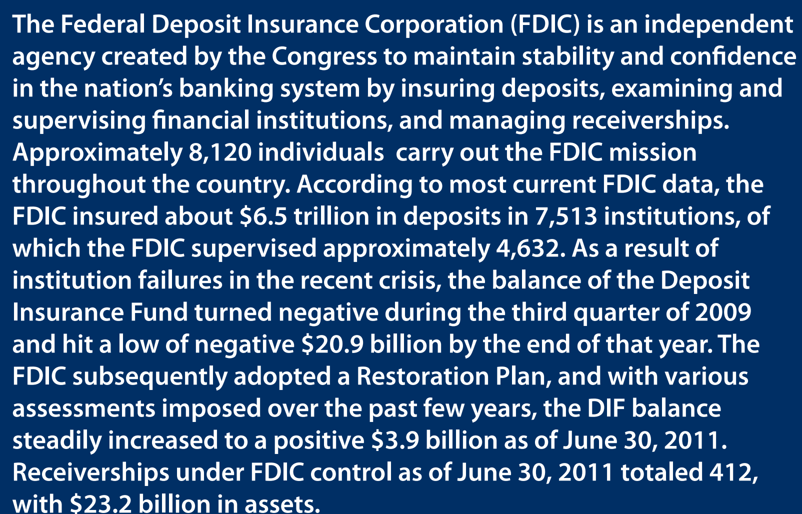
Office of Inspector General

Semiannual Report to the Congress

April 1, 2011 – September 30, 2011

Including the OIG's Performance Report for Fiscal Year 2011

FDIC



The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and confidence in the nation's banking system by insuring deposits, examining and supervising financial institutions, and managing receiverships. Approximately 8,120 individuals carry out the FDIC mission throughout the country. According to most current FDIC data, the FDIC insured about $6.5 trillion in deposits in 7,513 institutions, of which the FDIC supervised approximately 4,632. As a result of institution failures in the recent crisis, the balance of the Deposit Insurance Fund turned negative during the third quarter of 2009 and hit a low of negative $20.9 billion by the end of that year. The FDIC subsequently adopted a Restoration Plan, and with various assessments imposed over the past few years, the DIF balance steadily increased to a positive $3.9 billion as of June 30, 2011. Receiverships under FDIC control as of June 30, 2011 totaled 412, with $23.2 billion in assets.

Office of Inspector General

Semiannual Report to the Congress

April 1, 2011 – September 30, 2011

Including the OIG's Performance Report for Fiscal Year 2011

FDIC

Inspector General's Statement

As this reporting period comes to a close, the Federal Deposit Insurance Corporation (FDIC) and the banking industry continue to emerge from the worst crisis since the Great Depression. The FDIC and the Office of Inspector General (OIG) are transitioning to this post-crisis period and continue to work with counterparts in the other regulatory agencies to help sustain and build upon a sense of restored stability and confidence. This report reflects the OIG's efforts of the past 6 months to see to that end.

Following the departure of former Chairman Sheila Bair in July 2011, the Vice Chairman of the FDIC, Mr. Martin Gruenberg, became Acting Chairman. He had been nominated by the President in June to become the next FDIC Chairman and is currently awaiting Senate confirmation. The Acting Chairman has announced some key priorities for the FDIC going forward. Specifically, he cites implementation of the FDIC's systemic resolution responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); the future of community banks; and economic inclusion and access to mainstream banking services as being central to the FDIC's core mission at this time.

The Corporation is addressing these priorities in an environment of significant change. It is adapting to a new governance structure under the leadership of the Acting Chairman and will continue to do so. Another internal FDIC Board Member, Mr. Tom Curry, currently serving as Chair of the Audit Committee, has been nominated by the President to become the next Comptroller of the Currency, and if confirmed, would still serve on the Board, although in a different capacity and would need to be replaced as the FDIC's internal Director. The Dodd-Frank Act prompted yet another change in the Board make-up. That is, the former Board position of Director of the Office of Thrift Supervision (OTS) was abolished with passage of the Act, and when a Director of the newly formed Consumer Financial Protection Bureau is named, that individual will occupy the former OTS's position on the Board.

Passage of the Dodd-Frank Act was also the catalyst for creation of two new internal entities at the FDIC to best meet the FDIC's responsibilities under the Act, both of which are positioned to address key aspects of the Acting Chairman's priorities. The Office of Complex Financial Institutions is charged with performing continuous review and oversight of bank holding companies with more than $100 billion in assets as well as non-bank financial companies designated as systemically important by the new Financial Stability Oversight Council. This office will also be responsible for carrying out the FDIC's new authority under the Act to implement orderly liquidations of bank holding companies and non-bank financial companies that fail.

The Division of Depositor and Consumer Protection was formed to provide increased visibility to the FDIC's compliance examination and enforcement program. That program ensures that banks comply with consumer protection and fair lending statutes and regulations. While the Congress established the Consumer Financial Protection Bureau to promulgate consumer protection rules, the FDIC maintains the responsibility to enforce those rules for banks with $10 billion or less in assets and to perform its traditional depositor protection function.

Along with these many changes come risks. In that connection, the FDIC's first Chief Risk Officer joined the FDIC in August 2011. He will be assisting the Board and senior management in identifying risks facing the Corporation and in establishing, prioritizing, and communicating the Corporation's risk management objectives and direction. His new office will complement the work of the OIG, the existing Office of Enterprise Risk Management, and FDIC division-level internal review and control staffs to limit the Corporation's risk exposure. We look forward to a strong and cooperative working relationship with the Chief Risk Officer.

The OIG bases its work on both existing and emerging risks to the FDIC. We have devoted

substantial resources in the recent past and continuing into the current reporting period examining the causes of the failures of FDIC-supervised institutions, the majority of which are community banks, and the FDIC's supervision of those banks, with an eye toward identifying risky practices causing failures and suggesting enhancements to aspects of the FDIC's risk-focused supervisory examination activities. A year or so ago, we shifted some emphasis to the Corporation's resolution and receivership activities, particularly the risk-sharing arrangements that the FDIC has engaged in with acquiring institutions and/or limited liability companies handling assets acquired from failed institutions. The FDIC's financial risk exposure in these arrangements is in the billions of dollars, and we have worked closely with the FDIC to ensure that its interests are protected as these agreements run their course long into the future. This report discusses a sampling of our audit and evaluation work in these important areas.

Given a high level of contracting at the FDIC and associated monetary risks, we are also currently examining some of the largest contracts that the FDIC has engaged in with firms to provide such services as managing and marketing owned real estate and management of electronically stored information received by the FDIC from failed financial institutions. Our workload may also be further impacted by HR 2056, legislation that was passed by the House of Representatives and is currently being considered by the Senate. HR 2056 calls for the FDIC Inspector General to study various issues associated with bank failures, including shared-loss agreements, credit administration and appraisals, capital, commercial real estate loan workouts, enforcement actions, and private capital investments. We would also expect to assess more fully the Corporation's efforts to carry out its resolution responsibilities for systemically important financial institutions as the Office of Complex Financial Institutions' pursuit of those responsibilities continues to evolve in the months ahead.

Clearly our workload is demanding, and mindful of budgetary concerns throughout the federal government, we are learning from our past and seeking to make the most effective and efficient use of our resources to address all aspects of the OIG's work going forward. In that regard, we are reviewing our management operations and internal control structure, and adopting new approaches to conducting our audits and evaluations and communicating the results of that work. We are also developing more proactive ways of addressing our investigative workload by examining our case selection process and seeking to leverage the benefits of forensic analysis of a wealth of financial information available in FDIC systems.

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

In closing, I want to acknowledge the efforts of all OIG staff who have worked especially hard during a time of unparalleled economic and financial crisis and who look to future challenges with a firm commitment to the FDIC OIG mission. We sincerely appreciate corporate and Congressional support of our office and will continue to make every effort to conduct our work efficiently, effectively, economically, and with utmost integrity.

