months has been on our heavy MLR workload. We issued a total of 18 MLR reports during the reporting period and have 34 currently in process. Although we are required to issue these reports within 6 months of the determination of a material loss, we were unable to meet that mandate in 3 of 18 instances. We took a number of steps to better ensure the timely completion and continued success of this work during the reporting period.

First, in early May 2009 we conveyed our observations on MLR trends to the FDIC Audit Committee and the Division of Supervision and Consumer Protection (DSC) based on our first eight MLRs. That initial communication, in conjunction with results of our MLR work throughout the reporting period, has prompted the Corporation to take very responsive action to address issues we have surfaced and other supervisory matters that senior management believes warrant additional attention.

Also in May, I testified before the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives, and reiterated concerns communicated to the Congress by the financial Inspectors General from the Department of the Treasury, Federal Reserve, and FDIC in January regarding the MLR threshold of $25 million. At that time, in letters to the Senate Banking and House Financial Services Committees, we jointly requested consideration of a change in the threshold to between $300 and $500 million. In light of today's environment, such a change would reflect a more reasonable measure of materiality and a more meaningful trigger point for an Office of Inspector General (OIG) review of a failed institution.

To bolster resources, my office submitted an increased budget request for fiscal year 2010 to support additional staff and contractor resources to assist with MLR work. Further, in August, I implemented a temporary reorganization of the OIG to create an Assistant Inspector General for MLRs and assigned the majority of our audit and evaluation staff to that group. We have also hired new staff and contractors with specialized experience and expertise to help perform this work.

Over the past 6 months, we have engaged in continuous dialogue with the FDIC Chairman, Vice Chairman, Audit Committee, and DSC senior management regarding the trends and issues surfacing in our MLR work. The Deputy Inspector General and I undertook a series of speaking engagements and met with the Regional Directors of the FDIC and their staffs throughout the country, and those forums provided us valuable insights and a fuller understanding of the challenges facing the FDIC examination workforce.

Over this same timeframe, we have become acutely aware of the FDIC's increased receivership and resolution activity resulting from bank failures and the heightened associated risks. In fact, as of September 30, 2009, the Corporation was handling 142 receiverships with total assets in liquidation of $38.3 billion. As history has shown, the FDIC will be disposing of these assets over an extended period of time, and risks will present themselves for years to come. We have diverted scarce remaining audit resources to that work, with the assistance of a contractor, and are developing an audit strategy in the interest of ensuring proper controls and independent oversight.

Our Office of Evaluations is focusing on some of the FDIC's most significant new programs and activities, such as loan modifications and loss share agreements, where significant dollars and complex relationships involving the FDIC's interests are at stake. The Office of Evaluations also reviewed the IndyMac Federal Savings Bank failure and is doing a similar review, jointly with the Treasury OIG, to examine supervisory events surrounding the demise of Washington Mutual Bank, a $299 billion failure, the largest to date. In both of those reviews, we have analyzed the actions of the primary federal regulator and the FDIC's role in monitoring the institutions as back-up supervisor and insurer.

Our Office of Investigations continues to play a lead role in the law enforcement community's efforts to combat various types of financial institution and mortgage frauds. Our special agents are called upon by U.S. Attorneys, the Federal Bureau of Investigation, and others to assist in prosecuting white-collar crime that threatens the integrity of the financial services industry. Their success during the reporting period resulted in 55 indictments/ informations, 52 convictions, and monetary recoveries of nearly $41.8 million.

As I sign this statement, although the House passed a resolution to raise the MLR threshold to $200 million, the Senate has not yet acted on the matter. We continue to face a constant, daunting workload and have been unable to devote needed attention to other risk areas of the FDIC, among those the internal operational risks brought on by significant changes in the FDIC's programs and activities, and increased hiring and use of contractors. Even the coverage we are currently planning in the resolution and receivership area falls short of what is needed to help ensure the success of corresponding asset management and disposition activities.

In reviewing our fiscal year 2009 performance results, it is clear that the demands of the MLR-related workload have taken a toll on our overall ability to meet our performance goals, as shown in the fiscal year 2009 performance report included in this report. As feared, we have fallen short of our own expectations for the year. We are analyzing those results as we examine priorities and re-think what we can reasonably hope to accomplish in fiscal year 2010 and beyond.

From a budgetary standpoint, a continuing resolution is further hampering our efforts by precluding us from contracting for additional assistance and bringing on new staff at this time. We are uncertain how long that continuing resolution will impact us. Taken together, these factors present us with a level of exposure that causes me concern, as our resource situation could significantly worsen with time and jeopardize the success of our mission.

In closing, I want to express sincere appreciation to the dedicated FDIC OIG staff who work tirelessly to accomplish the Inspector General mission, often at great personal sacrifice. The results of their efforts over the past 6 months are discussed in more detail in this report. I count on the continued support of our stakeholders—the Corporation, Congress, law enforcement agencies, Inspector General colleagues, and the public as we continue to address challenges that face us.

Jon T. Rymer
Inspector General
October 30, 2009

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Abbreviations and Acronyms

ADC	acquisition, development, and construction
BD	Brokered Deposit
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CBRE	C.B. Richard Ellis
CFO	chief financial officer
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CRE	commercial real estate
DIF	Deposit Insurance Fund
DOA	Division of Administration
DOF	Division of Finance
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
ECIE	Executive Council on Integrity and Efficiency
ECU	Electronic Crimes Unit
FBI	Federal Bureau of Investigation
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act of 1993
HELOC	Home Equity Lines of Credit
IG	Inspector General
IndyMac	IndyMac Federal Savings Bank
IT	Information Technology
LIDI	Large Insured Depository Institution
LLL	legal lending limits
MLR	Material Loss Review
NDBF	Nebraska Department of Banking and Finance
NFE	New Financial Environment
NLF	National Liquidation Fund
OERM	Office of Enterprise Risk Management
OI	Office of Investigations
OIG	Office of Inspector General
ORE RBOA	National Owned Real Estate Management and Marketing Services Receivership Basic Ordering Agreement
OTS	Office of Thrift Supervision
PCA	Prompt Corrective Action
PCIE	President's Council on Integrity and Efficiency
SCB	Sherman County Bank
TLGP	Temporary Liquidity Guarantee Program
ViSION	Virtual Supervisory Information on the Net
WaMu	Washington Mutual Bank

Highlights and Outcomes

The OIG's 2009 Business Plan contains 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 MLR workload, most of our efforts during the reporting period have necessarily focused on our first and second goals of assisting the Corporation to ensure the safety and soundness of banks and the viability of the insurance fund. Based on the risks inherent in the resolution and receivership areas, we have also recently shifted scarce available audit resources to conduct work in support of our fourth goal. We have several important evaluation assignments ongoing to address this goal. We are concerned, however, that this area warrants far more attention than we can provide at this time. Unfortunately, we have been unable to devote as much coverage as in the past in the two goal areas involving consumer protection and the FDIC's internal operations during the past 6-month period. A more in-depth discussion of OIG audits, evaluations, investigations, and other activities in pursuit of all of our strategic goals follows.

Strategic Goal 1

Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. In early May 2009, we conveyed to the FDIC Audit Committee and Division of Supervision and Consumer Protection (DSC) our perspectives on the commonalities in the eight MLR reports we had drafted or finalized to date. The Corporation has taken a number of actions that address the concerns we identified early-on. We continue a very cooperative working relationship with DSC on these matters. During the reporting period, we completed 18 MLRs of institutions whose failures resulted in losses to the Deposit Insurance Fund totaling $3.2 billion. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. Many of our initial MLR observations were confirmed in this work. In another audit in this area, we assessed the FDIC's brokered deposit waiver process and recommended control improvements to that process. Ongoing work in support of this goal at the end of the reporting period included 34 MLRs of failed FDIC-regulated banks. We are also working jointly with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction involving Washington Mutual Bank (WaMu), including evaluating the Office of Thrift Supervision's supervision of WaMu and the FDIC's supervision and monitoring of WaMu in its role as insurer.

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 achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of the Department of Justice's Operation Malicious Mortgage and other mortgage fraud working groups also supported this goal. Particularly noteworthy results from our casework include a 15-count indictment charging 13 people in a subprime mortgage fraud scheme involving dozens of mortgages totaling more than $10 million on residential properties on Long Island and in New York City. In another case, 6 more individuals were sentenced for their roles in a massive home equity line of credit fraud scheme that enriched them temporarily and impacted at least 16 different lenders in the Northern New Jersey area. Sentences in this case have ranged from 2 to 44 months, with restitution totaling nearly $13 million during the reporting period.

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

Strategic Goal 2

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

Our MLR work fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of recommendations 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. We conducted audit work to assess the FDIC's investment management practices related to the Deposit Insurance Fund and National Liquidation Fund and made recommendations to help ensure the FDIC's investment management practices are repeatable, consistent, and disciplined. In our evaluation related to the failure of IndyMac Federal Savings Bank, we focused on the FDIC's awareness of the institution and actions it took as back-up regulator and deposit insurer. The FDIC took action to track all recommendations for back-up examinations and addressed a concern related to case manager appointment and transition. Our report also raised issues related to the FDIC's frameworks for establishing a supervisory approach and making deposit insurance determinations, and the FDIC's authorities for requesting back-up authority and pursuing enforcement actions against non-FDIC-supervised institutions. Given the significance of these issues, we suggested that FDIC Board-level attention should be focused on these matters. (See pages 27-32.)

Strategic Goal 3

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

Audits, evaluations, and investigations can contribute to the FDIC's protection of consumers in several ways. Regrettably, we were not able to devote substantial resources of this type to consumer protection matters during the past 6-month period because the majority of those resources was devoted to MLR work. Our Office of Investigations, however, was successful in bringing a halt to a $65-million investment securities scheme that duped more than 550 unsuspecting consumers. In that connection, a former securities sales representative was sentenced to 60 months of incarceration followed by 60 months of supervised release, and ordered to pay $15.8 million in restitution.

The OIG's Electronic Crimes Unit (ECU) also responded to instances where fraudulent emails and facsimiles purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The ECU successfully deactivated 36 fraudulent email accounts and 1 fraudulent facsimile number used for such purposes. (See pages 33-36.)

Strategic Goal 4

Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships

We undertook several assignments in this goal area during the reporting period. One evaluation reviewed controls in place over the contracting function to address the risks presented by a significant increase in resolution and receivership-related contracting activity. A second ongoing evaluation is covering the loss share provisions, including those in the assistance agreements with Citigroup, to ensure compliance with all related terms, such as those involving asset eligibility and institution management of guaranteed assets. Another ongoing evaluation is assessing the FDIC's implementation of loan modification programs at various institutions to modify "at-risk" mortgages and the internal controls in place over the program. Toward the end of the reporting period, we had contracted with KPMG to perform a risk assessment and develop audit programs for resolution and receivership activities and had also contracted for a loss share agreement audit of a specific institution. We are mindful of the inherent risks associated with the management and liquidation of the $26.5 billion of assets in receivership, and, to the extent possible, we will shift OIG resources to cover this area in the months ahead.

From an investigative standpoint, we continued to provide forensic support at bank closings where fraud was suspected and to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed. (See pages 37-40.)

Strategic Goal 5

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

OIG work in support of this goal area was limited to an information technology (IT)-related audit in support of the Government Accountability Office's audit of the Corporation's financial statements for 2008 and 2007 and an evaluation of the FDIC's solicitation and award of an asset management basic ordering agreement to two firms. Ongoing work at the end of the reporting period included our review of the FDIC's information security practices pursuant to the Federal Information Security Management Act and an audit of controls over FDICconnect, a secure Web site that allows FDIC-insured institutions to conduct business and exchange information with the FDIC. Regrettably, we were not able to conduct work to address the impact of the FDIC's increased workload and staffing on core FDIC business processes, including human resources, information technology, contracting, and other administrative functions.

We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with the FDIC's Ethics Office, as warranted. (See pages 41-46.)

Strategic Goal 6

OIG Internal Processes: 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 continued realignment of the OIG investigative resources with FDIC regions, and examined staffing plans and budget resources to ensure our office is prepared to handle our increasing workload and risks to the FDIC. In that regard, we implemented a temporary reorganization to create an Assistant Inspector General for MLRs and reassigned staff and hired additional staff to handle that workload and other reviews of new FDIC programs and activities.

We continued to administer a contract to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments and the Inspector General feedback form for Office of Audits, Office of Evaluations, and other assignments that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by employing a number of college interns to assist us, some of whom may be returning permanently under the FDIC's Student Career Experience Program. We also offered opportunities for OIG staff to attend graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry.

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 Government Accountability Office. The OIG participated in corporate diversity events, and we maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of enhancing OIG risk management activities, we continued efforts to carry out and monitor the OIG's fiscal year 2009 business plan. We also participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. (See pages 47-51.)

Significant Outcomes (April 2009– September 2009)	
Audit and Evaluation Products Issued	26
Nonmonetary Recommendations	12
Investigations Opened	47
Investigations Closed	24
OIG Subpoenas Issued	8
Judicial Actions:	
Indictments/Informations	55
Convictions	52
Arrests	33
OIG Investigations Resulted in:	
Fines of	$95,000
Restitution of	$39,370,872
Asset Forfeiture of	$2,320,264
Other Monetary Recoveries of	0
Total	**$41,786,136**
Cases Referred to the Department of Justice (U.S. Attorney)	46
Cases Referred to FDIC Management	0
OIG Cases Conducted Jointly with Other Agencies	116
Hotline Allegations Referred	53
Proposed Regulations and Legislation Reviewed	3
Proposed FDIC Policies Reviewed	9
Responses to Requests and Appeals under the Freedom of Information Act	5

Strategic Goal 1

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

The Corporation's supervision program promotes the safety and soundness of FDIC-supervised insured depository institutions. The FDIC is the primary federal regulator for approximately 5,160 FDIC-insured, state-chartered institutions that are not members of the Federal Reserve System (generally referred to as "state nonmember" institutions). The Department of the Treasury (the Office of the Comptroller of the Currency and the Office of Thrift Supervision) or the Federal Reserve Board supervise other banks and thrifts, depending on the institution's charter. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 3,040 national banks, state-chartered banks that are members of the Federal Reserve System, and savings associations.

The examination of the institutions that it regulates is a core FDIC function. Through this process, the FDIC assesses the adequacy of management and internal control systems to identify, measure, monitor, and control risks; and bank examiners judge the safety and soundness of a bank's operations. The examination program employs risk-focused supervision for banks. According to examination policy, the objective of a risk-focused examination is to effectively evaluate the safety and soundness of the bank, including the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations, while focusing resources on the bank's highest risks. Part of the FDIC's overall responsibility and authority to examine banks for safety and soundness relates to compliance with the Bank Secrecy Act, 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.

In the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act requires the cognizant OIG to perform a review when the DIF incurs a material loss. A loss is considered material to the insurance fund if it exceeds $25 million and 2 percent of the failed institution's total assets. 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 Board of Governors of the Federal Reserve System 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. During the past 6-month reporting period, 74 FDIC-insured institutions failed. Thirty-six of these triggered the need for the FDIC OIG to conduct an MLR.

The number of problem institutions increased during the second quarter of 2009 – from 305 to 416 as of June 30, 2009. This is the largest number of institutions on the problem bank list since June 30, 1994, when there were 434 institutions on the list. Total assets of problem institutions increased from $220 billion to $299.8 billion, the highest level since December 31, 1993.

Given these numbers, many more institution failures are likely in the months ahead.

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

The OIG's Office of Investigations works closely with FDIC management in DSC 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 87 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 2009 performance goals** were as follows:

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

OIG Work in Support of Goal 1

The OIG issued 19 reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. Eighteen of these reports communicated the results of MLRs. We also completed an audit related to the FDIC's brokered deposit

OIG Identifies MLR Trends

During the reporting period, the OIG identified and shared with the Audit Committee and DSC our perspectives on material loss review (MLR) trends. Our initial observations on the common characteristics of failures were based on six completed and two draft MLR reports.

Based on that early work, we suggested that greater consideration of risk in assigning Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS) component and composite ratings in addition to reliance on current financial condition appeared to be needed. Risky behaviors that did not seem to have had a sufficient impact on CAMELS ratings included:

- Pursuit of aggressive growth in commercial real estate and acquisition, development, and construction loans;
- Excessive levels of asset concentration with little risk mitigation;
- Reliance on wholesale funding to fund asset growth;
- Ineffective leadership from bank boards of directors and management;
- Inadequate loan underwriting and lack of other loan portfolio and risk management controls, including appropriate use of interest reserves;
- Allowance for loan and lease losses methodology and funding; and
- Compensation arrangements that were tied to quantity of loans rather than quality.

We also identified special issues with regard to "de novo" institutions, and we emphasized the need to monitor business plans closely; consider growth exceeding the plan as a risk to be managed; and ensure that management expertise and operations/administrative structures kept pace with asset growth.

We further observed that Prompt Corrective Action (PCA) did not appear to have prevented failure of the institutions we had reviewed to date. Also, examiners generally had not used the non-capital provisions of PCA to curtail activities that contributed to losses to the DIF.

The OIG communicated these issues to DSC senior management and staff by way of numerous visits to FDIC regional offices from June through September. The Inspector General or Deputy Inspector General made presentations in each of the DSC regional sites and engaged in productive dialogue with an emphasis on explaining the nature of the OIG's MLR work and associated findings. Additionally, throughout the reporting period, in monthly Audit Committee meetings, the OIG presented the results of all completed MLRs, and that forum focused high-level attention on MLR issues. Chairman Bair also convened a DSC working group that continues to meet regularly for the purpose of addressing emerging supervisory issues.

waiver application process. Ongoing audit work in support of the goal area as of the end of the reporting period included 34 MLRs to determine the causes for the failures of FDIC-supervised financial institutions and assess the FDIC's supervision of the institutions.

Material Loss Reviews

By way of perspective, with respect to the 18 failed institutions for which we conducted MLRs, total assets at closing were $11.6 billion, and total estimated losses to the DIF were $3.2 billion. Thus, total losses were 27.6 percent of total assets.

In accordance with the FDI Act, the audit objectives for each of the 18 reviews were to (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the institution, including implementation of the PCA provisions of section 38. The overall results of this body of work are discussed below, with an emphasis on the similarities among many of the failures. Our work throughout the period validated the observations we made based on initial MLR work. Following that discussion, we also present a more detailed discussion of the results of two of the failures, in the interest of pointing out several more unique features that have arisen as we conducted our work during the reporting period.

Causes of Failure and Material Loss

Most institutions failed because their Boards of Directors and management did not implement effective risk management practices to address rapid growth and significant concentrations in certain loan types—among those commercial real estate and acquisition, development and construction, agricultural, and non-owner-occupied residential improvement loans. Further, weaknesses in loan underwriting and credit administration practices contributed to many of the failures. Failed institutions often exhibited a growing dependence on volatile, non-core funding sources, particularly brokered deposits, and in some cases, Federal Home Loan Bank advances and Internet certificates of deposit. There were frequent failures to manage key risks in the loan portfolio, including individual credit concentrations and loans with high loan-to-value ratios, or to implement effective loan grading systems and methodologies for allowance for loan and lease loss computations.

When the various real estate markets began to deteriorate, generally beginning in 2007, weaknesses in the institutions' risk management practices quickly translated into a rapid and significant deterioration in the asset quality of the institutions' loan portfolios. The associated losses and provisions depleted capital and earnings and significantly impaired the institutions' liquidity. Many of these institutions lacked adequate liquidity contingency plans in place. In several cases, also contributing to the losses were incentive compensation plans that rewarded loan volume and did not consider loan quality. Under such plans, certain bank officers generated the vast majority of poor quality loans.

DSC Takes Action to Address MLR Trends and Related Supervisory Issues

The FDIC's actions, generally taken to address the recurring characteristics in institution failures, have been manifested in a "Forward Looking Supervision" approach that focuses on lessons learned from the economic crisis, including common risk characteristics noted at problem and failed institutions. Enhancements to the FDIC's supervisory program as a result of this approach include an enhanced training program for risk management and compliance examiners. The training includes targeted courses related to the rapidly changing financial environment and stresses the importance of considering a financial institution's high risk practices in addition to the bank's financial condition when assessing risk, assigning CAMELS ratings, and determining when and what type of supervisory/enforcement action to recommend.

In addition to the consideration of risk, the FDIC has established a Corporate Performance Objective related to implementing or requesting a corrective action program for financial institutions in a timely manner, requesting or imposing supervisory and/or enforcement actions for troubled financial institutions, and monitoring financial institutions' compliance with supervisory and/or enforcement actions and corrective programs. The FDIC has also taken specific actions related to conducting interim visitations and accelerating on-site examinations, and enhancing off-site monitoring activities. In addition, the FDIC has extended the de novo period from 3 to 7 years and issued revised guidance related to de novo banks including, but not limited to, the review of de novo bank deposit insurance application processing, reviewing a bank's compliance with its business plan, and determining whether a financial institution has materially deviated from its business plan.

We will continue to coordinate our MLR work with DSC and monitor actions taken to address supervisory trends and issues as they arise.

Importantly, six of the MLRs from the reporting period related to de novo institutions—that is, institutions that for their first 3 years in operation were subject to additional supervisory oversight and regulatory controls, including the development and maintenance of a current business plan and increased examination frequency. We noted in a number of these cases that institutions had deviated from original, approved business plans shortly after opening and engaged in activities that contributed to problems at a later time.

In some instances as well, examiner recommendations went unheeded by bank boards of directors and management. In other cases, actions taken by the Board and management to address examiner concerns were not timely or adequate in preventing an institution's failure.

FDIC Supervision

As for FDIC supervision, our MLRs note that the FDIC was conducting supervisory oversight in many ways, including through scheduled risk management examinations, visitations, and off-site monitoring. Frequently, FDIC examiners identified and reported on management weaknesses associated with concentrations and other risky practices and made recommendations for improvements to address those weaknesses. However, examiners did not always ensure that bank management effectively responded to such recommendations, and frequently concluded that the institutions' overall financial condition was sound and management was appropriately managing additional risks associated with high concentrations and other risky practices. In such cases, we suggested that earlier, stronger supervisory action may have been warranted to address risks based on prior examinations and sometimes based on the bank's failure to take action to address risks previously identified by examiners. Such action might have included informal or formal enforcement actions that may have served to better mitigate losses to the DIF.

With respect to the de novo institutions, we concluded that coverage of de novo business plan deviations could have been improved. In that regard, as referenced earlier, the Corporation took steps to extend the de novo period and revised its guidance related to monitoring of business plans.

Additionally, in a number of cases, off-site monitoring could have been more effective, as it did not always alert the FDIC to a bank's deteriorating condition until a relatively short time prior to the institution's failure or did not result in substantial adjustments to the FDIC's supervisory strategy. When working effectively, off-site monitoring can result in earlier identification of existing weaknesses, giving examiners a better opportunity to more promptly address weaknesses and influence or direct banks to take corrective action before their overall financial condition becomes critical, thereby mitigating losses.

Prompt Corrective Action

With regard to PCA, we determined that the FDIC had properly implemented applicable PCA provisions of section 38 based on the supervisory actions taken. In at least one case, we noted that action taken by the regulators helped avoid greater losses resulting from the bank's lending practices. However in many cases, PCA's effectiveness in mitigating the losses to the DIF was limited because PCA is a lagging indicator, and did not always require action until an institution was at serious risk of failure. We have also raised the point that there may be non-capital provisions of PCA that examiners could consider using to curtail bank activities that contributed to losses.

The table to the right lists the MLRs that we conducted during the reporting period. Resulting reports for each of these failed institutions are available on our Web site at www.fdicig.gov.

While most of the failed institutions that were the subject of our MLRs failed for very similar reasons, it is interesting to note the more unique features of several of the failures. To illustrate, the following more comprehensive summaries of two of the MLR reports we issued this reporting period discuss the causes of failure and the FDIC's supervision in more detail.

OIG Inventory of Material Loss Reviews (April-September 2009)
(information as of September 30, 2009)

Failed Institution	Date of Failure	Total Assets at Failure	Loss to Insurance Fund
Main Street Bank (Northville, Michigan)	10/10/2008	$102.1 million	$52.5 million
Alpha Bank & Trust (Alpharetta, Georgia)	10/24/2008	$336.1 million	$164.2 million
Freedom Bank (Bradenton, Florida)	10/31/2008	$268.2 million	$103.3 million
Security Pacific Bank (Los Angeles, California)	11/7/2008	$540.3 million	$172.7 million
Franklin Bank, SSB (Houston, Texas)	11/7/2008	$4.9 billion	$1.2 billion
The Community Bank (Loganville, Georgia)	11/21/2008	$653.1 million	$236.6 million
Haven Trust Bank (Duluth, Georgia)	12/12/2008	$575.6 million	$207.5 million
Bank of Clark County (Vancouver, Washington)	01/16/2009	$468.1 million	$122.5 million
1st Centennial Bank (Redlands, California)	01/23/2009	$783.5 million	$217 million
MagnetBank (Salt Lake City, Utah)	01/30/2009	$286.4 million	$129.3 million
FirstBank Financial Services (McDonough, Georgia)	02/6/2009	$325.2 million	$112.2 million
Alliance Bank (Culver City, California)	02/6/2009	$1.2 billion	$189.3 million
Sherman County Bank (Loup City, Nebraska)	02/13/2009	$126.6 million	$43.4 million
Corn Belt Bank and Trust Company (Pittsfield, Illinois)	02/13/2009	$261.7 million	$100.4 million
Silver Falls Bank (Silverton, Oregon)	02/20/2009	$138.7 million	$48.4 million
Heritage Community Bank (Glenwood, Illinois)	02/27/2009	$228.1 million	$39.8 million
Security Savings Bank (Henderson, Nevada)	02/27/2009	$202.4 million	$59.1 million
Freedom Bank of Georgia (Commerce, Georgia)	03/6/2009	$176.4 million	$36.1 million

Magnet Bank

On January 30, 2009, the Utah Department of Financial Institutions closed MagnetBank, Salt Lake City, Utah, and named the FDIC as receiver. MagnetBank's total assets at closing were $286.4 million. The estimated loss to the DIF was $129.3 million as of August 7, 2009.

MagnetBank was an industrial bank insured on September 29, 2005. On July 24, 2007, with the Utah Department of Financial Institutions and FDIC approval, the bank changed its charter to a state nonmember commercial bank. As a de novo bank, MagnetBank was subject to additional supervisory oversight and regulatory controls, including the development and maintenance of a current business plan and increased examination frequency. With no branch offices and four loan production offices, MagnetBank engaged principally in commercial real estate lending activities within Georgia, Utah, North Carolina, California, Idaho, Florida, Arizona, and Nevada, states that experienced significant economic downturns starting in 2007 and early 2008. MagnetBank had no holding company, subsidiaries, or affiliates.

MagnetBank's assets consisted principally of commercial real estate (CRE) loans, including a significant concentration in residential acquisition, development, and construction (ADC) loans. FDIC guidance issued to financial institutions describes a risk management framework to effectively identify, measure, monitor, and control CRE concentration risk. That framework includes effective oversight by bank management, including the Board of Directors and senior executives, and sound loan underwriting, administration, and portfolio management practices.

Why did this bank fail? As was the case with many other failed institutions, MagnetBank failed due to management's aggressive pursuit of CRE/ADC lending concentrated in high-growth markets, coupled with weak risk management controls, that left the bank unprepared to deal with declining markets. Its business plan was to expand into a $530 million bank within its first 3 years of operations, funded by brokered deposits. To achieve this goal, MagnetBank pursued CRE/ADC lending through regulator-approved loan production offices in multiple states and loan participations purchased from other banks. Interestingly, most of these participations were with institutions that were not in Utah and were primarily originated in once-growing real estate markets such as Atlanta, Georgia. Generally, participations purchased are a quick method of growth for a bank because the loan origination and underwriting is conducted by the selling bank. However, each loan participation purchaser should conduct adequate due diligence to ensure that credit risk is identified and accepted. Many of MagnetBank's participations were with banks that subsequently failed in 2008 and 2009. As a result of these lending efforts, the bank had reached $459 million in assets by the end of its first 15 months of operations, committing the bank to a highly concentrated CRE/ADC loan portfolio that was negatively affected when the economy declined.

The bank's operations were characterized by wide-spread weaknesses in loan underwriting and approvals; poor credit administration; high production-focused compensation for loan officers; inadequate due diligence for participations purchased; untimely recognition of problem assets; and, as the economy turned, high levels of adversely classified assets and losses without an adequate allowance for loan and lease losses. Due to the losses in the loan portfolio, the bank's capital eroded and liquidity became strained, ultimately leading to the failure of the bank, 40 months after opening.

FDIC Supervision: We concluded that the FDIC provided ongoing supervision of MagnetBank; identified key concerns for attention by bank management, including the problems that led to the bank's failure; and, together with the state regulator, pursued enforcement action as the bank's financial condition deteriorated in 2008 prior to the bank's failure. The FDIC's off-site monitoring identified the need for additional oversight, resulting in a visitation and subsequent acceleration of the 2008 examination. The April 2008 examination included a thorough analysis of asset quality and other problems at the bank, and the FDIC followed up on two resulting Cease and Desist Orders in December 2008.