Jon T. Rymer
Inspector General
October 2011

Table of Contents

Inspector General's Statement 1

Abbreviations and Acronyms 4

Highlights and Outcomes 5

Strategic Goal Areas

1 **Supervision:** Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly 9

2 **Insurance:** Help the FDIC Maintain the Viability of the Insurance Fund 26

3 **Consumer Protection:** Assist the FDIC to Protect Consumer Rights and Ensure Customer Data Security and Privacy 31

4 **Receivership Management:** Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships 34

5 **Resources Management:** Promote Sound Governance and Effective Stewardship and Security of Human, Financial, Information Technology, and Physical Resources 39

6 **OIG Resources Management:** Build and Sustain a High-Quality Staff, Effective Operations, OIG Independence, and Mutually Beneficial Working Relationships 43

Fiscal Year 2011 Performance Report 49

Reporting Requirements 55

Appendix 1: Information Required by the Inspector General Act of 1978, as Amended 56

Appendix 2: Information on Failure Review Activity 62

Appendix 3: Peer Review Activity 64

Special Projects 66

Congratulations and Farewell 67

Abbreviations and Acronyms

ADC	acquisition, development, and construction
BDO	BDO USA, LLP
CD	Certificate of Deposit
CFI	Office of Complex Financial Institutions
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CMC	compliance monitoring contractors
CRE	commercial real estate
DIF	Deposit Insurance Fund
DOI	Department of the Interior
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRR	Division of Resolutions and Receiverships
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
FDICIA	FDIC Improvement Act
FISMA	Federal Information Security Management Act
FRB	Board of Governors of the Federal Reserve System
GAO	Government Accountability Office
GPRA	Government Performance and Results Act of 1993
HAMP	Home Affordable Modification Program
HUD	Department of Housing and Urban Development
IDR	in-depth review
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology
KPMG	KPMG, LLC
MLR	Material Loss Review
MWL	mortgage warehouse lending
NFEC	Namco Financial Exchange Corp.
OCC	Office of the Comptroller of the Currency
OERM	Office of Enterprise Risk Management
OIG	Office of Inspector General
OSBC	Office of the State Bank Commissioner
OTS	Office of Thrift Supervision
P&A	purchase and assumption
PCA	Prompt Corrective Action
PCIE	President's Council on Integrity and Efficiency
PIA	Privacy Impact Assessment
PII	personally identifiable information
PRA	Prompt Regulatory Action
REO	real estate owned
RMS	Division of Risk Management Supervision
RTC	Resolution Trust Corporation
SAR	Suspicious Activity Report
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLA	Shared-Loss Agreement
SORN	System of Records Notice
SPB	Security Pacific Bank
TBW	Taylor, Bean & Whitaker
WDFI	Washington State Department of Financial Institutions
WFC	Washington First Capital, Inc.
WFFG	Washington First Financial Group, Inc.

Highlights and Outcomes

The OIG works to achieve five strategic goals that are closely linked to the FDIC's mission, programs, and activities, and one that focuses on the OIG's internal business and management processes. These highlights show our progress in meeting these goals during the reporting period. Given our statutorily mandated workload involving reviews of failed financial institutions, a substantial portion of our work during the reporting period continued to focus on our first and second goals of assisting the Corporation to ensure the safety and soundness of banks and the viability of the insurance fund. However, based on the risks inherent in the resolution and receivership areas, we have shifted audit and evaluation resources to conduct work in support of our fourth goal and have a number of ongoing assignments in those areas. We have not devoted many resources to 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. During the reporting period, we completed seven reports on institutions whose failures resulted in substantial losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. We also completed 20 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the threshold of $200 million and determined whether unusual circumstances existed that would warrant an in-depth review in those cases. We responded to a letter from 10 minority Members of the Senate Committee on Banking, Housing, and Urban Affairs who expressed concern that regulatory agencies were conducting rulemakings to implement specific provisions of the Dodd-Frank Act without adequately considering the costs and benefits of their rules and the effects those rules could have on the economy. We looked at three specific rules as part of that assignment. We also responded to a request from former FDIC Chairman Sheila Bair regarding allegations she received with respect to improper loan modification activities at OneWest-Bank and concluded the allegations had no merit.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also successfully combated a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failure. For example, the former executive vice president and chief credit officer of Community Bank and Trust, Cornelia, Georgia, and three bank customers were sentenced for schemes to defraud the bank. The bank executive was sentenced to 10 years in prison and ordered to pay restitution of $6 million. A businessman, developer, and builder who were also involved were sentenced to prison for 2 years, 3 years, and 2½ years, respectively, and each was ordered to pay more than $2 million in restitution. All four were ordered to forfeit any and all fraud proceeds. In another case, a businessman was sentenced to 6 years in prison for operating a

loan participation Ponzi scheme that defrauded 18 lenders in Minnesota and several other states. Lenders suffered losses of nearly $80 million. Seven individuals associated with the failure of Colonial Bank and Taylor, Bean, & Whitaker, a private mortgage company, were sentenced for conspiracy to commit bank, wire, and securities fraud for their part in a $2.9 billion scheme. Collectively, they received sentenced ranging from 3 months to 30 years in prison and were ordered to pay from $500 million to $3.5 billion in restitution jointly and severally. Former officials associated with the failed Omni National Bank also received sentences for schemes to defraud that institution. The former executive vice president, who overvalued assets and misled auditors, regulators, and shareholders, was sentenced to 5 years in prison and ordered to pay $6.8 million in restitution. Also of note during the reporting period were successful several mortgage fraud cases, one involving sentencings of two individuals for a scheme in the Washington metropolitan area, and others associated with the Mortgage Fraud Strike Force, Southern District of Florida. Many perpetrators received stiff prison sentences and were ordered to pay substantial restitution.

The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision (RMS), the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS and the Legal Division to review Suspicious Activity Reports and identify cases of mutual interest. (See pages 9-25.)

Strategic Goal 2

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

In support of this goal area, we issued the results of our comprehensive evaluation of the implementation of Prompt Regulatory Action (PRA), a review conducted jointly with the OIGs from the Department of the Treasury and the Board of Governors of the Federal Reserve System (FRB). The report presents a historical look at PRA, describes the extent to which PRA provisions have been a factor in supervisory activity during the current crisis, and assesses the impact of PRA provisions in limiting losses to the Deposit Insurance Fund. The report presents non-capital factors that provide a leading indication of bank problems and recommends matters for the federal banking regulators' consideration to strengthen the effectiveness of the PRA provisions. Each of the agency responses to our draft report and the identified planned actions address the intent of the recommendation.

Our failed bank work also fully supports this goal, as does the investigative work highlighted above in strategic goal 1. In both cases, our work can serve to prevent future losses to the insurance fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses. (See pages 26-30.)

Strategic Goal 3

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

Audits and evaluations can contribute to the FDIC's protection of consumers in several ways. We did not devote substantial resources of this type to specific consumer protection matters during the past 6-month period because for the most part, we continued to devote resources to material loss review-related work and to FDIC activities in the resolution and receivership realms. Our Office of Investigations, however, supports this goal through its work. For example, as a result of an ongoing investigation, an Arizona man posing as an "FDIC broker" who marketed and sold fictitious FDIC-insured certificates of deposits to at least 17 senior citizen investors was indicted for mail fraud, money laundering, and impersonating an employee of the FDIC. Also of note, our Electronic Crimes Unit responded to instances where fraudulent emails purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The OIG also continued to respond to a growing number of inquiries from the public, received both through our Hotline and through other channels. We addressed nearly 250 such inquiries during the past 6-month period. (See pages 31-33.)

Strategic Goal 4

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

We completed several assignments in this goal area during the reporting period. We issued the results of an audit of shared-loss agreements between the FDIC and an acquiring institution in which we identified $24 million in questioned costs related to questioned loss claims and made additional recommendations to enhance the FDIC's monitoring and oversight of the acquiring institution. With respect to our audit of the shared-loss agreement, FDIC management agreed with the reported monetary benefits and is taking action on other nonmonetary recommendations to address our concerns. As of the end of the reporting period, ongoing work included additional audits of shared-loss agreements, structured sales, and acquisition and management of securities.

From an investigative standpoint, we continued to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed, and we include a summary of one such case in this report involving the spouse of a former bank president. (See pages 34-38.)

Strategic Goal 5

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

In support of this goal area, we completed work on the FDIC's Privacy Program. The FDIC creates and acquires a significant amount of personally identifiable information related to depositors and borrowers at FDIC-insured institutions, FDIC employees, and FDIC contractors, and we examined controls over such information. We concluded that the FDIC's privacy program and practices were generally compliant with related federal statutes and OMB guidance. The final report did, however, make three recommendations to enhance privacy practices and related internal controls. In connection with the Dodd-Frank Act, we issued the results of a second coordinated review of the status of the implementation activities of the Joint Implementation Plan (Plan) prepared by the FRB, the FDIC, the Office of the Comptroller of the Currency (OCC), and the OTS. We reported that the FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to the FRB, FDIC, and OCC, as appropriate. We were also concluding our annual audit under the Federal Information Security Management Act at the end of the reporting period and had several billing reviews of large FDIC contracts underway as well.

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

Strategic Goal 6

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

To ensure effective and efficient management of OIG resources, among other activities, we reassessed our audit and evaluation workload, continued realignment of the OIG investigative resources, and examined staffing plans and budget resources to ensure our office is positioned to handle risks to the FDIC. We monitored OIG expenses for Fiscal Year 2011 and our funding status to ensure availability of funds, particularly in light of the budget impasse, continuing resolutions, and uncertainty about the status of appropriations going forward. We also provided our FY 2013 budget to the FDIC's Acting Chairman. This budget reflects $34.6 million to support 130 full-time equivalents.

We continued a new process for reviewing all failures of FDIC-supervised institutions not meeting the Dodd-Frank Act $200 million threshold triggering a material loss review and captured this and other reporting information now required under the Dodd-Frank Act. We oversaw contracts with qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the Inspector General feedback form for audits

and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

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

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

In the area of risk management, we monitored existing and emerging risk areas. We also participated regularly at meetings of the National Risk Committee to further monitor risks at the Corporation and tailor OIG work accordingly. We shared OIG perspectives with Corporation's first Chief Risk Officer, who is charged with assisting the FDIC Board and senior management in identifying risks facing the Corporation and in establishing, prioritizing, and communicating the Corporation's risk management objectives and direction. (See pages 43-48.)

Significant Outcomes (April 2011– September 2011)	
Material Loss and In-Depth Review, Audit, and Evaluation Reports Issued	13
Questioned Costs	$34,702,683
Nonmonetary Recommendations	13
Investigations Opened	36
Investigations Closed	41
OIG Subpoenas Issued	11
Judicial Actions:	
Indictments/Informations	104
Convictions	76
Arrests	62
OIG Investigations Resulted in:	
Fines of	$32,400
Restitution of	$3,670,032,727
Asset Forfeitures of	$13,917,309
Total	**$3,683,982,436***
Cases Referred to the Department of Justice (U.S. Attorney)	28
Cases Referred to FDIC Management	0
Proposed Regulations and Legislation Reviewed	5
Proposed FDIC Policies Reviewed	6
Responses to Requests Under the Freedom of Information Act	11

**Note: Investigative monetary benefits amount is unusually high and attributable to one case from the reporting period related to Colonial Bank and Taylor, Bean & Whitaker involving ordered restitution of $3.5 billion.*

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 4,630 FDIC-insured, state-chartered institutions that are not members of the FRB—generally referred to as “state non-member” institutions. Historically, the Department of the Treasury (the Office of the Comptroller of the Currency (OCC) and the OTS) or the FRB have supervised other banks and thrifts, depending on the institution’s charter. The recent winding down of the OTS under the Dodd-Frank Act resulted in the transfer of supervisory responsibility for about 60 state-chartered savings associations to the FDIC, all of which are considered small and that will be absorbed into the FDIC’s existing supervisory program. About 670 federally chartered savings associations were transferred to the OCC. As insurer, the Corporation also has back-up examination authority to protect the interests of the Deposit Insurance Fund (DIF) for about 2,880 national banks, state-chartered banks that are members of the FRB, and those savings associations now regulated by the OCC.

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

The passage of the Dodd-Frank Act brought about significant organizational changes to the FDIC’s current supervision program in the FDIC’s former DSC. That is, the FDIC Board of Directors approved the establishment of an Office of Complex Financial Institutions (CFI) and a Division of Depositor and Consumer Protection. In that connection, DSC was renamed the Division of Risk Management Supervision (RMS). CFI began its operations and is focusing on overseeing bank holding companies with more than $100 billion in assets and their corresponding insured depository institutions. CFI is also responsible for non-bank financial companies designated as systemically important by the Financial Stability Oversight Council, of which the FDIC is a voting member. CFI and RMS will coordinate closely on all supervisory activities for insured state non-member institutions that exceed $100 billion in assets, and RMS is responsible for the overall Large Insured Depository Institution program.

Prior to passage of the Dodd-Frank Act, in the event of an insured depository institution failure, the Federal Deposit Insurance (FDI) Act required the cognizant OIG to perform a review when the DIF incurs a material loss. Under the FDI Act, a loss was considered material to the insurance fund if it exceeded $25 million and 2 percent of the failed institution’s total assets. With the passage of Dodd-Frank Act, the loss threshold was increased to $200 million through December 31, 2011. The FDIC OIG performs the review if the FDIC is the primary regulator of the institution. The Department of the Treasury OIG and the OIG at the FRB perform reviews when their agencies are the primary regulators. These reviews identify what caused the material loss, evaluate the supervision of the federal

regulatory agency (including compliance with the Prompt Corrective Action (PCA) requirements of the FDI Act), and generally propose recommendations to prevent future failures. Importantly, under the Dodd-Frank Act, the OIG is now required to review all losses incurred by the DIF under the $200 million threshold to determine (a) the grounds identified by the state or Federal banking agency for appointing the Corporation as receiver and (b) whether any unusual circumstances exist that might warrant an in-depth review (IDR) of the loss. The OIG has implemented processes to conduct and report on material loss reviews (MLR) and IDRs of failed FDIC-supervised institutions, as warranted, and continues to review all failures of FDIC-supervised institutions for any unusual circumstances.

The number of institutions on the FDIC's "Problem List" as of June 30, 2011 was 865, indicating a probability of more failures to come and an additional asset disposition workload. Total assets of problem institutions were $372 billion. Importantly, however, the number of institutions on the Problem List fell for the first time in 19 quarters—from 888 to 865—and total assets of problem institutions declined during the second quarter from $397 billion to $372 billion.

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

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

The OIG's investigations of financial institution fraud currently constitute about 90 percent of the OIG's investigation caseload. The OIG is also committed to continuing its involvement in interagency forums addressing fraud. Such groups include national and regional bank fraud, check fraud, mortgage fraud, cyber fraud, identity theft, and anti-phishing working groups. Additionally, the OIG engages in industry outreach efforts to keep financial institutions informed on fraud-related issues and to educate bankers on the role of the OIG in combating financial institution fraud.

To assist the FDIC to ensure the nation's banks operate safely and soundly, the **OIG's 2011 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 nine reports during the reporting period in support of our strategic goal of helping to ensure the safety and soundness of the nation's banks. The majority of these reports communicated the results of MLRs and IDRs. We also completed failure reviews of an additional 20 failures to determine whether unusual circumstances existed to pursue an IDR. Appendix 2 in this report presents the results of the failure reviews that we conducted.

To provide readers a sense of the findings in our MLRs and IDRs, we have summarized the results of one MLR and one IDR conducted during the reporting period in this report. In each case, our

objectives in conducting the reviews were to determine the causes of the institution's failure and the resulting material loss to the DIF and evaluate the FDIC's supervision of the institutions, including the FDIC's implementation of the PCA provisions of section 38 of the FDI Act. We also present the results of a congressionally requested assignment related to the FDIC's rulemaking under the Dodd-Frank Act and another report prompted by a request from former FDIC Chairman Bair related to loan modification activities at OneWest Bank.

Material Loss Review of Hillcrest Bank, Overland Park, Kansas

By way of background, Hillcrest Bank (Hillcrest), Overland Park, Kansas, was established in 1987 as a state-chartered nonmember bank. The institution provided full-service banking and had 41 branches throughout Kansas, Missouri, Colorado, and Texas. Hillcrest's lending strategy focused on commercial real estate (CRE), with an emphasis on acquisition, development, and construction (ADC) in 22 states and The Bahamas. The bank was wholly-owned by Hillcrest Bancshares, Inc. of Overland Park, Kansas, which was a one-bank holding company.

Hillcrest originally opened in Kansas City, Missouri, and was almost immediately acquired by the newly formed Hillcrest Bancshares, Inc. The bank subsequently became affiliated with the Oak Park Bank, Overland Park, Kansas, and The Olathe Bank, Olathe, Kansas, through the common ownership of two principal shareholders. On December 31, 1996, Hillcrest and The Olathe Bank merged with the Oak Park Bank. In addition, Hillcrest absorbed the American Bank, Wichita, Kansas, in November 1999; the First State Bank of Hill County, Dallas, Texas, in December 2005; and the Colonial Bank, Loveland, Colorado, in November 2006. Hillcrest was also affiliated with Hillcrest Bank Florida, Naples, Florida, which failed in October 2009.

On October 22, 2010, the Kansas Office of the State Bank Commissioner (OSBC) closed Hillcrest, and the FDIC was named receiver. On November 18, 2010, the FDIC notified the OIG that Hillcrest's total assets at closing were $1.6 billion, and the estimated loss to the DIF was $312 million. As required by section 38(k) of the FDI Act, and as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the OIG conducted an MLR of the failure of Hillcrest.

Causes of Failure and Material Loss: We determined that Hillcrest failed because its Board of Directors (Board) and management did not effectively manage the risks associated with the institution's significant concentration in ADC loans. From 2005 to 2008, Hillcrest's Board and management aggressively grew the bank's ADC loan portfolio. Many of the loans originated or acquired during this period were outside of the bank's local business area. This strategy greatly elevated the institution's risk profile and its vulnerability to an economic downturn. As real estate markets in the bank's lending areas began to decline, the institution's CRE loans (particularly its ADC loans) were negatively affected.

Weak credit administration practices also contributed to the bank's loan quality problems. Management did not diversify the bank's loan portfolio or adjust its risk management infrastructure in a timely manner in response to the deterioration in its loan portfolio. The resulting substantial loan losses eliminated Hillcrest's earnings and depleted capital. Although Hillcrest's Board and management curtailed lending activities in 2008 and attempted to pursue corrective actions to improve the bank's deteriorating financial condition, the ADC loan and other loan losses rendered the bank Critically Undercapitalized. Because Hillcrest was unable to raise sufficient capital to support safe and sound operations, the OSBC closed the bank in October 2010.