However, we reported that, in retrospect, the FDIC could have provided additional supervisory attention and taken additional action regarding MagnetBank. In particular, the 2007 examination could have more fully considered the risks associated with the rapid growth of a de novo institution concentrated in CRE/ADC lending that was funded almost exclusively with wholesale funding sources. Examiners emphasized heavily the past experience of MagnetBank's management team rather than the growing risk to the institution from its aggressive business strategy and weak risk management controls. Between the August 2007 and April 2008 examinations, MagnetBank went from well rated to the worst composite rating assigned, and numerous critical deficiencies were identified in risk management controls by the latter examination. We reported that the FDIC should have ensured that examiners followed the supervision strategy for the 2007 examination, developed in conjunction with the FDIC's approval of the bank's revised business plan, that specified a 60-percent loan sample, which might have identified additional asset quality and risk management control problems. Instead, the actual loan sample was less than half of the 60 percent targeted amount. In addition, supervisory actions could have been timelier, resulting in earlier action by the bank to address its problems. With respect to PCA, the FDIC notified the bank of its PCA status in a timely manner.

In its response to our draft report, DSC stated that MagnetBank failed due to management's aggressive pursuit of ADC loans concentrated in high-growth markets funded with higher-cost wholesale deposits. DSC also stated that this profile, coupled with weak management controls, left MagnetBank unprepared to deal with declining markets. In addition, the DSC Director stated that DSC (1) had implemented a supervisory strategy of planned annual examinations, interim 6-month visitations, and quarterly off-site monitoring in 2007 and (2) agreed that a higher loan sample at that time may have uncovered additional problems that could have led to earlier supervisory action.

Sherman County Bank

The failure of Sherman County Bank (SCB), Loup City, Nebraska, illustrates the activities involved at an institution specializing in agricultural lending, and in this case, risky practices associated with SCB's participation in a third-party arrangement involving commodity futures and options contracts. On February 13, 2009, the Nebraska Department of Banking and Finance (NDBF) closed SCB and named the FDIC as receiver. SCB's total assets at closing were $126.6 million and the material loss to the DIF was estimated at $26.8 million at the time we conducted our work. That estimate is now $43.4 million.

SCB was a state-chartered nonmember bank that was established on June 27, 1932 and insured on January 1, 1934. At closing, the bank had three branch offices in Nebraska and one affiliate. Sherman County Management, Incorporated, a one-bank holding company, was the parent company of SCB. SCB provided traditional banking activities within its local marketplace and specialized in agricultural lending. SCB participated in a Commodity Marketing Program that included 34 of the bank's agricultural customers, a program broker, and SCB as part of a third-party arrangement.

The FDIC has recognized the increased risk that third-party arrangements present to financial institutions and issued guidance in 2008 that describes a risk management framework to effectively identify, measure, monitor, and control those risks. That framework should include effective oversight by bank management, including the board of directors and senior executives, and an effective third-party risk management program, including risk assessment, due diligence in selecting a third party, contract structuring and review, and oversight.

Why did this bank fail? SCB failed primarily due to the bank board of directors' and management's decision to increase and fund loan commitments without adequately considering the borrowers' ability to repay and the sufficiency of the underlying collateral. These loans were made to 34 agricultural customers participating in a Commodity Marketing Program (Program). The activities of the Program, principally the purchase and sale of commodity futures and options contracts, resulted in significant losses to these customers in late 2008 and early 2009. To facilitate continued Program trading, SCB increased and funded customer loan commitments, often in apparent violation of Nebraska's legal lending limits (LLL), to individual borrowers and without due regard for sound risk management controls, including those associated with assessing a customer's ability to repay and collateral asset value. SCB also relied heavily on volatile funding such as brokered deposits and large time deposits to fund the significant increases in its loans to Program participants. As SCB funded these loans, the bank's credit concentration related to the Program and the bank's overall risk exposure significantly increased. Ultimately, losses associated with these loans depleted capital and strained liquidity, resulting in the bank's failure.

Specifically, during late 2008 and early 2009, SCB increased loan commitments and resulting funding, totaling $46.2 million, to cover trades made by the Program's broker. During the same period, SCB increased its use of brokered and time deposits by $34 million to help fund these loans. The increases in these loan commitments resulted in over 300 apparent violations of the LLL totaling nearly $24 million. In addition, collateral for the Program loans was not sufficient to support the increased commitments. At the time of SCB's failure in February 2009, total collateral for the $62.2 million in Program loans was valued at $31.5 million, or a loan-to-value ratio of 198 percent. The FDIC classified $31.7 million of the $62.2 million in Program loans as loss, which significantly exceeded SCB's capital. SCB did not adequately assess the risk that the third-party arrangement posed to the bank prior to increasing loan commitments to Program participants.

FDIC Supervision: We reported that the FDIC and state regulator provided regular oversight of SCB, including conducting risk management examinations and visitations. However, we identified one area where the FDIC's supervision could have been improved. Simply put, the FDIC could have taken earlier and more assertive action related to SCB's third-party arrangement for the Program. The FDIC's examinations of SCB conducted in 2005 and 2008 reviewed the Program; however, the extent of the reviews was limited, and review results were not adequately documented. Specifically, the FDIC reviews did not fully assess the risk that the third-party arrangement posed to SCB and ensure that the bank established and appropriately implemented controls necessary to identify, measure, monitor, and control those risks. In particular, as a result of the 2008 examination, the FDIC recognized that there were deficiencies in SCB's lending activities but did not ensure that SCB's Loan Policy included adequate guidance to limit: (1) loan commitments in relation to the borrower's ability to repay and collateral value for Program loans and (2) the concentration in Program loans.

In January 2009, SCB management informed the FDIC that the bank was likely insolvent due to losses on Program loans. As a result, the NDBF and FDIC took appropriate and immediate action. In February 2009, the FDIC conducted a visitation and issued a PCA Notification on February 4, 2009, notifying the bank that SCB was considered to be critically undercapitalized. On February 5, 2009, the NDBF informed SCB that the bank needed to obtain additional capital totaling $34.1 million by February 12, 2009. In addition, the FDIC issued a Cease and Desist Order, on February 7, 2009, which required the bank to take various actions, including increasing capital and improving bank management and the quality of SCB's loan portfolio.

However, the bank was not able to raise the additional capital. Earlier recognition of the significance of the risk that the third-party arrangement posed to SCB and deficiencies in SCB's loan policy could have led to elevated supervisory attention and more timely supervisory action.

In responding to our report, DSC stated that SCB failed primarily due to the board of directors' and management's decision to increase and fund loans without adequately considering the borrowers' ability to repay and the sufficiency of the underlying collateral. DSC stated that at the time of the July 2008 examination, the Program was operating within its parameters, and there was more than adequate commodity and market account collateral to repay the outstanding loans. DSC continued that examiners had discussed the importance of the Program hedging parameters and LLL with SCB management during the 2008 examination, yet management ignored internal controls and LLL only 3 months later. DSC acknowledged that earlier and more complete recognition of the risks posed by the single-broker arrangement and the weaknesses in SCB's internal controls could have led to elevated supervisory attention and more timely supervisory action. DSC also acknowledged the importance of commodity price protection programs to the agriculture industry and expressed support for well-controlled risk management programs designed to hedge against commodity market price fluctuations.

The FDIC's Brokered Deposit Application Waiver Process

Brokered Deposits (BD) are receiving considerable attention because of recent bank failures involving excessive reliance by FDIC-insured financial institutions on such deposits to support aggressive asset growth. A BD is any deposit that is obtained, directly or indirectly, from or through the mediation or assistance of a deposit broker. BDs have been used by insured financial institutions for years as a wholesale funding source to support asset growth. When properly managed, BDs offer institutions a number of important benefits such as ready access to funding. However, BDs can be a higher-cost and more volatile funding source and, as such, present potential liquidity, earnings, and other risks that must be properly managed.

An institution's ability to solicit and accept BDs is linked to its capital level as provided in the FDI Act and FDIC Rules and Regulations. In general, insured depository institutions that are considered to be adequately capitalized (including well capitalized institutions subject to certain supervisory directives) may not accept, renew, or roll over any BD unless the institution has applied for and has been granted a waiver by the FDIC. During the reporting period, we conducted an audit to assess the FDIC's BD waiver application process for FDIC-insured financial institutions.

We concluded that the FDIC has established a formal process for reviewing and processing BD waiver applications that was generally consistent with the requirements in the FDIC's Rules and Regulations. However, we noted that control requirements in some areas of the BD waiver application process warranted improvement. We recommended that the Director, DSC: (1) clarify policies and procedures related to the acknowledgement provision in the FDIC Rules and Regulations and the conditions to be included in a BD waiver approval letter, (2) establish formal written procedures for the Washington Office review of BD waiver applications, (3) determine whether a public announcement was warranted with regard to a decision to temporarily suspend expedited processing, and (4) further encourage financial institutions to use FDICconnect to submit BD waiver applications. The FDIC agreed with our recommendations and is taking responsive action.

Ongoing Work in This Goal Area

At the end of the reporting period, we were conducting a joint review with the Department of the Treasury OIG related to the failure of Washington Mutual Bank (WaMu), as described below.

The Failure of WaMu: WaMu was the largest bank failure in the history of the United States, but because the resolution structure resulted in no loss to the insurance fund, the threshold for conducting a MLR was not triggered. Given the size, the circumstances leading up to the resolution, and the non-fund losses (i.e., loss of shareholder value), we are working jointly with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction. We are evaluating the Office of Thrift Supervision's supervision of WaMu, including implementation of PCA provisions of section 38; the FDIC's supervision and monitoring of WaMu in its role as insurer; and will later assess the FDIC's resolution process for WaMu. Results of this work will be presented in an upcoming semiannual report.

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.

About 40 percent of our active cases address the increased incidence of mortgage fraud. Other cases during the reporting period involve bank fraud, wire fraud, embezzlement, theft, and money laundering. The OIG's success in all such investigations contributes to ensuring the continued safety and soundness of the nation's banks.

Successful 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 supplemented by our participation in a growing number of mortgage fraud task forces. Mortgage fraud continues to take on new characteristics in the current economic crisis as perpetrators seek to take advantage of an already bad situation. Such illegal activity can cause financial ruin to homeowners and local communities. It can further impact local housing markets and the economy at large. Mortgage fraud can take a variety of forms and involve multiple individuals. We work these and other cases based on a variety of excellent sources of referral and with partners both internal and external to the FDIC, as shown in the write-ups that follow.

Former Manager of Nations Home Lending Ordered to Pay Additional Restitution to the FDIC

On June 17, 2009, a former manager of Nations Home Lending, a division of Sutton Bank, was sentenced to pay additional restitution in the amount of $643,033 to the FDIC in its role as receiver of IndyMac Federal Savings Bank, the then-current holder of the loan in question.

Earlier, in October 2008, the defendant had pleaded guilty to one count of mail fraud affecting financial institutions in connection with his purchases of more than $2.3 million in real estate. On January 28, 2009, the defendant was sentenced to 51 months of incarceration, 3 years of supervised release, and was ordered to pay $645,925 in restitution—$395,910 to Sutton Bank and $250,015 to Kansas Bankers Surety Company.

This investigation was initiated on December 31, 2007, based on information provided to the OIG by DSC's Chicago Office regarding the defendant, a former Vice President of Mortgage Banking, Sutton Bank, who was employed by the bank's Cincinnati, Ohio branch office. Specifically, a Suspicious Activity Report filed by Sutton Bank, Attica, Ohio, described a series of circuitous mortgage transactions related to the defendant's primary residence whereby the defendant received approximately $2 million in loan proceeds.

From 2001 to 2007, the defendant acquired residential real estate and two mortgages in his own name by making false statements regarding his income. The defendant then refinanced the mortgages and created false documents, such as a Satisfaction of Mortgage, to deceive the parties associated with the refinanced transactions. As a result, the defendant was able to directly obtain the loan proceeds for his personal benefit instead of using the loan proceeds to pay off the mortgages. The value of these two mortgages was $2.3 million.

Source: *DSC.* ***Responsible Agencies:*** *Joint investigation by the FDIC OIG, the Federal Bureau of Investigation (FBI), and the U.S. Postal Inspection Service. Prosecuted by the U.S. Attorney's Office, Southern District of Ohio.*

President of Real Estate Firm Sentenced

The President of Peerless Real Estate Services of Apex, North Carolina, was sentenced to 39 months in prison on June 3, 2009 in U.S. District Court in Charlotte, North Carolina. He was further sentenced to 2 years of supervised release upon release from prison and ordered to pay restitution of an amount yet to be determined. The defendant was charged on August 4, 2008 with one count of conspiracy to defraud the United States.

This sentencing is related to a conspiracy that took place from about 2002 through May 2007 involving the purported "Village of Penland" project, located in Mitchell County in the Western District of North Carolina. Peerless Real Estate Services was the lead entity among a network of numerous entities (referred to as the Peerless conspirators) involved in the scheme.

The Peerless conspirators fraudulently induced investors to enter into an investment contract in which the conspirators promised that (a) they would arrange for investors to obtain mortgage loans in connection with Penland lots; (b) the investors' loan proceeds would be distributed to Peerless Real Estate Services to develop Penland; (c) Peerless conspirators eventually would purchase the lots back from the investors; and (d) the investors would realize a guaranteed profit after the investment period had elapsed.

This defendant's role in the conspiracy involved inducing investors to invest in Penland by making false and fraudulent representations, omitting material facts, and telling deceptive half-truths. The Peerless conspirators also caused investors to obtain fraudulent mortgage loan proceeds to invest in Penland by making false and fraudulent representations in, and omitting material facts from, the loan packages and HUD-1 Settlement Statements associated with the mortgage loans.

Source: *The FBI initiated the investigation based on a referral from Branch Banking & Trust. The FDIC was invited to assist in the investigation by the United States Attorney's Office for the Western District of North Carolina, Charlotte.* ***Responsible Agencies:*** *Joint investigation with the FBI and the Internal Revenue Service Criminal Investigation Division. Prosecuted by the U.S. Attorney's Office for the Western District of North Carolina.*

Thirteen Indicted in Sub-prime Mortgage Fraud Case

On May 28, 2009, a 15-count indictment was unsealed in the Southern District of New York, Manhattan, NY, charging 13 people in connection with their roles in a sub-prime mortgage fraud scheme involving dozens of mortgages, totaling more than $10 million, on residential properties on Long Island and in the New York City area.

According to the indictment, from 2005 through 2007, the defendants targeted residential properties, generally in the $200,000 to $500,000 range, in the Long Island and New York City areas. In some instances, the defendants targeted properties whose owners were facing foreclosure, and fraudulently convinced them that selling their properties to the defendants would be a way to pay off their debts and "save" their homes. In other instances, the defendants identified properties they believed could be resold quickly, or "flipped." To purchase the properties, the defendants, whether directly or in the name of straw buyers, submitted mortgage loan applications that contained false information regarding, for example, the applicant's credit worthiness and intention to live in the residence. The loans thereby obtained typically exceeded the actual purchase price of the property, producing a "spread" from which the defendants profited. Straw buyers, who were recruited through promises of substantial fees and investment profits, were told not to worry about mortgage payments because the defendants would make the payments for several months and thereafter repurchase and/or resell the property. In fact, the defendants often failed to make mortgage payments, causing certain affected straw buyers to go into default on their mortgages.