The FDIC's Supervision of Hillcrest: Between 2005 and 2010, the FDIC and the OSBC conducted timely examinations of Hillcrest and made recommendations to strengthen the bank's risk management practices. Following the 2008 examination, the FDIC and the OSBC downgraded the bank's composite and component ratings and addressed weaknesses in Hillcrest's management through the implementation of a Bank Board Resolution. The FDIC and the OSBC subsequently monitored Hillcrest's condition through visitations and examinations, and in 2009, addressed unsafe and unsound practices by implementing a Cease and Desist Order. Despite the increased supervisory attention and Hillcrest's efforts to address its loan concentrations and management deficiencies, the institution was not prepared to handle the rapid, severe, and prolonged economic downturn that occurred. As a result, the bank's financial condition became critically deficient,

and the Board and management were unable to restore the institution to a safe and sound condition.

With the benefit of hindsight, greater supervisory emphasis on, and a more forward-looking assessment of, Hillcrest's management practices and risk profile may have been prudent during its growth period, taking into consideration Hillcrest's:

- large and growing ADC concentrations, which made the bank vulnerable to an economic downturn;
- repeat loan review deficiencies and other credit administration weaknesses;
- reluctance to adequately staff the credit department; and
- significant amount of out-of-area lending.

Our report points out that examiners could have recommended during earlier examinations that Hillcrest focus greater attention on analyzing the potential impact of a downturn in the economy on its operations, including the need for a viable plan to mitigate the bank's concentration risks. Further, the FDIC could have placed greater emphasis on Hillcrest's management practices and risk profile when assigning ratings during the 2007 examination. Such an approach could have reinforced supervisory expectations and increased supervisory oversight. It may also have influenced the Board and management to reduce its CRE and ADC exposure prior to the downturn in the real estate market and commit to a plan and a timeline for implementing corrective actions at a critical time.

We acknowledge that the FDIC has taken a number of important actions to enhance its supervision program based on the lessons learned from failures during the financial crisis. With respect to the issues discussed in the report, the FDIC has, among other things, reiterated broad supervisory expectations with regard to managing risk associated with CRE and ADC concentrations. Further, the FDIC completed a training initiative in 2010 for its entire supervisory workforce that emphasizes the need to assess a bank's risk profile using forward looking supervision. The training addressed the need for examiners to consider management practices as well as current financial performance or trends in assigning ratings, as allowable under existing examination guidance.

The Director of the FDIC's RMS provided a written response to a draft of the report. In the response, the Director reiterated the OIG's conclusions regarding the causes of Hillcrest's failure and described key supervisory actions that the FDIC and the OSBC took to address the bank's deteriorating financial condition. The response also stated that RMS recognized the threat that institutions with high-risk profiles, such as Hillcrest, pose to the DIF and that RMS had issued a Financial Institution Letter to banks on Managing Commercial Real Estate Concentrations in a Challenging Environment that re-emphasizes the importance of robust credit risk-management practices for institutions with concentrated CRE exposures. Additionally, the response indicated that RMS had issued updated guidance reminding examiners to take appropriate action when those risks are imprudently managed.

Washington First International IDR

On June 11, 2010, the Washington State Department of Financial Institutions (WDFI) closed Washington First International Bank (Washington First), and the FDIC was appointed receiver. On August 20, 2010, the FDIC notified the OIG that Washington First's total assets at closing were $500 million and that the estimated loss to the DIF was $153.6 million. As of April 30, 2011, the estimated loss to the DIF had decreased to $136.1 million.

As noted earlier, on July 21, 2010, the President signed into law the Dodd-Frank Act. Dodd-Frank amends section 38(k) of the FDI Act by increasing the MLR threshold from $25 million to $200 million for losses that occur for the period January 1, 2010 through December 31, 2011. Although the estimated loss for Washington First did not meet the amended threshold requiring an MLR, the OIG determined that there were unusual circumstances involving parent/affiliate relationships and that an IDR of the loss was warranted as authorized by the Dodd-Frank Act.

Washington First, headquartered in Seattle, Washington, was established as a state nonmember bank and insured in 1990. The bank was 100-percent owned by Washington First Financial Group, Inc. (WFFG), a one-bank holding company. In addition to Washington First, WFFG had another operating subsidiary, Washington First Capital, Inc. (WFC), that was formed to provide bridge financing secured

by real estate and other lending considered too untraditional for the bank. Both WFFG and WFC had concentrations of high-risk, speculative real estate loans and often lent to Washington First customers whose borrowing relationships had reached the bank's legal lending limit. WFC's portfolio consisted primarily of "hard-money" loans – a term often applied to non-creditworthy borrowers whose loans are based primarily on estimated real estate loan-to-value ratios rather than the ability of the borrower to repay.

Causes of Failure and Loss: We reported that Washington First's Board of Directors (Board) and management were primarily responsible for the bank's overall poor financial condition because they failed to provide appropriate oversight of the institution's lending activities during a period of declining real estate market conditions. The FDIC attributed the institution's problems to concentrations in CRE and ADC loans, coupled with poor credit administration, rapid asset quality deterioration, deficiencies in loan underwriting and the allowance for loan and lease losses methodology, and reliance on non-core funding. Two other factors that contributed to the bank's elevated credit risk and, ultimately, to the institution's failure were: (1) a concentration of large borrowing relationships with a small number of bank customers and (2) interrelationships among borrowers of the bank and the bank's affiliates.

Further, Washington First's relationship with WFFG and WFC also increased risk at the bank and negatively impacted the bank's financial condition. Specifically, both WFFG and WFC were heavily involved in real estate lending. Lending at WFFG was generally to accommodate Washington First customers whose borrowing relationships had reached the bank's legal lending limit. In addition, WFC engaged in lending activities that were considered too untraditional for the bank's portfolio and were characterized by higher-than-normal risk and complexity. The WDFI closed Washington First on June 11, 2010 because the bank was operating in an unsafe and unsound condition.

The FDIC's Supervision of Washington First: We reviewed the supervisory oversight of Washington First from 2004 through 2010. During this period, the FDIC and/or the WDFI conducted six onsite risk management examinations and two visitations of the institution. Further, the FDIC monitored emerging issues at the bank through its offsite review program and reviewed the Federal Reserve Bank's holding company inspection reports pertaining to the bank's affiliates. Through these supervisory efforts, examiners identified key risks in the bank's operations and brought these risks to the attention of the bank's Board and management through examination reports and other correspondence. In addition, the regulators downgraded certain supervisory component ratings and the institution's composite rating and imposed enforcement actions in 2005 and 2009 to address problems identified at the December 2004 and March 2009 examinations, respectively.

As it relates to the focus of our review, the FDIC identified and reported significant concerns pertaining to Washington First's controls over affiliate relationships during the December 2004 examination. Examiners subsequently determined during the January 2006 examination that the bank's affiliate relationships were acceptable, and no serious concerns in this area were raised again until the March 2009 examination. Based on the examination working papers that were available for our review, we were unable to conclude on the sufficiency of the procedures performed regarding affiliate relationships prior to 2009. However, the sharp decline in the bank's ratings that paralleled the deterioration in the institution's financial condition underscores the risks associated with the affiliate relationships in the years preceding the economic downturn. At a minimum, consistent with forward-looking supervision, greater emphasis in the examination reports on those risks and the adequacy of mitigating controls may have been warranted. With respect to PCA, the FDIC had implemented supervisory actions that were consistent with relevant provisions of section 38.

On June 10, 2011, the Director, RMS, provided a written response to the draft report. In the response, the Director reiterated the OIG's conclusions regarding the causes of Washington First's failure and described key supervisory actions that the FDIC and WDFI took to address the bank's deteriorating financial condition. The response also stated that in recognition that strong supervisory attention is necessary for institutions with high ADC and CRE concentrations and volatile funding sources, as was the case with Washington First, RMS issued

updated guidance reminding examiners to take appropriate actions when those risks are imprudently managed. Additionally, the response referenced institution guidance that had been issued in 2008 and 2009 re-emphasizing the importance of robust credit risk management practices for institutions with concentrated CRE exposures and a reliance on volatile non-core funding.

With respect to the issue described in the report pertaining to the bank's affiliate relationships, RMS concurred with the report's observations relating to risks posed by affiliates and the need for appropriate supervisory attention. Additionally, the response stated that examiners followed long-standing guidance in the Risk Management Manual of Examination Policies and that, as with prior IDR reports by the OIG, RMS found the report to be instructive and indicated that they would consider it as they continually evaluate and revise, as appropriate, existing examination guidance.