As a result of the fraud, mortgage lenders were forced either to foreclose on those properties or to re-purchase the properties form the straw buyers for less than the face value of the loan. This often left the original homeowner (who had been promised that selling his or her home would be a way to "save it") facing eviction. In some instances, the defendants rented the property to tenants and used the rent and other monies earned from the scheme to make mortgage payments for a certain period of time before allowing the mortgage to go into default. In other instances, the defendants made mortgage payments for several months before "flipping" the property to yet another straw buyer who fraudulently obtained a new mortgage with the defendant's assistance, thus restarting the fraudulent scheme.

Source: *U.S. Secret Service.* ***Responsible Agencies:*** *Joint investigation with the U.S. Secret Service, FBI, and the U.S. Postal Inspection Service. Prosecuted by the U.S. Attorney's Office for the Southern District of New York.*

Sentences in HELOC Mortgage Fraud Case

Over the past 6 months, an additional six defendants were sentenced in the District of New Jersey for their roles in a massive home equity line of credit (HELOC) fraud scheme. This brings the total number of individuals involved to 18. Prison sentences for all the defendants ranged between 2 months and 144 months, and restitution ordered exceeds $26 million.

The defendants conspired to fraudulently obtain more than $20 million in home equity loans and business lines of credit. Victims of the fraud include at least 16 different lenders in northern New Jersey, including Woori American Bank and Royal Asian Bank. In a HELOC, a borrower pledges the equity in the borrower's property as security for the line of credit. The bank's security interest in the property is then publicly recorded so that other lenders will be aware of prior claims on the property. According to the indictment in this matter, the defendants executed the scheme by closing on multiple HELOCs in a short period of time so that the earlier lenders' security interests would not yet be publicly recorded.

Source: *U.S. Attorney's Office, Newark, New Jersey.* ***Responsible Agencies:*** *Joint investigation with the FBI. Prosecuted by the U S. Attorney's Office for the District of New Jersey.*

Keeping Current with Mortgage Fraud Activities Nationwide	
The FDIC OIG participates in the Department of Justice's Operation Malicious Mortgage and in the following mortgage fraud working groups throughout the country. We benefit from the perspectives, experience, and expertise of all parties involved in combating the growing incidence of mortgage fraud schemes.	
National Bank Fraud Working Group	National Mortgage Fraud Working Sub-group.
Northeast Region	Long Island Mortgage Fraud Task Force, Eastern District New York Mortgage Fraud Task Force; the Northern Virginia Real Estate Fraud Initiative Working Group, Manassas, Virginia; the New England Mortgage Fraud Working Group.
Southeast Region	Middle District of Florida Mortgage and Bank Fraud Task Force, Southern District of Florida Mortgage Fraud Working Group, Northern District of Georgia Mortgage Fraud Task Force, Eastern District of North Carolina Bank Fraud Task Force.
Midwest Region	Chicago Mortgage Fraud Task Force, Dayton Area Mortgage Fraud Task Force, Cincinnati Area Mortgage Fraud Task Force, St. Louis Mortgage Fraud Task Force, Kansas City Mortgage Fraud Task Force.
Southwest Region	Seattle Mortgage Fraud Working Group, FBI Seattle Mortgage Fraud Task Force, Mortgage Fraud Task Force for the Southern District of Mississippi, Oklahoma City Financial Crimes Suspicious Activity Report Review Work Group, North Texas Mortgage Fraud Working Group, the Eastern District of Texas Mortgage Fraud Task Force, the Texas Attorney General's Residential Mortgage Fraud Task Force, Houston Mortgage Fraud Task Force, and the Los Angeles Mortgage Fraud Working Group.

Other Bank Fraud Case Results

Former Automobile Dealership Owner Sentenced for Defrauding Banks and Finance Companies

On July 24, 2009, in the U.S. District Court for the Southern District of Mississippi, Jackson, Mississippi, a former car dealer was sentenced for conspiracy to commit bank fraud, wire fraud, and committing a felony while on bond. The defendant was sentenced to serve 250 months in prison and ordered to pay restitution of more than $3.7 million. Of this sentence, 60 months of the prison term and $1.3 million of the restitution was assigned to the defendant's victimizing BankPlus, BancorpSouth Bank, Citizens National Bank of Meridian, Omni Bank, and State Bank & Trust. The remaining 190 months of the sentence and $2.4 million of the restitution was assigned to two car companies that the defendant had victimized.

From January 1, 2008 through November 11, 2008, the defendant obtained lines of credit from Hyundai Motor Finance Corporation and Mitsubishi Motor Corporation of America. These lines of credit were secured by new and used car inventories of the defendant's dealerships. During part of that time frame, he double pledged various vehicles to both companies. In addition, he sold cars to customers of his dealerships and then failed to repay the car companies' lines of credit. The amount of losses to Hyundai Motor Finance Corporation is estimated at $1.9 million. Losses to Mitsubishi Motor Corporation of America are estimated at $4.2 million.

Source: *FBI.* ***Responsible Agencies****: Joint investigation by the FDIC OIG, Internal Revenue Service Criminal Investigation Division, and FBI. Prosecuted by the U.S. Attorney's Office, Southern District of Mississippi.*

Hotel Operator Sentenced for Defrauding a Financial Institution

A hotel operator was sentenced to 4 months in prison, 3 years of supervised release, a $10,000 fine, and a special assessment of $200. The hotel operator had previously pleaded guilty to a two-count information charging him with conspiracy to defraud the United Statges and immigration violations.

In 2003, one of the hotel operator's operating entities obtained a commercial construction loan of approximately $4 million from Chittenden Trust Company (Chittenden), Burlington, Vermont, for the purpose of building a Hampton Inn in Brattleboro, Vermont. The hotel operator conspired with a builder and others to inflate the stated cost of the construction project. Two separate construction contracts were completed. One of the contracts between the parties referenced the true construction cost; the other contract reflected inflated cost figures. The inflated cost figures were given to Chittenden, and the loan was based on those false figures. During the course of the construction project, the hotel operator and the builder submitted a series of percentage of completion construction draw requests based on the false contract amount; Chittenden paid those draw requests.

Chittenden's commercial loan required the hotel operator to pay the builder a $400,000 deposit before the loan closed. The hotel operator, the builder, and others made an agreement to avoid paying the required deposit. The hotel operator sent the builder a series of four $100,000 checks, purportedly to meet the deposit requirement. The builder returned the money by writing checks payable to the father of one of the hotel operator's employees; the employee, who had access to his father's account, transferred the money back into the hotel operator's account. The builder certified to Chittenden that he had retained the required deposit and the loan closed.

Between 2003 and 2006, the hotel operator received a series of additional commercial loans from Chittenden, valued at approximately $4.9 million. The hotel operator falsified his operating entities' books and records by inflating revenue to make it appear that his properties were operating profitably. Chittenden approved and funded the loans based, in part, on the falsified financial statements.

Source: *U.S. Attorney's Office for the District of Vermont and the FBI.* ***Responsible Agencies:*** *Joint investigation with the FBI and the Bureau of Immigration and Customs Enforcement. Prosecuted by the U.S. Attorney's Office for the District of Vermont.*

Former Borrowers of the Bank of Alamo Plead Guilty

On July 24, 2009, two former borrowers of the Bank of Alamo, Alamo, Tennessee, entered guilty pleas to charges of bank fraud in the U.S. District Court for the Western District of Tennessee, Eastern Division. The defendants were brothers and obtained loans from the Bank of Alamo for the specific purpose of developing fifteen

Krystal Restaurants between March 1, 2000 and March 1, 2006. The defendants made false statements and omissions to the FDIC and/or the state for the purpose of concealing that the bank had made loans to one of the borrowers in excess of the bank's legal lending limit. In obtaining the loans from the bank, the defendants represented that the loans were for their use and benefit when in fact the loans were made at the direction of and for the use and benefit of one borrower who had exceeded the bank's legal lending limit and concealed the true financial condition of the Bank of Alamo. The defendants also caused false financial statements to be submitted to the bank.

In February 2009, in connection with this case, a former bank president and CEO for the Bank of Alamo pleaded guilty to a charge of conspiracy. The former president prepared and submitted to the FDIC and the state false forms and reports that concealed loans made to a borrower in excess of the bank's legal lending limit and concealed the true financial condition of the Bank of Alamo.

Responsible Agencies: *Joint investigation by the FDIC OIG and the FBI. Prosecuted by the U.S. Attorney's Office for the Western District of Tennessee, Eastern Division.*

Strong Partnerships with Law Enforcement Colleagues

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

During the reporting period, we partnered with U.S. Attorneys' Offices in the following states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin.

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

Strategic Goal 2

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

Federal deposit insurance remains a fundamental part of the FDIC's commitment to maintain stability and public confidence in the nation's financial system. With enactment of the Emergency Economic Stabilization Act of 2008, the limit of the basic FDIC deposit insurance coverage was raised temporarily from $100,000 to $250,000 per depositor, through December 31, 2009. Coverage of up to $250,000 was subsequently extended through December 31, 2013.

According to the FDIC's most recent information, total reserves of the DIF stood at about $42 billion as of the end of the second quarter 2009. Just as insured institutions reserve for loan losses, so does the FDIC provide for a contingent loss reserve for future failures. To the extent that the FDIC has already reserved for an anticipated closing, the failure of an institution does not reduce the DIF balance. The contingent loss reserve, totaling $28.5 billion on March 31, rose to $32 billion as of June 30, reflecting higher actual and anticipated losses from failed institutions. Additions to the contingent loss reserve caused the fund balance to decline from $13 billion to $10.4 billion. Thus, total reserves of the DIF amounted to $42.4 billion at the end of the second quarter. A priority for the FDIC is to ensure that the DIF remains viable to protect depositors in the event of an institution's failure. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

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

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

While smaller bank failures take their toll on the DIF, large banks can pose unique risks to the fund, as illustrated by the failure of IndyMac Federal Savings Bank in July 2008, for example, which caused an estimated $10.7 billion loss to the DIF. Over recent years, the consolidation of the banking industry has 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 include the following:

- Large Insured Depository Institution Program,
- Dedicated Examiner Program,
- Shared National Credit Program, and
- Off-site monitoring systems.

The Congress enacted deposit insurance reform in early 2006 to give the FDIC more discretion in managing the DIF and allow the Corporation to better price deposit insurance based on risk. In light of recent economic events, the Board has taken a number of actions in this regard. The assessment system has been modified, and the Corporation adopted a restoration plan in October 2008 to increase the reserve ratio to the 1.15 percent threshold within 5 years. In February 2009, the Board invoked the "extenuating circumstances" provision of the FDI Act and voted to extend the restoration plan horizon to 7 years.

To help the FDIC maintain the viability of the DIF, the OIG's **2009 performance goal** was as follows:

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

We would note that the OIG's work referenced in Goal 1 also fully supports the goal of helping the FDIC maintain the viability of the DIF. Each institution for which we conduct a MLR, by definition, causes a substantial loss to the DIF. The OIG's MLR work is designed to help prevent such losses in the future. Similarly, investigative activity described in Goal 1 fully supports the strategic goal of helping to maintain the viability of the DIF. The OIG's efforts often lead to successful prosecutions of fraud in financial institutions and/or fraud that can cause losses to the fund.

OIG Work in Support of Goal 2

As of the end of the reporting period, we completed two specific reviews related to the viability of the DIF, as described below. We contracted with KPMG, LLP to perform an audit of the FDIC investment program, including the DIF portfolio and the National Liquidation Fund (NLF). This assignment is a follow-on to work we conducted in 2005 related to the FDIC's investment policies. The FDIC Chairman at the time requested that the OIG conduct an independent audit of the corporate investment program every 3 years and include the investment policies applicable to the NLF. Also during the reporting period, we completed an evaluation related to the IndyMac Federal Savings Bank failure, focusing on such areas as the FDIC's monitoring and awareness of the institution and the actions it took as back-up regulator and deposit insurer. Finally, we issued the results of a risk assessment of the Corporation's Temporary Liquidity Guarantee Program.

FDIC's Corporate Investment Program

We contracted with KPMG LLP (KPMG) to conduct a performance audit of the FDIC's Corporate Investment Program. The objective of the audit was to assess the FDIC's controls for ensuring that the DIF and NLF are managed consistent with the FDIC's investment policies approved by the Corporation's Board of Directors (Board). The DIF portfolio includes corporate investments, while the NLF portfolio includes funds held by the FDIC in its receivership and corporate liquidator capacity. As of September 30, 2008, the market value of the DIF and NLF were $34.59 billion and $2.86 billion, respectively.

The management of the DIF and NLF is governed by two separate policies approved by the Board. Among other things, these policies define investment objectives for the funds, key roles and responsibilities, and reporting requirements to the Board. The Board delegated to the Deputy to the Chairman and Chief Financial Officer (CFO) the responsibility for managing the DIF and investing and accounting for the NLF. The Director, Division of Finance (DOF), under the general supervision of the CFO, is responsible for implementing the Corporation's investment strategies and for managing the day-to-day financial transactions of the funds.

KPMG found that the FDIC had implemented a number of important controls designed to ensure that the DIF and NLF are managed consistent with the FDIC's Board-approved investment policies. Of particular note, DOF had developed detailed procedures and guidelines to manage the day-to-day operations of the funds. Additionally, the FDIC had created an Investment Advisory Group to monitor the performance of the funds and advise the CFO on investment strategies pertaining to the funds. Further, the CFO and DOF officials reported regularly to the Board on the funds' performance and were taking proactive measures to help ensure the viability of the funds in response to uncertainties in the banking industry. While these actions were positive, we reported that control improvements in the some areas of the Corporate Investment Program were warranted.

KPMG recommended that the CFO and Director, DOF: update the Corporate Investment Policy and DOF's detailed investment procedures and guidelines (where appropriate) and perform periodic program assessments to ensure controls operate as intended; develop a comprehensive, written contingency funding plan for the DIF; establish a system of dual control over securities transactions; and periodically validate key computer-based financial models. These control improvements will help ensure that the Corporation's investment management processes are repeatable, consistent, and disciplined and that operational risk associated with staff departures is minimized. Such control improvements will also promote separation of duties and help mitigate the risk of errors. KPMG also communicated separately to corporate officials a potential control enhancement for managing interest rate risk in the DIF.

Management generally concurred with KPMG's recommendations and planned to take responsive actions.