Evaluation of the FDIC's Economic Analysis of Three Rulemakings to Implement Provisions of the Dodd-Frank Act

In a May 4, 2011 letter, 10 minority members (Members) of the U.S. Senate Committee on Banking, Housing, and Urban Affairs expressed concern that regulatory agencies were conducting rulemakings to implement specific provisions of the Dodd-Frank Act without adequately considering the costs and benefits of their rules and the effects those rules could have on the economy. The Members asked the Inspectors General from the FDIC, FRB, Commodity Futures Trading Commission, Department of the Treasury, and Securities and Exchange Commission to initiate a review of the economic analyses performed by their respective regulatory agency for specific rulemakings. In particular, the letter requested that our office prepare a report describing the economic analysis that the FDIC performed for three proposed rules: (1) *Credit Risk Retention,* (2) *Margin and Capital Requirements for Covered Swap Entities,* and (3) *Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel II; Establishment of a RiskBased Capital Floor.*

Additionally, the Members asked us to describe other rulemaking steps that would be required if the FDIC were subject to certain Executive Orders and Office of Management and Budget guidance. They also asked us to describe to what extent the FDIC is considering the cumulative burden of all Dodd-Frank Act rulemakings on market participants and the economy.

We reported that the FDIC assigned highly qualified subject matter experts to develop the technical aspects of the proposed rules and to conduct economic analysis, where appropriate. We confirmed that these experts were knowledgeable of, and followed, the applicable statutory and FDIC requirements related to rulemaking and economic analysis. For each of the three rules, the FDIC worked jointly with other financial regulatory agencies; performed analysis of relevant data as required; considered alternative approaches to the extent allowed by the legislation; requested comments from the public; and, where appropriate, presented information supporting agency analysis and conclusions in the proposed rule. The FDIC is also considering the cumulative burden of all Dodd-Frank Act rulemakings and, among other things, has established a broad-based working group to evaluate the interrelationships of all Dodd-Frank rulemaking efforts.

We provided a draft of our report to the FDIC on June 6, 2011. The FDIC provided technical accuracy comments in response to the draft report, and we made changes to the report where appropriate. The FDIC Chairman's office advised us that the Chairman had no other comments. The FDIC was not required to provide a written response because the report contained no recommendations. We provided the results of our review to the Committee Members who had requested it and also made the report publicly available.

OIG Responds to Former Chairman's Request Regarding OneWest Bank Loan Modifications

On July 11, 2008, the OTS closed IndyMac Bank, FSB, Pasadena, California, and named the FDIC conservator. Substantially all of IndyMac Bank's assets transferred to IndyMac Federal Bank, FSB, which the FDIC operated to maximize the value of the institution for a future sale and to maintain banking services in the communities formerly served by IndyMac Bank, FSB. On March 19, 2009, the FDIC completed the sale of IndyMac Federal Bank, FSB, to OneWest, a newly formed federal savings bank organized by IMB HoldCo LLC.

OneWest purchased more than $6 billion of deposits and approximately $20.7 billion in assets at a discount of $4.7 billion. Among the assets OneWest purchased was $12.8 billion in single-family mortgage loans under a shared-loss agreement.

Former FDIC Chairman Sheila Bair requested that our office assist in reviewing allegations in a letter dated January 10, 2011 addressed to her and other regulators, government officials, and media outlets purportedly from a group of OneWest Bank, FSB (OneWest) employees. The letter alleged that OneWest executives had instructed employees to reject as many loan modification applications as possible and created an environment that encouraged loan modification staff to misinform borrowers about their eligibility status, routinely shred loan modification applications, and inappropriately deny loan modifications. The letter also stated that the terms of the FDIC's agreement with OneWest created a financial incentive for OneWest to foreclose rather than modify loans.

Our objectives were to determine whether evidence existed to substantiate the allegations in the January 10, 2011 letter, and OneWest was administering loan modifications in accordance with the Home Affordable Modification Program (HAMP) and/or other FDIC-approved loan modification programs adopted under the Shared Loss Agreement Between the FDIC as Receiver for IndyMac Federal Bank, FSB and OneWest Bank, FSB dated March 19, 2009.

After completing our work, we reported that we did not find evidence to support the allegations in the January 10, 2011 letter, and we determined that several statements made in the letter about OneWest officials and the loan modification process were factually inaccurate, as explained below.

OneWest paid a $4.7 billion discount for the IndyMac assets, and the FDIC will reimburse OneWest for losses based on the full book value of those assets, which has been viewed by some to create an incentive for OneWest to foreclose on loans rather than modify them. In fact, OneWest must incur cumulative losses of more than $2.5 billion before the FDIC begins reimbursing OneWest for any losses. The FDIC competitively bid IndyMac assets, and FDIC officials advised us that OneWest's acquisition represented the least cost transaction to the DIF. Further, we determined that there were compensating controls that mitigate the risk that OneWest would pursue foreclosures over loan modifications and ensure that OneWest pursues actions under the Shared Loss Agreement that minimize losses to the FDIC.

We did identify borrower communication issues that might have resulted in borrower misunderstanding or confusion, and may have fueled perceptions that OneWest favored foreclosures over loan modifications. OneWest has taken steps to address those issues. In addition, we noted that the quality of the IndyMac loan portfolio that OneWest acquired made it difficult for borrowers to qualify for loan modifications and likely contributed to the perception that OneWest was denying many loan modifications.

With respect to our second objective, we determined that OneWest administered loan modifications in accordance with HAMP. OneWest appropriately solicited borrowers and processed loan modifications more than 98 percent of the time based on our review of a random sample of 260 loans. We found four exceptions: one related to the HAMP loan modification solicitation process, which establishes a reasonable effort standard for soliciting borrower interest; in three instances, OneWest incorrectly denied modifications. OneWest took corrective action either before or as a result of this audit to address all four cases. In addition, we noted that OneWest provided borrowers with other alternatives to help them remain in their homes when HAMP loan modification was not available.

We did not make recommendations, so a management response was not required. FDIC management had no comments. Also, FDIC management provided a copy of the draft report to OneWest for its feedback. OneWest advised management that it had no comments. Because this report includes confidential commercial information from OneWest, we did not release it publicly in its entirety.

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 respon-

sibilities at the institutions—directors and bank officers. In other cases, individuals providing professional services to the banks, others working inside the bank, and customers themselves are principals in fraudulent schemes.

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

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

Successful Bank Fraud Cases

Former Bank Executive Vice President and Three Borrowers Sentenced to Prison

On May 12, 2011, the former Executive Vice President and Chief Credit Officer of Community Bank & Trust (Community), Cornelia, Georgia, and three Community customers were sentenced for their participation in a series of schemes to defraud Community.

As previously reported, on August 10, 2005, a businessman received a loan from Community in the amount of $672,086 to finance the purchase of a 98-acre tract of land in Hart County, Georgia. The credit officer approved the loan on behalf of Community and approximately 8 days later, arranged the sale of the tract to a developer for $1,625,184. The credit officer arranged for the developer to obtain financing for this tract from Community. The credit officer received $371,139 and the developer received $200,000 from the loan proceeds.

Additional fraudulent acts were perpetrated by these conspirators which caused more losses to Community. On June 6, 2005, the same businessman received a loan from Community in the amount of $521,836 to finance the purchase of a separate 54-acre tract of land in Hart County, Georgia; the credit officer approved the loan on behalf of Community. Approximately one month later, the credit officer arranged for the businessman to sell the 54-acre tract to the same developer for $1,620,930 and also arranged funding for this purchase from Community. The credit officer received $411,940 and the developer received $270,000 from the loan proceeds.

The third customer, a real estate developer and home builder, owed millions of dollars to Community on various personal and business loans that he could not afford to repay. In an effort to prevent FDIC examiners from discovering how much the builder had borrowed and to provide him with needed funds to pay interest on past-due loans at Community, the bank officer caused Community to make fraudulent loans to several straw borrowers to cover the home builder's debt. The straw borrowers, who included the builder's wife, mother, and daughter, had no knowledge of these loans. The credit officer and builder submitted several false documents to Community, which included false financial statements as well as forged documents. The principal amount of the fraudulent loans was over $2.8 million.

Finally, the credit officer fraudulently received over $800,000 from Community through several loans that were booked in the names of his family members. He forged the signatures of the family members and used all the loan proceeds for personal use.

The former credit officer was sentenced to serve 120 months in prison to be followed by 5 years of supervised release and was also ordered to pay restitution in the amount of $5,907,031. In addition, he was ordered to perform 1,000 hours of community service following his release from prison. He was remanded to federal custody immediately following the sentencing hearing.

The businessman was sentenced to serve 24 months in prison followed by 5 years of supervised release, and was ordered to pay restitution of $2,058,252. The developer was sentenced to 36 months in prison, 5 years of supervised release, and ordered

to pay restitution of $2,786,948. The builder was sentenced to 30 months in prison, 5 years of supervised release, and ordered to pay restitution of $2,373,086. All three were also ordered to perform 600 hours of community service.

All four defendants were ordered to forfeit any and all fraud proceeds. The credit officer forfeited his entire interest in the franchise rights to 6 "Zaxby's" restaurants, 11 real properties, 2 certificates of deposit, 3 investment accounts, and approximately $150,000 in jewelry.