The FDIC's Role in the Monitoring of IndyMac Bank

The Office of Thrift Supervision (OTS) closed IndyMac Federal Savings Bank (IndyMac) on July 11, 2008. As of July 31, 2009, the estimated cost of the resolution to the DIF was approximately $10.7 billion. The OTS was the primary federal regulator for IndyMac and was statutorily responsible for conducting full-scope on-site examinations of IndyMac to assess safety and soundness, and compliance with consumer protection laws and regulations.

As discussed earlier, the FDIC has the unique role of insuring deposits in the nation's financial institutions. In this capacity, the FDIC is responsible for regularly monitoring and assessing potential risks to the DIF. DSC monitors non-FDIC supervised institutions, such as IndyMac, through its Case Manager Program and a number of monitoring systems. Additionally, the FDIC, by statute, has special examination authority and certain enforcement authority for all insured depository institutions for which it is not the primary federal regulator.

At the FDIC Chairman's request, we conducted a review to evaluate the FDIC's role in monitoring IndyMac, including determining: (1) when the FDIC became aware of problems at IndyMac and (2) what actions were taken by the FDIC to mitigate those problems.

We determined that in its role as insurer, the FDIC identified and monitored risks that IndyMac presented to the DIF by participating with the OTS in on-site examinations of IndyMac in 2001, 2002, 2003, and again shortly before IndyMac failed in 2008, and through the completion of required reports and analysis of IndyMac based upon information from FDIC monitoring systems. FDIC risk committees also raised broad concerns about the impact that an economic slowdown could have on institutions like IndyMac that were heavily involved in securitizations and subprime lending. Nevertheless, FDIC officials consistently concluded that despite its high-risk profile, IndyMac posed an ordinary or slightly more than ordinary level of risk to the insurance fund. It was not until August 2007 that the FDIC began to understand the implications that the historic collapse of the credit market and housing slowdown could have on IndyMac and took additional actions to evaluate IndyMac's viability.

In summary, our evaluation presented the FDIC's monitoring efforts of IndyMac in three periods:

Phase 1: 2001-2003: During this time, the FDIC was actively engaged in monitoring IndyMac and participated with OTS in on-site examinations.

Phase 2: 2004 through Mid-2007: The FDIC discontinued participating in on-site examinations and relied on OTS examinations and off-site monitoring tools and systems to monitor IndyMac. The FDIC also experienced turnover in the case manager position responsible for monitoring IndyMac.

Phase 3: Mid-2007 through Mid-2008: In response to problems at Countrywide, the FDIC reassessed IndyMac and other financial institutions with similar business models, exercised back-up examination authority, and downgraded its Large Insured Depository Institution (LIDI) rating of IndyMac. The FDIC raised IndyMac's insurance premium assessment beginning in 2008 but did not take, or suggest that OTS take, any enforcement action against IndyMac. The FDIC cited OTS' consistently favorable composite ratings and the protracted process for taking such action as substantial obstacles.

Because the FDIC had taken and was considering actions to address lessons learned from recent events in the banking industry and because our evaluation focused on one institution, we did not make recommendations to the Corporation. Instead we identified four matters for further study and consideration related to:

- The FDIC's frameworks for establishing a supervisory approach and making deposit insurance determinations.
- Delegations of authority and reporting requirements surrounding back-up examination authority decisions.
- Appointment and transition of case managers for large, high-risk institutions.
- Authorities related to requesting back-up examinations and pursuing enforcement actions against non-supervised institutions.

The Director of DSC provided a written response to our draft report. DSC's response addressed two of our four matters for further consideration. DSC indicated that steps were underway to track all recommendations for back-up examinations and that higher-level management review of such information may be warranted. DSC also indicated that it had made improvements in LIDI reporting and instituted a quality assurance process for LIDI reporting that should help to address case manager appointment and transition.

DSC's response did not specifically address our matters for further consideration related to (1) the FDIC's frameworks for establishing a supervisory approach and making deposit insurance determinations or (2) authorities related to requesting back-up examinations and pursuing enforcement actions against non-supervised institutions. Because the draft report contained no recommendations, a written response to each of the matters for further consideration was not required. Our final report pointed out that these matters involve important regulatory and interagency policies, procedures, and practices that may be more appropriately considered at the FDIC Board of Directors level.

Risk Assessment of Temporary Liquidity Guarantee Program

The FDIC established the Temporary Liquidity Guarantee Program (TLGP) on October 14, 2008, to help address the unprecedented disruptions in the credit markets and the resultant effects on the ability of financial institutions to fund themselves and make loans to creditworthy borrowers. The program, funded entirely by industry fees, consists of two components: (1) a temporary guarantee of newly issued senior unsecured debt for eligible banks, thrifts, and certain holding companies, and (2) a temporary unlimited guarantee of funds in noninterest-bearing transaction accounts at FDIC-insured institutions. As of July 31, 2009, TLGP covered $320 billion of new bank borrowing and about $740 billion of bank customers' transaction accounts.

Now that conditions appear to be moderating, and the liquidity of financial markets has improved, the FDIC, together with the Treasury and the Federal Reserve have taken steps to phase out emergency support programs. No new FDIC-guaranteed debt can be issued after October 31, 2009, and the FDIC's guarantee will expire on December 31, 2012. To retain flexibility, the FDIC asked for comment on keeping a limited 6-month guarantee facility to be available in an emergency after that. The transaction account guarantee component of the TLGP will terminate at the end of June 2010.

In January 2009, with the assistance of KPMG, the OIG initiated a risk assessment of the TLGP's key internal controls and procedures. The objective of the work was to obtain an understanding of the TLGP controls that the FDIC was working to establish and identify areas of potential risk that might warrant audit coverage. We communicated our preliminary results to corporate officials in April and later issued a memorandum to the Corporation, in which we concluded that the FDIC had established or was working to establish a number of important controls designed to ensure the success of the program. The FDIC's actions in this regard were notable, given the tight time constraints in which the program was implemented and the added responsibilities that the program introduced to FDIC divisions and offices. We communicated some key program risks for management's attention in areas such as governance, resources, performance measurement, and public and internal reporting, and we closed out the assignment in light of other statutory audit responsibilities.

Strategic Goal 3

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

Consumer protection laws are important safety nets for Americans. The U.S. Congress has long advocated particular protections for consumers in relationships with banks. For example:

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

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

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

Consumers today are also concerned about data security and financial privacy. Banks are increasingly using third-party servicers to provide support for core information and transaction processing functions. Of note, the increasing globalization and cost saving benefits of the financial services industry are leading many banks to make greater use of foreign-based service providers. The obligations of a financial institution to protect the privacy and security of information about its customers under applicable U.S. laws and regulations remain in full effect when the institution transfers the information to either a domestic or foreign-based service provider.

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

The misuse of the FDIC's name or logo has also been identified as a scheme to defraud depositors. Such misrepresentations have led depositors to invest on the strength of FDIC insurance while misleading them as to the true nature of the investment products being offered. These depositors have lost millions of dollars in the schemes. The OIG has been a strong proponent of legislation to address such misrepresentations. We were pleased that the Emergency Economic Stabilization Act of 2008, signed by the former President on October 3, 2008, contained provisions that address this issue.

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 **2009 performance goals** were 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 were unable to devote audit or evaluation resources directly to this goal area. However, investigative work related to misrepresentation of FDIC insurance or affiliation, and protection of personal information supported this strategic goal area, as described below.

Office of Investigations Works to Curtail Misrepresenting of FDIC Insurance or 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. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance while misleading them as to the true nature of the insurance investments being offered. Abuses of this nature not only harm consumers, they can also erode public confidence in federal deposit insurance. The sentencing of a former securities sales representative described below is illustrative of the OIG's success in investigations that help protect consumers by halting such misrepresentations.

Former Securities Sales Representative Sentenced for Misrepresentation of FDIC Insurance

On June 26, 2009, in the Northern District of Texas, a former securities sales representative was sentenced to 60 months of incarceration to be followed by 60 months of supervised release. He was also ordered to pay $15.8 million in restitution and a $100 special assessment.

The defendant is one of the subjects of an investigation involving the misrepresentation of FDIC insurance to coax investors into a securities fraud "Ponzi Scheme." The defendant was a sales representative in Fort Myers and Sarasota, Florida, who solicited investors to invest in securities known as secured debt obligations (SDOs) offered by AmeriFirst Funding and AmeriFirst Acceptance (AmeriFirst) out of Dallas, Texas. The defendant also operated and controlled a company called Secured Capital Investments in Sarasota, Florida, where he offered the secured debt obligations as well as ownership interest in a limited partnership called Secured Capital Trust, Ltd.

He deceived investors into believing the secured debt obligations were insured by either the FDIC or Lloyds of London. The funds collected from investors were part of a scheme operated by a managing director of AmeriFirst, who was also indicted in this case for securities fraud on May 19, 2009. The investment scheme resulted in approximately $65 million being stolen from over 550 people, consisting mainly of elderly investors throughout Texas and Florida. AmeriFirst used independent sales representatives, such as the defendant, to advertise and sell the unregistered securities. The sales representatives advertised certificates of deposit paying high interest rates (above the actual market rate) in local newspapers, and when investors responded to the advertisements, they were steered into the secured debt obligations.

The defendant also misled investors into believing the funds invested in the limited partnership were placed in FDIC-insured certificates of deposit or pools of FDIC-insured certificates of deposit. The funds the defendant collected from investors were actually used to buy shares of a company called Interfinancial Holdings, a thinly-traded penny stock. The defendant did not disclose to investors that his associates owned millions of shares of Interfinancial Holdings stock and that the funds were being used to buy Interfinancial Holdings shares in an attempt to manipulate and increase its share price. The Securities and Exchange Commission filed and executed a temporary restraining order and a temporary injunction on the operations and bank accounts of AmeriFirst. The Interfinancial Holdings stock price subsequently fell and the investors lost the majority of their funds.

On October 19, 2007, the defendant pleaded guilty in the Northern District of Texas to an information charging him with one count of securities fraud. On April 1, 2009, while on pre-trial release, the defendant met with the case agent about information he had on other potential crimes. During the meeting, the defendant acknowledged committing insurance fraud. The admissions the defendant made to agents were turned over to U.S. Probation, and a revocation hearing was set on May 19, 2009. Based on testimony from the government, the judge ordered that the defendant be placed in federal custody until sentencing.

On June 19, 2009, a search warrant was executed on the defendant's residence, and eight seizure warrants were executed to seize property, including two automobiles, several bank accounts, an annuity, and a loan receivable on an investment property.

Source: *Securities and Exchange Commission.* ***Responsible Agencies:*** *Joint investigation by the FDIC OIG and FBI.*

OIG's Electronic Crimes Unit Responds to Fraudulent E-mail Activities

Identity theft also continues to become more sophisticated, and the number of victims is growing. Identity theft includes using the Internet for crimes such as "phishing" emails and "pharming" Web sites that attempt to trick people into divulging their private financial information. Schemers pretend to be legitimate businesses or government entities with a need for the information that is requested. The OIG's Electronic Crimes Unit (ECU) responds to such scams involving the FDIC and the OIG. During the reporting period, the ECU responded to allegations of fraudulent email and facsimiles that represented they were from the FDIC. The ECU had 36 fraudulent email accounts and one fraudulent facsimile number deactivated.

By way of illustration, in one such scheme, the perpetrators sent emails using a falsified FDIC letterhead and Internet Web site, and the alleged signature of a senior FDIC official to solicit monetary payments. Recipients of the falsified letters, generally individuals who were not U.S. citizens, were told that the FDIC insured their stock losses and were instructed to make a 1 percent payment on the losses to the FDIC in return for release of a larger claim amount owed to the recipient. The letter also requested information on the recipient's bank, including the account numbers and bank routing numbers located at the bottom of checks.

Strategic Goal 4

The OIG Will Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships

The FDIC protects depositors of insured banks and savings associations. 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 the taxpayers.

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

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

The FDIC's resolution and receivership activities pose tremendous challenges. As indicated by the trends in mergers and acquisitions, banks have become more complex, and the industry has consolidated into larger organizations. As a result, the FDIC has been called upon to handle failing institutions with significantly larger numbers of insured deposits than it has had to deal with in the past. The sheer volume of all failed institutiuons, big and small, poses tremendous challenges and risks to the FDIC.

During 2008, 25 FDIC-insured institutions failed with total assets at failure of $361.3 billion and total losses to the DIF of about $17.8 billion. During the first 9 months of 2009, another 95 institutions have failed, with total assets at failure of $106.3 billion and an estimated loss to the DIF of about $24.9 billion. During 2009 alone, assets in liquidation and managed receiverships have grown 90 percent and 143 percent, respectively. To meet the workload demands associated with these and future failures, DRR has been authorized to hire both permanent and temporary employees. Its human resources have grown 85 percent and are approaching 3,000 staff and contractors. Temporary satellite offices on the East and West Coasts have been established for resolving failed institutions and managing the resulting receiverships. DRR is also taking advantage of the Corporation's cross-training to create a flexible workforce where examiners can support resolution activities and resolution specialists can support examination activities.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. That is, in the case of bank closings where fraud is suspected, our Office of Investigations (OI) sends 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 OI's investigations by obtaining, preserving, and later examining evidence from computers at the bank.

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

To help ensure the FDIC is ready to resolve failed banks and effectively manages receiverships, the OIG's **2009 performance goals** were 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 completed an evaluation related to this goal area and planned a number of new assignments involving resolution and receivership activities. These efforts are briefly discussed below.

Controls over Contracts Related to Resolution and Receivership Activity

DRR is increasingly relying on contractors to address failing and failed institutions. For example, through June 30, 2009, the FDIC had awarded over $1 billion in contracts, of which 98 percent were DRR-related.

DRR relies on Receivership Assistance Contractors to provide a full range of closing support functions. DRR also hires firms for other services, including financial advisory, asset management, and loss share agreement oversight. The Division of Administration (DOA) provides contracting support to the FDIC and plans, solicits, and manages FDIC contracts through completion. We conducted an evaluation to identify and evaluate controls in place to address the risks presented by a significant increase in resolution and receivership-related contracting activity.

We determined that the FDIC has controls in place to award and manage resolution and receivership-related contracts, including procurement procedures, minimum standards for contractor fitness and integrity, background investigations of contractor employees, and FDIC oversight manager and technical monitor designations and training.

Notwithstanding these efforts, we noted that the FDIC did not always complete background investigations for contractor personnel, oversight manager and technical monitor workloads varied and were sometimes challenging, and oversight managers generally did not prepare contract management plans or find them to be useful. We also identified contract file documentation weaknesses in contracts that we reviewed. DRR's internal review efforts have identified similar findings. DRR and DOA management have taken action to address these issues.

DRR and DOA have also taken action to mitigate risks associated with a significant increase in contracting activity, including increasing authorized procurement-related staff, creating oversight manager refresher training, establishing DRR contract support functions in the Dallas Regional Office, and establishing a corporate-level contracting project management office.

While these actions are positive, FDIC management and personnel involved in the procurement process need to remain vigilant to ensure that contractors perform work consistent with contract terms and maintain sufficient documentation to preserve a complete history of contract-related decisions and outcomes. Additionally, the success of the FDIC's contract administration and oversight management is dependent on maintaining sufficient resources to address contracting administration needs and ensuring individuals are fully trained and understand their responsibilities. Because DRR and DOA have taken or are planning to take steps to address issues we identified during our review, we did not make recommendations.

OIG Work Focuses on New Resolution and Receivership Challenges

Because resolution and receivership activity is a vulnerable area where independent oversight and review are essential, during the reporting period we initiated work in the following areas:

Loss Share Agreements: We are evaluating loss share provisions, including those in the assistance agreements with Citigroup to ensure compliance with all related terms, such as those involving asset eligibility and institution management of guaranteed assets. We have also contracted for an audit of the loss share agreements covering residential and commercial loans purchased by U.S. Bank.

Loan Modification Programs. The FDIC implemented a Loan Modification Program at IndyMac Federal Bank, FSB and the implementation of a similar program has been a condition of several large FDIC-facilitated institution sales. The goal of these programs was to achieve affordable and sustainable mortgage payments for borrowers and increase the value of distressed mortgages by rehabilitating them into performing loans. Other institutions have agreed to implement loan modification programs as part of their financial stability agreements with the FDIC and other financial regulatory agencies. We are assessing the FDIC's efforts for monitoring implementation of loan modification programs at such institutions.

Resolution and Receivership Management: We are continuing to develop our program of audit coverage of FDIC management of resolution and receivership activities, including assets received from failed financial institutions and marketed by the FDIC, and, as referenced above, assets covered by loss share agreements with acquiring banks as part of the purchase and assumption of failed institution assets and liabilities. We have contracted with KPMG to perform a risk assessment, providing information to support audit prioritization and develop proposed audit programs for the OIG's review.

OIG's Electronic Crimes Unit Responds to Bank Closings

The ECU responded to three bank closings during the reporting period. At these closings, ECU agents collected electronic evidence from over 40 computers. The ECU also collected electronic evidence related to the institutions' network files and email accounts. The OIG uses forensic software that can process large amounts of data, search for key words, sort information by date or name, identify falsified documents, and find other relevant information that can provide evidence of fraudulent activities. This electronic evidence is analyzed and provided to FDIC OIG agents working fraud cases related to the failed financial institutions.

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.

Human Resources: The FDIC currently employs approximately 6,550 people. This number reflects a large increase from 2008, principally due to the need to address greater receivership and resolution activity and the elevated examination workload. Most of the increase is for hiring non-permanent employees to aid in the current crisis.

Supplementing the FDIC workforce are contractors providing services for the Corporation. The FDIC awarded approximately $652 million in contracts during 2008. As a good steward, the FDIC must ensure it receives the goods and services purchased with corporate funds and have effective contractor oversight controls in place as well.

In an age of identity theft risks, an important human capital management responsibility at the FDIC is to maintain effective controls to protect personal employee-related information that the Corporation possesses. The appointment of a chief privacy officer and implementation of a privacy program have been positive steps in addressing that challenge. Further, the FDIC has established a process for conducting privacy impact assessments of its information systems containing personally identifiable information that is consistent with relevant privacy-related policy, guidance, and standards.

Financial Resources: The Corporation does not receive an annual appropriation, except for its OIG, but rather is funded by the premiums that banks and thrift institutions pay for deposit insurance coverage, the sale of assets recovered from failed banks and thrifts, and from earnings on investments in U.S. Treasury securities.

The FDIC Board of Directors approves an annual Corporate Operating Budget to fund the operations of the Corporation. For 2009, the approved budget totaled $2.4 billion, an increase of $1.03 billion from 2008. The operating budget provides resources for the operations of the Corporation's three major programs or business lines—Insurance, Supervision, and Receivership Management—as well as its major program support functions (legal, administrative, financial, IT, etc.).

In addition to the Corporate Operating Budget, the FDIC has a separate Investment Budget that is composed of individual project budgets approved by the Board of Directors for major investment projects. Budgets for investment projects are approved on a multi-year basis, and funds for an approved project may be carried over from year to year until the project is completed. Expenditures from the Corporate Operating and Investment Budgets are paid from two funds managed by the FDIC—the DIF and the Federal Savings and Loan Insurance Corporation Resolution Fund.

IT Resources: At the FDIC, the Corporation seeks to leverage IT to support its business goals in insurance, supervision and consumer protection, and receivership management, and to improve the operational efficiency of its business processes. The FDIC needs to continue to focus on the capital planning and investment processes for IT and maximize the effectiveness of the Chief Information Officer Council and Project Management Office, both of which play an important role in reviewing the portfolio of approved IT projects and other initiatives. The Corporation has also worked to enhance its Enterprise Architecture program by identifying duplicative resources/investments and opportunities for internal and external collaboration to promote operational improvements and cost-effective solutions to business requirements.

Along with the positive benefits that IT offers comes a certain degree of risk. In that regard, information security has been a long-standing and widely acknowledged concern among federal agencies. The Federal Information Security Management Act requires each agency to develop, document, and implement an agency-wide information security program to provide adequate security for the information and information systems that support the operations and assets of the agency. Section 522 of the Consolidated Appropriations Act of 2005 requires agencies to establish and implement comprehensive privacy and data protection procedures and have periodic third-party reviews performed of their privacy programs and practices.

Physical Resources: The FDIC is headquartered in Washington, D.C., but conducts much of its business in six regional offices and in field offices throughout the United States. Ensuring the safety and security of the human and physical resources in those offices is a fundamental corporate responsibility that is directly tied to the Corporation's successful accomplishment of its mission. 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.

Corporate Governance and Risk Management: The FDIC is managed by a five-person Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. The Board includes the Comptroller of the Currency and the Director of OTS. Given the relatively frequent changes in the Board make-up, it is essential that strong and sustainable governance and communication processes are in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and make sound policy and management decisions.

Enterprise risk management is a key component of governance. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved.

To promote sound governance and effective stewardship and security of human, financial, IT, and physical resources, the OIG's **2009 performance goals** were 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

Given the need to devote most all of the OIG's resources to the conduct of MLRs and other pressing priorities, the OIG was not able to commit substantial resources to work in this strategic goal area during the reporting period.

We did, however, in support of the Government Accountability Office's (GAO) audit of the 2008 and 2007 financial statements of the FDIC, complete our audit of IT controls, and issued our report during the reporting period. Additionally, we conducted a review to ensure that the FDIC followed its established policies in soliciting and awarding a national owned real estate management and marketing services receivership basic ordering agreement. Both of these assignments are discussed below.

Audit of Information Technology Controls in Support of the FDIC Funds' 2008 and 2007 Financial Statements Audit

We contracted with KPMG to conduct an audit of the FDIC's IT controls over key financial systems and data that support financial management and the generation of financial statements for the DIF and the Federal Savings and Loan Insurance Corporation Resolution Fund (the Funds). The FDIC's principal financial system is the New Financial Environment (NFE), which includes the PeopleSoft Enterprise Financials Management application (PeopleSoft financials). The results of this audit supported GAO in assessing the effectiveness of the FDIC's internal control over financial reporting for the Funds' 2008 and 2007 financial statements audit. The audit assessed (1) the progress the FDIC has made in mitigating previously reported IT security control deficiencies pertaining to financial systems and information and (2) the effectiveness of the FDIC's controls in protecting the confidentiality, integrity, and availability of its financial systems and information.

KPMG found that the FDIC had taken action to mitigate 14 of the 15 previously reported IT security control deficiencies pertaining to the FDIC's financial systems and information. Such actions included updating the FDIC's risk assessment for the NFE, segregating incompatible system-related duties for key individuals supporting the NFE, and performing software configuration audits of the NFE. With respect to the remaining control deficiency concerning maintenance of requirements baselines, the FDIC had not yet fully implemented corrective actions by the close of KPMG's field work. The OIG plans to follow up on this control deficiency in future audit work.

KPMG also found that, with respect to the control areas assessed, the FDIC had established and implemented a number of effective controls that were designed to protect the confidentiality, integrity, and availability of financial systems and information. Of particular note, the FDIC had implemented a major restructuring of the NFE's security controls in July 2008 that included, among other things, limiting user access to system functionality and data consistent with business needs and improving security monitoring controls.

The above actions were positive. However, KPMG identified two security control deficiencies, neither of which the GAO considered to be significant deficiencies in the context of the Funds' 2008 and 2007 financial statements audit. Those were communicated separately to the Division of Information Technology and the Division of Finance. KPMG made three recommendations to strengthen IT controls by reducing the risk of unauthorized modification or disclosure of sensitive financial information and program files and ensuring that software installed in the production computing environment is subject to proper quality assurance testing and analysis. The FDIC concurred with the recommendations, and its actions and planned actions were responsive.

Evaluation of the FDIC's Solicitation and Award of the National Owned Real Estate Management and Marketing Services Receivership Basic Ordering Agreement

In November 2008, the FDIC awarded the National Owned Real Estate Management and Marketing Services Receivership Basic Ordering Agreement (ORE RBOA) to two asset management companies (C.B. Richard Ellis (CBRE) and Prescient, Inc.) to assist the FDIC in the acquisition, research, preparations for management, marketing, and final disposition of all types of real property.

News articles discussed alleged conflicts of interest between the FDIC and one of the asset management companies and suggested that the FDIC awarded the contract to this firm at compensation rates higher than the industry norms. Although the FDIC maintained that these allegations were unfounded, as a precaution, the FDIC Chairman asked our office to independently evaluate the process leading to the award of the subject agreement. In response, we conducted a review to ensure that the FDIC followed its established policies in soliciting and awarding the ORE RBOA. Specifically, we evaluated whether the FDIC:

- Implemented controls designed to

achieve reasonable competition in the solicitation,

- Carried out a solicitation and evaluation process that included controls to avoid entering into a contract with an organization that presents an unmitigated conflict of interest, and
- Selected contractors on the basis of the best value to the Corporation .

We reported that the FDIC followed its established acquisition procedures to achieve reasonable competition and avoid unmitigated conflicts of interest. The Corporation also took steps contemplated in the FDIC's Acquisition Policy Manual to reach a best value decision, such as establishing technical criteria, convening a technical evaluation panel (TEP), and documenting the technical evaluation panel's review of technical proposals. However, the FDIC could have benefited from developing overall or unit cost estimates against which it could evaluate proposed rates, and better documented a competitive price range and efforts to assess price reasonableness.

CBRE rates for certain key tasks were generally within, but were near the high end of, the range of offeror rates that the FDIC received under this solicitation. As a result, the overall estimated cost of the CBRE contract is substantially higher than the cost of the Prescient contract. Contract file documentation stated that the FDIC's rationale for selecting CBRE was CBRE's exceptional technical capability, ability to manage complex commercial assets, and ability to market FDIC assets to a broad pool of global buyers. However, we found limited documentation (such as a comparison to market rates or an FDIC cost estimate) to support the FDIC's assessment of the reasonableness of CBRE rates for certain key areas, in particular, monthly asset management fees.

The FDIC also made mathematical errors in calculating best and final offer pricing amounts. In this regard, we found that the rates in CBRE's executed contract were about 13 percent higher than the rates used to justify the FDIC's best value decision in selecting CBRE as one of the winning bidders. Notwithstanding, the FDIC maintained that CBRE still represented the best value for the FDIC. We also identified several procedural and documentation exceptions associated with this procurement warranting management's attention.

By way of explanation, DOA officials indicated that at the time of the ORE RBOA solicitation effort, the FDIC experienced an unexpected surge in field contracting activity in response to multiple bank failures. Further, the FDIC's Dallas Office, which managed the solicitation, had only two employees to address the additional workload. Since that time, the DOA has hired six new employees in Dallas.

Based on the limited scope of our review, we did not make recommendations to address our findings. We suggested that management should, however, take steps to obtain the various documents that are required, by policy, to be maintained to ensure there is a complete record of the ORE RBOA procurement. Further, in light of the significant volume of contracting activity that the Corporation faces, management should ensure that personnel involved in procurement actions remain mindful of the risk associated with not properly documenting the actions taken to follow key contracting principles—particularly with respect to documenting best value decisions.

OIG's Ongoing Efforts in Support of Goal 5

Ongoing work in this goal area at the end of the reporting period included our annual evaluation in accordance with the Federal Information Security Management Act and an audit of controls over FDICconnect, a secure Web site that allows FDIC-insured institutions to conduct business and exchange information with the FDIC. We have also engaged a contractor to conduct several billing reviews of certain FDIC contractors, and that work was ongoing as well.

Update on White Powder Mailing Case

On June 5, 2009, in U.S. District Court for the Northern District of Texas, Amarillo Division, an individual was sentenced concurrently to 46 months of imprisonment, 3 years of supervised release, and ordered to pay $87,734 in restitution. He was also issued a $5,000 fine and $200 special assessment fee, based on his previous guilty plea related to a count of making threats and false information, and a count of threats and hoaxes.

As reported in our prior semiannual report, on or about October 18, 2008, the defendant mailed 65 threatening letters, 64 of which contained harmless white powder, to various branches of J.P. Morgan Chase, the Office of Thrift Supervision, and the FDIC. The last envelope contained a threatening letter but no white powder. All of the letters were postmarked from Amarillo, Texas. The OIG's Electronic Crimes Unit coordinated with other FDIC divisions and collected evidence leading to the successful prosecution of this case.

Source: *FDIC DOA.* ***Responsible Agencies:*** *Joint Investigation by the FDIC OIG and the FBI. The case is being prosecuted by the U.S. Attorney's Office for the Northern District of Texas, Amarillo Division.*

Strategic Goal 6

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

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders. Currently, a major challenge for the OIG is ensuring that we have the resources needed to effectively and efficiently carry out the OIG mission at the FDIC. This challenge exists, 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 is engaged in to restore public confidence and stability in the financial system that require vigilant, independent oversight.

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

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the Inspector General (IG) and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. The OIG adheres to the *Quality Standards for Federal Offices of Inspector General*, issued by the former President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Further, the OIG conducts its audit work in accordance with generally accepted *Government Auditing Standards*; its evaluations in accordance with PCIE *Quality Standards for Inspections*; and its investigations, which often involve allegations of serious wrongdoing that may involve potential violations of criminal law, in accordance with *Quality Standards for Investigations* established by the former PCIE and ECIE, and procedures established by the Department of Justice.

Strong working relationships are fundamental to our success. We place a high priority on maintaining positive working relationships with the FDIC Chairman, Vice Chairman, other FDIC Board members, and management officials. The OIG is a regular participant at Audit Committee meetings where recently issued 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 audit and evaluation reports, information related to completed investigations, comments on legislation and regulations, written statements for congressional hearings, contacts with congressional staff, responses to congressional correspondence, and materials related to OIG appropriations.