One other scheme perpetrated by the credit officer involves the owner of a car dealership in Cleveland, Georgia. This scheme utilized dealership employees as straw borrowers on loans from Community, the proceeds of which were deposited into an account under the control of the owner. The eight loans, totaling $925,000, have not been repaid and are in default. The dealership owner was indicted on May 17, 2011 and charged with conspiracy and making false statements on a loan application.

Source: *The case was initiated based on a referral from the Federal Bureau of Investigation (FBI).* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG and the FBI. The case is being prosecuted by the United States Attorney's Office for the Northern District of Georgia.*

Updates on Colonial Bank and Taylor, Bean & Whitaker Case

In our last semiannual report, we discussed our joint investigation of a $2.9 billion fraud scheme that contributed to the failures of Colonial Bank and Taylor, Bean & Whitaker (TBW), a private mortgage lending company. The investigation targeted a number of co-conspirators who engaged in a complex scheme that misappropriated more than $1.4 billion from colonial Bank's Mortgage Warehouse Lending Division in Orlando, Florida, and approximately $1.5 billion from Ocala Funding, a mortgage lending facility controlled by TBW.

The case was investigated by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), the FBI's Washington Field Office, the FDIC OIG, the Department of Housing and Urban Development (HUD) OIG, the Federal Housing Finance Agency OIG, and the Internal Revenue Service (IRS) Criminal Investigation Division. The Financial Crimes Enforcement Network of the Department of the Treasury also provided support in the investigation. We are reporting the following updates in this case on actions taken subsequent to the end of the prior reporting period, March 31, 2011. We would note that the restitutions are to be paid jointly and severally with all co-defendants to 20 victims, made up of the FDIC, Deutsche Bank, BNP Paribas, and 17 Colonial Bank stockholders.

- On April 1, 2011, the former Chief Executive Officer of TBW pleaded guilty to a two-count criminal Information that charged him with conspiracy to commit bank, wire, and securities fraud, and false statements for his role in the fraud scheme. On June 21, 2011, he was sentenced to serve 40 months in prison to be followed by 24 months of supervised release. The Court issued a restitution order of $2,611,909,882.
- On April 19, 2011, the former Chairman of TBW was convicted following a 10-day trial for his role in the scheme. He was found guilty of one count of conspiracy to commit bank, wire, and securities fraud; six counts of bank fraud; four counts of wire fraud; and three counts of securities fraud. The former Chairman was sentenced on June 30, 2011 to 30 years in prison and ordered to forfeit $38.5 million. On September 26, 2011, the court ordered him to pay restitution in the amount of $3,507,743,557.
- On June 10, 2011, the former President of TBW was sentenced to serve 30 months in prison to be followed by 24 months of supervised release. The Court issued a restitution order of $500,524,882.
- On June 10, 2011, the former Treasurer of TBW was sentenced to serve 72 months in prison to be followed by 36 months of supervised release. The Court issued a restitution order of $3,507,743,557 on September 27, 2011.
- On June 17, 2011, the former Senior Vice President of Colonial Bank and head of its Mortgage Warehouse Lending Division was sentenced to serve 96 months in prison to be followed by 36 months of supervised release. The Court issued a restitution order of $500,524,882 on September 27, 2011.
- On June 17, 2011, a former operations supervisor in Colonial Bank's Mortgage Warehouse

Lending Division, was sentenced to serve 3 months in prison to be followed by 9 months of home detention. She will be on supervised release for 36 months following the completion of her custodial sentences. The Court issued a restitution order of $500,524,882 on September 27, 2011.

- On June 21, 2011, a former senior financial analyst at TBW was sentenced to serve 3 months in prison to be followed by 9 months of home detention. He will be on supervised release for 36 months following the completion of his custodial sentences. The Court issued a restitution order of $2,611,909,882 on September 26, 2011.

Omni National Bank Sentencings Update

We are reporting three notable actions from the current reporting period related to the failed Omni National Bank, Atlanta, Georgia, a case we have previously reported on.

- On April 22, 2011, the former Executive Vice-President, who was the second largest bank shareholder and head of the Community Redevelopment Lending Department at Omni National Bank from 2000 through October 12, 2007, was sentenced on charges of causing materially false entries that overvalued bank assets to be made in the books, reports, and statements of Omni National Bank. He was sentenced to 5 years in prison to be followed by 5 years of supervised release, and ordered to pay restitution in the amount of $6,761,791. His actions and those of others at Omni resulted in an overvaluation of bank assets, which in turn misled Omni's outside auditors, its regulator OCC, the FDIC as insurer, the Securities and Exchange Commission, and Omni shareholders. Such practices contributed to over 500 foreclosures and an additional 500 non-performing loans, which resulted in at least $7 million in losses to the FDIC.

- Another participant in the scheme who pleaded guilty to bank fraud and conspiracy to commit bank, mail, and wire fraud, in connection with a scheme to fraudulently obtain millions of dollars of mortgage loans from Omni and other lenders, was also sentenced. He was sentenced to serve 14 years in prison to be followed by 5 years of supervised release, and ordered to pay restitution in the amount of $5,504,431. This individual formed corporations and companies to purchase properties from financial institutions insured by the FDIC, including Omni National Bank. He would "flip" the properties within a short period of time to unqualified "investor" borrowers, at prices inflated by up to $100,000. He and his partner would recruit the "investors," and arrange mortgage loans from banks based on false qualifying information, all while concealing from the lenders that his own companies had recently purchased the properties for amounts significantly less than the new loans. He paid kickbacks to a loan officer at Omni, as well as to employees at another lender, who approved funding for his "investors." Ultimately, his scheme forced many properties to go into foreclosure, causing lenders, insurers, and others to incur millions of dollars in losses. He also collected money from investors by falsely promising they would receive property, which they never received.

- A third individual, who pleaded guilty on January 5, 2011 to accepting bribes from contractors he selected to rehab Omni foreclosed properties while he was a loan officer of Omni, was sentenced on June 1, 2011 to 21 months in prison and ordered to pay $656,919 in restitution to the FDIC. In his role as a bank officer, from February 2008 to March 2009, he had the authority to select contractors to perform renovations on foreclosed properties the bank owned. He corruptly accepted hundreds of thousands of dollars from contractors who wanted to do work on the Omni houses. Contractors who hoped to influence the former loan officer collectively paid him more than $600,000 in cash and services.

These cases are being investigated by Special Agents of a Mortgage Fraud Task Force formed for Omni-related cases, made up of the FDIC OIG, HUD, the U.S. Postal Inspection Service, SIGTARP, and the FBI.

Sentencing in $80 Million Ponzi Scheme

A Lakeville, Minnesota man was sentenced to a total of 6 years in prison for operating a Ponzi scheme that defrauded 18 lenders in Minnesota and several other states. The lenders suffered losses in excess of $79.9 million.

In his plea agreement, the defendant admitted that

from 2005 through March of 2009, he oversold participation in large commercial and personal loans arranged by him through his company, First United Funding. Loan participation is a common banking practice through which a bank pays the original lender all or a portion of the subject loan and then assumes that loan, along with its associated risk. From that point on, the bank, not the original lender, receives the loan payments from the borrower, as if the bank had made the loan in the first place.

The scheme involved selling more than 100-percent participation in at least 10 different loans arranged through First United Funding. In other words, he purportedly sold loan participation to banks after already selling that same participation to other banks. In each instance, the defendant failed to disclose that the total participation exceeded 100 percent of the original loan, making it impossible for the participating banks to receive the money expected. For example, he oversold loan participation for a project known as White Out Way Investments. The original White Out Way loan, arranged through First United Funding, was for $7 million. He sold 100-percent participation in that loan to Western National Bank. At the same time, however, he convinced several other banks to participate in the loan, including 100-percent participation by The National Bank in Bettendorf, Iowa, as well as partial participation by four other lending institutions. In all, he solicited and received $23.65 million from six banks for that one $7 million loan.

In addition, he oversold loan participation for a project known as JM Land Development II. The original JM Land Development loan was for $8 million, and once again, he sold 100-percent participation in the loan to Western National Bank. However, he simultaneously obtained full loan participation from Choice Financial, The National Bank, and Hillcrest Bank, along with partial participation from four other banks. He solicited a total of $38.65 million for an $8 million loan. Six additional lenders also were defrauded during the course of this scheme by overselling participation in other loans.

He used some of the proceeds of the fraud to repay other loans and perpetuate the scheme. He also diverted fraud proceeds for his personal use as well as for use by family members. Further, he failed to report the fraudulent income on his 2005 federal income tax return. That failure resulted in an underpayment of taxes to the U.S. in 2005 of approximately $508,905.

He pleaded guilty on September 2, 2010 and was sentenced on April 28, 2011 to 72 months in prison on one count of bank fraud and one count of filing a false income tax return. He was subsequently ordered to forfeit his personal residence valued at $1,215,600 and will also be ordered to pay restitution of an amount yet to be determined.

Source: *RMS.* ***Responsible Agencies:*** *This case was the result of an investigation by the FBI, the IRS Criminal Investigation Division, and the FDIC OIG. The case was prosecuted by U.S. Attorney's Office for the District of Minnesota.*

OIG's Electronic Crimes Unit Supports Fraud Investigations at Open and Closed Institutions

During the reporting period, the ECU participated in two search warrants related to OIG cases. In the first case, the Department of Justice, Asset Forfeiture and Money Laundering Section, requested that the FDIC OIG work with agents from Immigration and Customs Enforcement (ICE) on a case involving alleged Bank Secrecy Act violations. An agent from the ECU teamed with agents from ICE on a search warrant at an open FDIC- regulated bank. The agents obtained forensic images of over 10 computers and a server.

In the second case, the ECU participated in a search of a title company owned by an attorney who was also counsel to a bank. The case involves allegations of loan fraud by the former President of a bank. The search was conducted by the FDIC OIG, IRS Criminal Investigation Division, and the FBI. The ECU imaged six computers and a server onsite. The ECU also worked with the network administrator to obtain emails from a server located offsite.

In another case, an ECU agent took possession of computer servers from a closed institution in Savannah, Georgia. The ECU agent moved the servers to a secure location in an FDIC-RMS office in Savannah. The agent is using the bank servers to search for loan information being used by DRR and OIG investigators. The case involves allegations of commercial loan fraud.

Former Michigan Loan Officer Sentenced for Defrauding Elderly Customers

On August 1, 2011, a former loan officer of Century Bank and Trust, Coldwater, Michigan, was sentenced to serve 40 months in prison to be followed by 5 years of supervised release. He was also ordered to perform 500 hours of community service and to pay $283,277 in restitution to Century Bank and Trust and to the bank customers he defrauded.

The former commercial loan officer arranged a loan to an elderly couple who were customers of the bank to purchase a piece of real estate from a limited liability company (LLC) that the former loan officer controlled. However, the LLC did not own the property at the time it was "sold" to the couple. The former loan officer used the proceeds of the loan for his own benefit. He executed a Warranty Deed conveying the property to the couple, but he did not file it with the county recorder. Through his LLC, he then secured a loan from Independent Bank to purchase the property from the actual owner. He did not inform Independent Bank of his prior sale of the property to the bank customers. He later duped the couple into obtaining another line of credit from Century Bank and Trust, which he used to pay off his loan at Independent Bank. The former loan officer concealed his activities from management at Century Bank and Trust.

The former loan officer made another series of loans to two other bank customers. Large amounts of those loan proceeds were also routed back to entities controlled by him.

As part of his plea agreement, the former loan officer agreed to prohibition from participation with the FDIC pursuant to section 8(e) of the FDI Act.

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

Former Chairman of Security Pacific Bank and Another Financial Executive Convicted of Wire Fraud

On May 19, 2011, the former Chairman of Security Pacific Bank (SPB) and majority owner of Security Pacific Bancorp, and the Controller for Namco Financial Exchange Corp. (NFEC), were convicted of wire fraud after a 12-day jury trial in the Central District of California.

Section 1031 of the Internal Revenue Code permits an owner of investment property to defer capital gains tax by purchasing a replacement property within a certain time frame. Investors can deposit proceeds from real estate sales with a qualified intermediary and then, when a replacement property is identified, the investor retrieves the money from the intermediary and uses it to purchase the replacement property. The former SPB Chairman established NFEC to act as a qualified intermediary and then he obtained $27 million from various clients. The money was deposited into NFEC's deposit accounts at SPB. The money was supposed to remain in those accounts until the investors needed it to purchase replacement properties. However, the former Chairman and Controller removed the money from SPB prior to SPB's failure and used it to prop up the former Chairman's other businesses.

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

OIG Mortgage Fraud Cases

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

Manager of Manhattan Mortgage Brokerage Firm Sentenced and Seven Co-Conspirators Convicted

A former manager at Bridgewater Funding, LLC (Bridgewater), a mortgage brokerage firm located in Islip, New York, was sentenced on August 1, 2011, to 60 months in prison followed by 3 years of

supervised release and ordered to forfeit $1 million for his role in a sub-prime mortgage fraud scheme involving dozens of residential mortgages that totaled more than $10 million. He previously pleaded guilty to one count of conspiracy to commit bank and wire fraud.

The former manager engaged in an illegal scheme to defraud lenders by preparing and submitting applications and supporting documentation for over $10 million in home mortgage loans with false or misleading information, to induce them into making loans that they otherwise would not have approved. The fraudulent loan applications were submitted through Bridgewater.

As part of the scheme, the former manager identified properties for sale primarily in New York City and Long Island (the "target properties"). In some instances, he identified target properties whose homeowners were facing foreclosure and fraudulently convinced them that selling their properties would be a way to pay off their debts and save their homes. In other instances, he identified target properties that he believed could be resold quickly, or "flipped," so that he would bear minimal risk of loss should the properties' values decline.

To further the scheme, the former manager recruited straw buyers to act as purchasers of the target properties. In exchange for fees paid by him, these individuals gave up control over the target properties upon completion of the mortgage closing. In some instances, he recruited friends and family members to be straw buyers. In other instances, he recruited individuals with minimal real estate experience.

Once a potential straw buyer had been identified and agreed to purchase property in exchange for payment, he submitted loan applications to the lenders, through Bridgewater, on behalf of the straw buyer. The mortgages obtained on behalf of these straw buyers were typically for amounts that were greater than the actual sales prices of the homes. In order to accomplish this, he misrepresented to the lenders various material facts about the straw buyers' income, assets, debts, and intent to live in the properties they were purchasing, as well as the nature of the transaction with the sellers. The difference between the amount of the loans and the properties' actual sale price (the "spread") represented, in part, the conspirators' profits from the scheme.

Once the purchase of the target properties had been funded, he often failed to make mortgage payments as he had promised, causing some of the straw buyers to default on their mortgages. As a result, mortgage lenders were forced either to foreclose on those properties or to re-purchase the properties from the straw buyers for less than the face amount 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. With respect to other target properties, he rented them to tenants and used the rent and other monies earned from the scheme to make mortgage payments on behalf of the straw buyers for a certain period of time before allowing the mortgages to go into default. With respect to still other target properties, the straw buyers made mortgage payments for several months before reselling, or "flipping," the property to yet other straw purchasers, who fraudulently obtained new mortgages with the defendant's assistance, thus restarting the fraudulent scheme.

Seven co-conspirators in this sub-prime mortgage fraud scheme have been convicted or pleaded guilty, as summarized below.

- On April 5, 2011, one conspirator pleaded guilty to one count of conspiracy to commit wire fraud and four counts of wire fraud.
- On April 15, 2011, another conspirator pleaded guilty to one count of conspiracy to commit wire fraud and one count of wire fraud.
- Another conspirator pleaded guilty to one count of conspiracy to commit wire fraud, one count of wire fraud, and one count of possessing a firearm with the serial numbers removed on May 5, 2011.
- On June 30, 2011, a conspirator was found guilty by trial of conspiracy to commit bank and or wire fraud.
- On July 25, 2011, a conspirator was sentenced to time served, 3 years of supervised release, and ordered to forfeit $100,000.
- Yet another conspirator pleaded guilty to one count of bank fraud and one count of conspiracy to commit bank and/or wire fraud. The defendant also consented to a $2,015,250 forfeiture order.

- One other conspirator went to trial and on August 8, 2011 was found guilty of conspiracy to commit bank and wire fraud.

Source: *New York Mortgage Fraud Working Group.* ***Responsible Agencies:*** *FBI, U.S. Secret Service, U.S. Postal Inspection Service, FDIC OIG, New York State Banking Department. The case is being prosecuted by the U.S. Attorney's Office for the Southern District of New York.*

Mississippi Broker Sentenced to More than 16 Years in Prison for Mortgage Loan Fraud Scheme

On June 7, 2011, a former mortgage broker and two former loan closing agents were sentenced in federal court for their roles in a $9 million mortgage loan fraud scheme. The three were previously convicted of wire fraud, conspiracy to commit wire fraud, money laundering, and conspiracy to commit money laundering.

After a 4-week trial and 2 days of deliberation, the former broker was sentenced to 200 months in federal prison. The father and son closing agents were sentenced to 60 and 72 months, respectively. All three sentences will be followed by 3 years of supervised release. The three men were jointly and severally ordered to forfeit assets in the amount of $10,244,573.

Two other defendants were sentenced the previous day, the broker's daughter who received 6 months of home confinement and an affiliated broker who was sentenced to 37 months in federal prison followed by 3 years of supervised release.