The FDIC OIG is a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), an organization created by the IG Reform Act of 2008. Among other provisions, this Act validated IG independence, enhanced IG operations government-wide, and combined the two former IG Councils—the PCIE and ECIE. We fully support and participate in CIGIE activities and coordinate closely with representatives from the other the financial regulatory OIGs. Additionally, the OIG meets with representatives of the GAO to coordinate work and minimize duplication of effort and with representatives of the Department of Justice, including the FBI and U.S. Attorneys' Offices, to coordinate our criminal investigative work and pursue matters of mutual interest.

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

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

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the OIG's **2009 performance goals** were 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	Continued realignment of the OIG investigative resources with FDIC regions, by reassigning OI staff, and advertising and filling vacancies.
2	Developed materials outlining needed financial resources for presentation to the FDIC Chairman, Office of Management and Budget, and the House and Senate Appropriations Subcommittees in support of the OIG's fiscal year (FY) 2010 budget request.
3	Temporarily reorganized the OIG to create an Assistant IG for MLRs in response to the increased workload brought about by FDIC-supervised institution failures and hired staff and contractors to assist with that work. Many such failures require that the OIG conduct reviews analyzing the causes of failure and loss to the DIF and the FDIC's supervision of the institution.
4	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Completed two internal quality control reviews of Office of Audits: (1) implementation of peer review recommendations, focusing on OIG actions to address findings and recommendations in the peer review of our office conducted by the Department of State and Broadcasting Board of Governors OIG in November 2007 and (2) a review of internal control coverage in Office of Audits fieldwork and reporting to ensure compliance with government auditing standards and OIG policies and procedures.
2	Conducted a peer review of the audit operations of the Department of Commerce OIG, in accordance with Generally Accepted Government Auditing Standards and as required by CIGIE.
3	Continued to use a contract awarded to a qualified firm 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 OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments, and use of the IG's feedback form to assess time, cost, and overall quality and value of audits and evaluations.
5	Underwent a peer review of the investigative operations of our office, conducted by the Department of the Interior OIG, as required by CIGIE. The Department of the Interior reported that in its opinion, the FDIC OIG's system of internal safeguards and management procedures for the investigative function was in compliance with the quality standards established by the CIGIE and the Attorney General guidelines.
6	Spearheaded the IG community's audit peer review training program for OIGs government-wide to ensure a consistent and effective peer review process for the federal audit function.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Continued to support members of the OIG attending long-term graduate banking school programs sponsored by Stonier, the Southeastern School of Banking at Vanderbilt University, and the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry.
2	Employed college interns in the OIG to provide assistance to the Offices of Audits, Evaluations, Investigations, and Counsel.
3	Arranged for a number of part-time college interns to proceed to the Student Career Experience Program, under which they are eventually offered permanent employment by the OIG pending successful completion of college coursework.
4	Developed and implemented the IG community's introductory auditor training sessions designed to provide attendees with an overall introduction to the community and enrich their understanding of fundamental aspects of auditing in the federal environment.

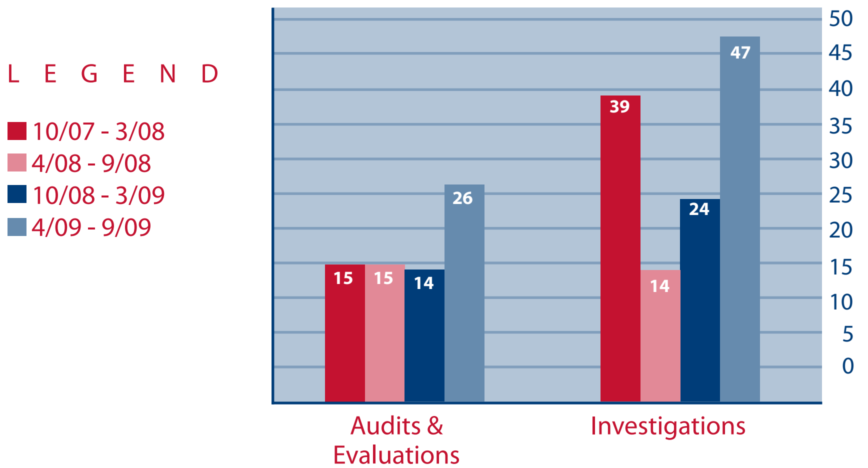
Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by IG's testifying before the Subcommittee on Oversight and Investigations, House Committee on Financial Services regarding the role of the IGs in minimizing and mitigating waste, fraud, and abuse; providing our Semiannual Report to the Congress for the 6-month period ending March 31, 2009; 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 FDIC Chairman, Vice Chairman, Director Curry, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in DSC regional meetings to provide general information regarding the OIG and OI case studies on bank frauds that are of importance to DSC and the banking industry.
4	Held quarterly meetings with FDIC Directors and other senior officials to keep them apprised of ongoing audit and evaluation reviews and results.
5	Kept DSC, 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 OI's quarterly reports to DSC, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks, concealed assets, and restitution.
6	Participated at FDIC Audit Committee meetings to present the results of significant completed audits and evaluations for consideration by Committee members.
7	Reviewed nine proposed or revised corporate policies relating to IT and administration, corporate planning and budgeting, and various areas of administration. The IT policies reviewed related to IT contingency planning, the asset management life cycle, safeguarding FDIC hardware, and managing the SharePoint collaboration site. OIG comments on these directives were provided primarily to increase the strength and clarity of the directives.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including introductory auditor training; attending monthly CIGIE meetings and participating in Inspection & Evaluation Committee and Council of Counsels to the IGs meetings; providing resource assistance to other OIGs; spearheading writing and publication of the IG community's annual report for FY 2008; and providing support to the IG community's investigative meetings and Inspections and Evaluations Committee training conference.
9	Met regularly with representatives of the OIGs of the federal banking regulators (Board of Governors of the Federal Reserve System, Department of the Treasury, National Credit Union Administration, Securities and Exchange Commission, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, and Export-Import Bank) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources.

Enhance OIG Risk Management Activities	
1	Held meetings to assess emerging issues and risk areas impacting the FDIC and the banking and financial services industry as a whole. Determined which assignments to add and/or modify in our FY 2009 Business Plan and assessed implications of risk on the OIG mission and available resources going forward.
2	Participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work and risk coverage accordingly.

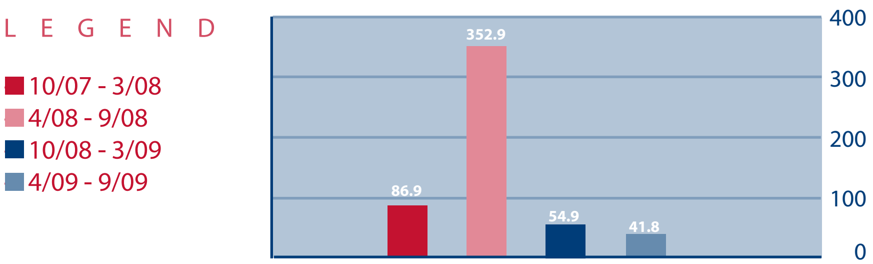
Cumulative Results (2-year period)

Nonmonetary Recommendations	
October 2007 – March 2008	52
April 2008 – September 2008	24
October 2008 – March 2009	28
April 2009 – September 2009	12

Products Issued and Investigations Closed



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



Fiscal Year 2009 Performance Report

This performance report presents an overview of our performance compared to the fiscal year (FY) 2009 annual performance goals in our Business Plan. It provides a statistical summary of our qualitative goals as well as a narrative summary of performance results by Strategic Goal. It also shows our results in meeting a set of quantitative goals that we established for the year. Our 2009 Business Plan is available at www.fdicig.gov

We formulated six strategic goals, as shown in the table below. Each of our strategic goals, which are long-term efforts, has annual performance goals and associated key efforts that represent our initiatives in FY 2009 toward accomplishing the strategic goal. The table reflects the number of performance goals that were Met, Substantially Met, or Not Met. This determination is made through ongoing discussions at the OIG Executive level and a qualitative assessment as to the impact and value of the audit, evaluation, investigation, and other work of the OIG supporting these goals throughout the year.

As shown in the table, we met or substantially met 79 percent of our performance goals in FY 2009. A discussion of our success in each of the goals follows the table.

Fiscal Year 2009 Annual Performance Goal Accomplishment (Number of Goals)

Strategic Goals	Performance Goals			
	Met	Substantially Met	Not Met	Total
Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly	2			2
Insurance: Help the FDIC Maintain the Viability of the Insurance Fund	1			1
Consumer Protection: Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy	1		2	3
Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships	1		1	2
FDIC Resources Management: Promote Sound Governance and Effective Steward-ship and Security of Human, Financial, IT, and Physical Resources	3	2	1	6
OIG Internal Processes: Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships	5			5
Total	13	2	4	19
Percentage	68	11	21	100

Quantitative Performance Measures 2009			
Performance Measure	**FY 2009 Target**	**FY 2009 Actual**	**Status**
Financial Benefit Return[a]	100%	386%	Met
Other Benefits[b]	75	97	Met
Past Recommendations Implemented[c]	95%	100%	Met
Complete 100% of Audit/Evaluation Assignments Required by Statute by the Required Date.	100%	86%	Not Met
Audit Assignments Completed Within 30 Days of Established Final Report Milestone	90%	83%	Not Met
Evaluation Assignments Completed Within 30 Days of Established Final Report Milestone	90%	64%	Not Met
Audit Assignments Completed Within 15 Percent of Established Budget	90%	93%	Met
Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	73%	Not Met
Investigation Actions[d]	200	321	Met
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%	75%	Not Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%	73%	Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	89%	Met
Closing Reports Issued to Management Within 30 Days of Completion of all Judicial Actions	100%	90%	Not Met

[a] Includes all financial benefits, including audit-related questioned costs; recommendations for better use of funds; and investigative fines, restitution, settlements, and other monetary recoveries divided by the OIG's total FY budget obligations.

[b] Benefits to the FDIC that cannot be estimated in dollar terms which result in improved services; statutes, regulations, or policies; or business operations and occurring as a result of work that the OIG has completed over the past several years. Includes outcomes from implementation of OIG audit/evaluation recommendations and information conveyed by way of audit memoranda.

[c] Fiscal year 2007 recommendations implemented by FY-end 2009.

[d] Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencings, monetary actions, employee actions, and other administrative actions, as reported semiannually.

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 past FY, we completed 22 MLRs of institutions whose failures resulted in losses to the Deposit Insurance Fund exceeding $3.7 billion. We shared OIG perspectives on major trends and characteristics identified through MLR work with the FDIC Audit Committee and DSC and followed up with meetings and presentations to all FDIC regional offices. Our MLR work has had a significant impact on the FDIC's supervisory activities. We are working jointly with the Department of the Treasury OIG to determine the events leading to the need for the FDIC-facilitated transaction involving Washington Mutual Bank, including evaluating the FDIC's supervision and monitoring of Washington Mutual Bank in its role as insurer.

We completed an audit of the FDIC's brokered deposit waiver process and another audit of FDIC risk management examination coverage of institution underwriting practices for consumer loans not secured by real estate. In an evaluation of controls over the FDIC's processing of Troubled Asset Relief Program Capital Purchase Program applications from FDIC-supervised institutions, we determined that overall, the FDIC's controls provided reasonable assurance that the Corporation is complying with Department of the Treasury guidance. We made two recommendations to enhance those controls.

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 achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of the Department of Justice's Operation Malicious Mortgage and other mortgage fraud working groups also supported this goal. Particularly noteworthy results from our casework include multiple sentencings for a mortgage fraud scheme where three individuals received prison sentences ranging from 18-60 months and were ordered to pay restitution totaling $5.8 million. In another case, 18 individuals were sentenced for their roles in a massive home equity line of credit fraud scheme that enriched them temporarily and impacted at least 16 different lenders in the Northern New Jersey area. Their prison sentences ranged from 2 to 44 months, with restitution orders totaling more than $26 million.

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

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

Our MLR work supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of observations and/or recommendations 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. We conducted audit work to assess FDIC controls related to the Off-site Review List, a monitoring tool used to identify institutions with potential problems. We made recommendations for improvements to that tool. We audited the FDIC's investment management practices related to the Deposit Insurance Fund and National Liquidation Fund and made recommendations to help ensure investment management practices are repeatable, consistent, and disciplined. Our evaluation related to the failure of IndyMac Federal Savings Bank focused on the FDIC's awareness of the institution and actions it took as back-up regulator and deposit insurer. In that report, we raised significant issues related to the FDIC's frameworks for establishing a supervisory approach and making deposit insurance determinations, and the FDIC's authorities for requesting back-up authority and pursuing enforcement actions against non-FDIC-supervised institutions and suggested that FDIC Board-level attention should be focused on these matters.

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

Audits, evaluations, and investigations can contribute to the FDIC's protection of consumers in several ways. We completed an evaluation of enforcement actions for compliance violations, conducted at the request of the FDIC Chairman. Management's response to this work indicated a willingness and commitment to devote sufficient resources to ensure an effective enforcement action program.

The OIG was pleased to learn that the Emergency Economic Stabilization Act of 2008 contains a long-supported provision that the OIG helped to draft giving the FDIC increased enforcement authority for misrepresentation of FDIC affiliation or insurance. In that regard, as a result of one of our investigations of misrepresentation of FDIC insurance, an individual was sentenced to 60 months of incarceration and ordered to pay $15.8 million in restitution for his part in a scheme involving $65 million being stolen from over 550 people, mainly elderly investors in Texas and Florida. The OIG's Electronic Crimes Unit responded to instances where emails and facsimiles were misused to entice consumers to divulge personal information and successfully deactivated 50 fraudulent email accounts and 7 fraudulent facsimile numbers used for such purposes during FY 2009.

Strategic Goal 4 – Receivership Management: Help Ensure that the FDIC is Ready to Resolve Failed Banks and Effectively Manages Receiverships

We evaluated controls in place over the contracting function to address the risks presented by a significant increase in resolution and receivership-related contracting activity. An ongoing evaluation is covering the loss share provisions, including those in the assistance agreements with Citigroup, to ensure compliance with all related terms, such as those involving asset eligibility and institution management of guaranteed assets. We are also assessing the FDIC's efforts for monitoring implementation of loan modification programs at various institutions. We are currently working to develop more robust audit coverage of the resolution and receivership area for FY 2010.

From an investigative standpoint, we continued to attend bank closings where fraud is suspected and to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed.

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

The OIG addressed a number of important areas in conducting work in support of this goal area during the first part of the FY. One of our evaluations examined the FDIC's Corporate Employee Program, a training program designed to ensure that by training and cross-divisional opportunities, the FDIC workforce will be fully capable and ready to respond to changes in examination or resolution and receivership priorities. We performed an audit of follow-up actions taken related to the FDIC's controls over the confidentiality of sensitive email communications. Other evaluations focused on two security areas: mail handling and screening procedures at FDIC facilities and guard services provided to protect FDIC buildings and people. In each instance, we made recommendations for improvements to controls or other activities in the interest of ensuring the success of the efforts. Although our work in this goal area was diminished during the second half of the FY, we fulfilled our commitment to audit the Corporation's IT controls in support of the FDIC funds' 2008 and 2007 financial statements audit conducted by the Government Accountability Office (GAO). We also conducted mandated work pursuant to the Federal Information Security Management Act and will issue results of that in mid-November 2009, in accordance with Office of Management and Budget's revised reporting deadlines.

We also promoted integrity in FDIC internal operations through ongoing OIG Hotline referrals and coordination with the FDIC's Ethics Office, as warranted.

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

To ensure effective and efficient management of OIG resources, among other activities, we continued realignment of the OIG investigative resources with FDIC regions, and examined staffing plans and budget resources to ensure our office is prepared to handle our increasing workload and risks to the FDIC. In that regard, we also implemented a temporary reorganization to create an Assistant Inspector General for MLRs and reassigned staff from various component offices to handle the MLR workload. We also hired new staff with specialized experience to perform MLR work and other reviews of new FDIC programs and activities, and arranged for additional contractor resources, as needed. Further, we completed a project to upgrade the OIG's audit and evaluation tracking system to better monitor costs and time associated with our work. We completed a quality monitoring review in the Office of Audits to analyze quality assurance activities completed in calendar year 2008 and issued two additional audit quality assessment reviews. We also completed a training effort for OIG staff related to protecting personally identifiable information by encrypting portable media devices and using Entrust when sending sensitive email.

We continued to administer a contract to a qualified firm to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the OIG's end-of-assignment feedback forms to provide staff with input on performance of individual audit and evaluation assignments and the Inspector General feedback form for Office of Audits and Office of Evaluations assignments that focuses on overall assignment quality elements, including time, cost, and value.

We encouraged individual growth through professional development by planning and conducting a 4-day training conference for FDIC OIG and other financial regulatory OIG staff related to Financial Institution Analysis and Supervision, with an emphasis on MLR training. We partnered with the FDIC's Corporate University on this initiative. We also offered opportunities for OIG staff to attend graduate schools of banking to further their expertise and knowledge of the complex issues in the banking industry. We hired college-level interns to assist us with ongoing work and arranged for several of them to participate in the Corporation's Student Career Experience Program, which may lead to their permanent employment with the OIG.

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 GAO. The OIG participated in corporate diversity events, and we maintained and updated the OIG Web site to provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of enhancing OIG risk management activities, we continued efforts to carry out and monitor the OIG's FY 2009 business plan, and made adjustments as necessary. We also participated regularly at corporate meetings of the National Risk Committee to monitor emerging risks at the Corporation and tailor OIG work accordingly. In accordance with the Reports Consolidation Act of 2000, we assessed the most significant management and performance challenges facing the FDIC, and provided this assessment to FDIC management for inclusion in the Corporation's performance and accountability report and factored this assessment into our FY 2009 planning and ongoing work. We submitted the OIG's 2008 Assurance Statement to the FDIC Chairman, in accordance with the annual requirement under which the OIG provides assurance that the OIG has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, Office of Management and Budget A-123, and other key legislation. At GAO's request, we provided the OIG's perspectives related to internal fraud risk at the FDIC in connection with GAO's responsibility under Statement of Auditing Standards No. 99, Consideration of Fraud in Financial Statement Audits.

Reporting Requirements

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* Evaluation report statistics are shown on pages 63 and 64, in accordance with the IG Reform Act of 2008.

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

Review of Legislation and Regulations

The OIG's Office of Counsel reviews, pursuant to Section 5(a) of the IG Act, pending and enacted legislation and regulations relating to programs and operations of the FDIC. In this regard, Counsel's Office has continued its review of bills relating to the financial industry and the IG community. Principally, Counsel provided comments in conjunction with the Corporation on amendments to legislation regarding the Special IG for the Troubled Asset Relief Program. Additionally, Counsel's Office followed the progress of H.R. 885, which converts Inspectors General of various financial services regulators into Presidentially Appointed Inspectors General, as well as S. 385, which amends the IG Act to create an Ombudsman position within each office of Inspector General. With continued turmoil in the financial industry, the FDIC anticipates the closure of many more financial institutions in the coming months. Counsel's Office is tasked with providing legal advice to audit review teams conducting MLRs on various institutions, and supporting investigations of fraud, waste, and abuse in financial institutions. Counsel's Office analyzes various policy measures initiated by the Department of the Treasury and the Federal Reserve Board for potential impact on FDIC-insured institutions and provides advice and counsel to evaluations of FDIC programs and operations.

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

This table shows the corrective actions management has agreed to implement but has not completed, along with associated monetary amounts. In some cases, these corrective actions are different from the initial recommendations made in the audit reports. However, the OIG has agreed that the planned actions meet the intent of the initial recommendations. The information in this table is based on (1) information supplied by FDIC's Office of Enterprise Risk Management (OERM) and (2) the OIG's determination of closed recommendations for reports issued after March 31, 2002. These 3 recommendations from 3 reports involve improvements in operations and programs. OERM has categorized the status of these recommendations as follows:

Management Action in Process: (3 recommendations from 3 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
Management Action In Process		
AUD-08-010 **Controls Over Background Checks of Child Care Provider Personnel** July 2, 2008	2♦	Conduct an internal assessment of the effectiveness of DOA's process improvements for conducting background checks of child care provider personnel to ensure such improvements are operating as intended.
AUD-08-014 **FDIC's Controls Over the CAMELS Rating Review Process** August 12, 2008	1♦	Revise the Case Manager Procedures Manual to require that changes made to examiner in charge-proposed CAMELS ratings in the draft Report of Examination be centrally managed by DSC, including tracking, monitoring, and maintaining the documented justification and approval for changes.
AUD-08-019 **Reliability of Supervisory Information Accessed Through the Virtual Supervisory Information on the Net (ViSION) System** September 25, 2008	1	Conduct an assessment of supervisory information accessed through the ViSION system in order to define an acceptable accuracy rate and define controls and responsibilities over the reliability of supervisory information consistent with the results of the assessment.

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

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
AUD-09-010 May 1, 2009	Material Loss Review of Alpha Bank and Trust, Alpharetta, Georgia			
AUD-09-011 May 8, 2009	Material Loss Review of Freedom Bank, Bradenton, Florida			
AUD-09-012 May 18, 2009	Material Loss Review of Security Pacific Bank, Los Angeles, California			
AUD-09-015 June 5, 2009	FDIC's Brokered Deposit Waiver Application Process			
AUD-09-014 July 2, 2009	Material Loss Review of Franklin Bank, S.S.B., Houston, Texas			
AUD-09-016 August 3, 2009	Material Loss Review of The Community Bank, Loganville, Georgia			
AUD-09-017 August 5, 2009	Material Loss Review of Haven Trust Bank, Duluth, Georgia			
AUD-09-018 August 4, 2009	Material Loss Review of the Bank of Clark County, Vancouver, Washington			
AUD-09-019 August 11, 2009	Material Loss Review of 1st Centennial Bank, Redlands , California			
AUD-09-021 August 24, 2009	Material Loss Review of Magnet Bank, Salt Lake City, Utah			
AUD-09-022 September 1, 2009	Material Loss Review of Alliance Bank, Culver City, California			
AUD-09-023 September 1, 2009	Material Loss Review of Silver Falls Bank, Silverton, Oregon			
AUD-09-024 September 3, 2009	Material Loss Review of FirstBank Financial Services, McDonough, Georgia			
AUD-09-025 September 4, 2009	Material Loss Review of Corn Belt Bank and Trust Company, Pittsfield, Illinois			
AUD-09-026 September 4, 2009	Material Loss Review of Sherman County Bank, Loup City, Nebraska			
AUD-09-027 September 18, 2009	Material Loss Review of Heritage Community Bank, Glenwood, Illinois			
AUD-09-028 September 18, 2009	Material Loss Review of Freedom Bank of Georgia, Commerce, Georgia			
AUD-09-029 September 18, 2009	Material Loss Review of Security Savings Bank, Henderson, Nevada			

Table II: Audit Reports Issued by Subject Area (continued)

Insurance				
AUD-09-013 May 14, 2009	FDIC's Corporate Investment Program			
Resources Management				
AUD-09-020 August 13, 2009	Information Technology Controls in Support of the FDIC Funds' 2008 and 2007 Financial Statements Audit			
Totals for the Period		**$0**	**$0**	**$0**

Table III: Evaluation Reports and Memoranda Issued

Evaluation Reports & Memoranda		Questioned Costs		Funds Put to Better Use
Number and Date	**Title**	**Total**	**Unsupported**	
Supervision				
EVAL-09-005 April 15, 2009	Material Loss Review of Main Street Bank, Northville, Michigan			
EM-09-002 July 24, 2009	FDIC's Consideration of Capital Regulatory Relief Requests from OneUnited Bank			
Insurance				
EVAL-09-006 August 27, 2009	FDIC's Role in the Monitoring of IndyMac Bank			
Receivership Management				
EVAL-09-008 September 30, 2009	Controls over Contracts Related to Resolution and Receivership Activities			
Resources Management				
Not Numbered May 8, 2009	FDIC's Efforts to Lease Office Space for the New York Regional Office			
EVAL-09-007 September 1, 2009	FDIC's Solicitation and Award of the National Owned Real Estate Management and Marketing Services Receivership Basic Ordering Agreement			
Totals for the Period		**$0**	**$0**	**$0**

Table IV: Audit Reports Issued with Questioned Costs

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

Table V: Evaluation Reports and Memoranda Issued with Questioned Costs

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

Table VI: Audit Reports Issued with Recommendations for Better Use of Funds

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

Table VII: Evaluation Reports and Memoranda 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.	1	$2,094,750
B. Which were issued during the reporting period.	0	0
Subtotals of A & B	**1**	**$2,094,750**
C. For which a management decision was made during the reporting period.	1	$2,094,750
(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.	1	$2,094,750
D. For which no management decision has been made by the end of the reporting period.	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0

Table VIII: Status of OIG Recommendations Without Management Decisions

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

Table IX: Significant Revised Management Decisions

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

Table X: Significant Management Decisions with Which the OIG Disagreed

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

Table XI: Instances Where Information Was Refused

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

Congratulations to CIGIE Award Winners

The FDIC OIG congratulates the following teams whose efforts were acknowledged at the annual awards ceremony of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) on October 20, 2009:

Award for Excellence: **Audits**

Auditors-in-Charge—FDIC OIG Material Loss Reviews: For excellence in reviewing and reporting on failures of insured depository institutions resulting in material losses to the Deposit Insurance Fund

John Almand
John Colantoni
Lisa Conner
Dawn Gilbert
Anitra Hawkins
Judy Hoyle
Tiffani Kinzer
Ann Lewis
Titus Simmons
Jeffrey Smullen

L to R: Ann Lewis, John Colantoni, Titus Simmons, IG Jon Rymer, Lisa Conner, Anitra Hawkins, Tiffani Kinzer, Karen Savia, Dawn Gilbert, Judy Hoyle, Deputy IG Fred Gibson

Award for Excellence: **Investigation**

Criminal Investigation and Prosecution of a Multi-Million Dollar Mortgage Fraud: For excellence in successfully investigating and prosecuting a multi-million dollar mortgage fraud scheme.

Nancy Bass
U.S. Attorney's Office

Timothy Bass
Assistant U.S. Attorney

Daniel Bergan
FDIC OIG

Basil Demczak
Postal Inspection Service

Staci Klayer
U.S. Attorney's Office

Jeffrey Warren
FBI

L to R: Assistant IG Matt Alessandrino, IG Jon Rymer, Daniel Bergan, Staci Klayer, Nancy Bass, Timothy Bass, Deputy IG Fred Gibson

Award for Excellence: **Special Act**

Financial Regulatory OIGs Partner with FDIC Corporate University: For excellence in designing and carrying out a comprehensive training program for financial regulatory OIGs conducting Material Loss Reviews of failed financial institutions

Susan Barron
Department of the Treasury OIG

John Colantoni
FDIC OIG

James Hagen
National Credit Union Administration OIG

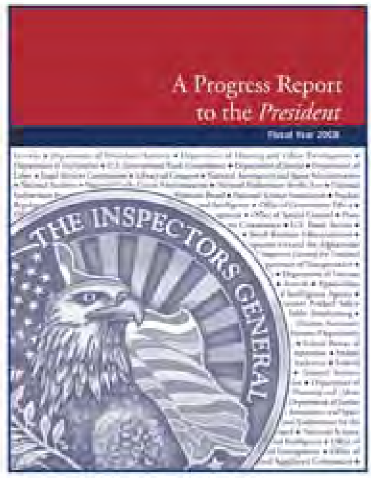
Mike Lombardi
FDIC OIG

Karen Savia
FDIC OIG

Kimberly Whitten
Federal Reserve Board OIG

L to R: John Colantoni, IG Jon Rymer, Mike Lombardi, Karen Savia, Deputy IG Fred Gibson

IG Community Issues Annual Report



The FDIC OIG is a proud member of the IG community, whose annual report, *A Progress Report to the President, Fiscal Year 2008*, summarizes the most significant activities and accomplishments of the Federal IG community during fiscal year 2008. In addition, the report highlights the impact of the IG Reform Act of 2008, signed on October 14, 2008. This legislation further validates IG independence, enhances IG operations, and has combined two former IG councils, the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency into the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

In fiscal year 2008, the Inspectors General identified $18.6 billion in dollar savings as well as program efficiencies and enhancements from a range of audits, investigations, evaluations, and inspections. The IG community was responsible for successful investigations of individuals and entities who threatened government integrity and the public trust. Cumulatively, these efforts resulted in: $14.2 billion in potential savings from audit recommendations; $4.4 billion from investigative recoveries and receivables; over 6,600 indictments and criminal informations; nearly 6,900 successful prosecutions; about 5,000 suspensions or debarments; and nearly 338,000 hotline complaints processed.

A Progress Report to the President, Fiscal Year 2008 discusses the IG community's activities from multiple perspectives. The report looks back and highlights key accomplishments of Federal OIGs during fiscal year 2008 as they worked to ensure the economy, efficiency, effectiveness, and integrity of government programs and prevent fraud, waste, abuse, and mismanagement. In addition, the report captures some defining moments in the community's 30-year evolution and outlines key provisions of the IG Reform Act. The report also shows how the IGs have begun to implement the Act and operate as one Council with new responsibilities and challenges.

As noted above, the CIGIE was created by the IG Reform Act of 2008 to address integrity, economy, and effectiveness issues that transcend individual agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce.

For access to this report and a more detailed look at the IG community, visit www.ignet.gov.

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