Between September 2004 and at least through September 2006, while operating in the Jackson, Mississippi metropolitan area as Loan Closing & Title Services, Inc., the former closing agents and their co-conspirators provided fraudulent loan documents to various lenders; thereafter, they disbursed proceeds from the fraudulent loans to the former brokers and daughter, and their respective companies, as fictitious creditors. As part of the scheme, some of the fraudulent loans contained falsely notarized loan documents that were relied upon by the lenders to demonstrate that the specific borrower personally appeared at the loan closing and signed the closing documents in the presence of the loan closing agent in order to retrieve the mortgage loan proceeds. The loan applications also contained false verifications of employment, false residential lease agreements, fraudulent statements of income and liabilities, and false creditor invoices.

Responsible Agencies: *This case was investigated by the FDIC OIG, FBI, and IRS Criminal Investigation Division, as part of the Jackson Financial Crimes Task Force. Prosecuted by the U.S. Attorney's Office, District of Mississippi.*

Two Conspirators Sentenced to Prison in $78 Million "Dream Home" Mortgage Fraud Scheme

Two participants in a mortgage fraud scheme known as "Metro Dream Homes" were sentenced to 70 months and 60 months in prison, each followed by 3 years of supervised release, for a fraud conspiracy, wire fraud, and conspiracy to commit money laundering in connection with their participation in a massive mortgage fraud scheme which promised to pay off homeowners' mortgages on their "Dream Homes," but left them to fend for themselves. The judge also ordered that the defendants pay restitution in the full amount of the loss, with the exact amount to be determined at a later hearing.

Beginning in 2005, the participants in the scheme targeted homeowners and home purchasers to participate in a purported mortgage payment program called the "Dream Homes Program." In exchange for a minimum $50,000 initial investment and an "administrative fee" of up to $5,000, the conspirators promised to make the homeowners' future monthly mortgage payments and pay off the homeowners' mortgages within 5 to 7 years. Thereafter, the homeowner and the organizers would own an equal interest in the home.

Dream Homes Program representatives explained to investors that the homeowners' initial investments would be used to fund investments in automated teller machines (ATMs), flat screen televisions that would show paid business advertisements, and "Touch-N-Buy" electronic kiosks that sold telephone calling cards and other items. To give the Dream Homes Program a veneer of legitimacy and financial success, the defendants marketed the program through live presentations at luxury hotels in Maryland, Washington, D.C., and Beverly Hills, California, among other locations. The defendants told some of the investors that they should not worry about the price of the homes or monthly mortgage payments because Metro Dream Homes

would make mortgage payments on their behalf.

The defendants, however, failed to advise investors that the ATMs, flat screen televisions, and kiosks never generated any meaningful revenue and that the defendants used the funds from later investors to pay the mortgages of earlier investors. The defendants also failed to advise investors that their investments were being used for the personal enrichment of the defendants, for example, to pay salaries of up to $200,000 a year and their mortgages; employ a staff of 10 chauffeurs and maintain a fleet of luxury cars; and travel to and attend the 2007 National Basketball Association All-Star game and the 2007 National Football League Super Bowl, staying in luxury accommodations.

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

As a result of the scheme, more than 1,000 investors in the Dream Homes Program invested approximately $78 million. When the defendants stopped making the mortgage payments, the homeowners were left to attempt to make the mortgage payments Metro Dream Homes had promised to make in full.

This prosecution is being brought jointly by the Maryland and Washington, D.C. Mortgage Fraud Task Forces, which are comprised of federal, state and local law enforcement agencies in Maryland, Washington, D.C., and Northern Virginia. Conducted jointly by the FBI, the IRS - Criminal Investigation Division, the Maryland Attorney General's Office - Securities Division, and the FDIC OIG.

Sentencings in Mortgage Fraud Strike Force Cases, Southern District of Florida

During the reporting period, the developer and main organizer of a mortgage fraud scheme that took place in Miami-Dade County, Florida, was sentenced to 78 months of imprisonment for conspiracy to commit bank fraud. He also received 5 years of supervised release and was ordered to pay $2,549,998 in restitution.

From December 2006 through December 2008, this individual searched for and identified vacant lots in North Florida that could be used to defraud lenders. Other co-conspirators recruited "straw buyers" to pose as purchasers for the vacant lots. They then prepared fraudulent mortgage loan applications and other related documents on behalf of the straw borrowers and submitted these loan documents to Wachovia Bank, Regions Bank, and Colonial Bank in an effort to qualify the straw borrowers and defraud the eventual lender. The straw buyers allowed their identities and credit information to be used in false and fraudulent mortgage loan applications in exchange for a fee. The various lenders approved the loan requests based on the false and fraudulent loan applications and HUD-1 Statements submitted to the lenders, which caused approximately $7.5 million in loans to be funded over the course of the fraudulent scheme.

One of the straw buyers was also sentenced for her participation in the scheme. She was sentenced to 21 months of imprisonment for conspiracy to commit bank fraud. She also received 3 years of supervised release and was ordered to pay restitution of $291,894.

In another case stemming from our involvement on the Miami Mortgage Fraud Strike Force, seven individuals were sentenced for their roles in a very similar scheme.

From September 2004 through December 2007, the co-conspirators searched for and identified properties in Miami-Dade and Broward Counties which could be used to defraud lenders. They too recruited straw buyers to pose as purchasers for the residential properties. The co-conspirators prepared fraudulent mortgage loan applications and other related documents on behalf of the straw borrowers then submitted the loan documents in this instance to WMC Mortgage, Countrywide Home Loans, Aegis Mortgage, and JP Morgan Chase in an effort to qualify the straw buyers and defraud the eventual lender.

In this case as well, the straw buyers allowed their identities and credit information to be used in false and fraudulent mortgage loan applications in exchange for a fee. Two of the co-conspirators were able to arrange for delayed recording of mortgage documentation with the State of Florida authorities in order to both conceal the fraud and conduct multiple mortgage loan closings

on the identified properties. The various lenders approved the loan requests based on the false and fraudulent loan applications and HUD-1 Statements submitted to the lenders which caused approximately $10.4 million in loans to be funded over the course of the fraudulent scheme.

A summary of the various sentencings for the seven individuals who conspired to commit bank and/or wire fraud in this case follows:

- 97 months of imprisonment, 5 years of supervised release, and $4,445,305 in restitution.
- 51 months of imprisonment, 3 years of supervised release, and $4,445,305 in restitution.
- 41 months of imprisonment, 5 years of supervised release, and $877,038 in restitution.
- 29 months of imprisonment, 2 years of supervised release, and $4,445,305 in restitution.
- 12 months and 1 day of imprisonment, 2 years of supervised release, and $4,445,305 in restitution.
- 6 months of imprisonment, 1 year of supervised release, and $718,159 in restitution.
- 4 months of imprisonment, 3 years of supervised release, and $103,497 in restitution.

Source: *These investigations were initiated based upon referrals from the Mortgage Fraud Strike Force in Miami, Florida.* ***Responsible Agencies:*** *These are joint investigations with the FBI. The cases are being prosecuted by the U.S. Attorney for the Southern District of Florida.*

Twenty South Florida Residents Charged in $40 Million Bank and Mortgage Fraud Scheme

Toward the end of the reporting period, 20 individuals in the Miami area, including numerous licensed real estate industry professionals, were charged with conspiracy to commit bank fraud and bank fraud in connection with their alleged participation in a $40 million mortgage fraud scheme. The scheme involved multiple mortgage brokers and realtors, and a title agent, bank manager, and real estate appraiser.

According to the indictment, from March 2006 through June 2008, the defendants conspired to submit false loan applications and related documents to multiple banks for the purpose of obtaining approximately $40 million in mortgage loans and home equity lines of credit. Their actions resulted in approximately $20 million in losses to the banks.

The defendants are variously charged with conspiracy to commit bank fraud, bank fraud, receipt of gifts for procuring loans, and providing gifts for procuring loans. The indictment also seeks the forfeiture of real property and money derived from the fraud.

We will continue our involvement in this case and report on the events subsequent to the indictments in an upcoming semiannual report.

Source: *The Financial Fraud Enforcement Task Force. The interagency Financial Fraud Enforcement Task Force was established to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes.*

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: Alabama, Arizona, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Puerto Rico.

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

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

2

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. Such coverage was subsequently extended through December 31, 2013, and the Dodd-Frank Act made permanent the increase in the coverage limit to $250,000. It also provided deposit insurance coverage on the entire balance of non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012. A priority for the FDIC is to ensure that the DIF remains viable to protect all insured depositors. To maintain sufficient DIF balances, the FDIC collects risk-based insurance premiums from insured institutions and invests deposit insurance funds.

Since year-end 2007, the failure of FDIC-insured institutions has imposed total estimated losses of more than $84 billion on the DIF. The sharp increase in bank failures over the past several years caused the fund balance to become negative. The DIF balance turned negative in the third quarter of 2009 and hit a low of negative $20.9 billion in the following quarter. As the DIF balance declined, the FDIC adopted a statutorily required Restoration Plan and increased assessments to handle the high volume of failures and begin replenishing the fund. The FDIC increased assessment rates at the beginning of 2009. In June 2009, the FDIC imposed a special assessment that brought in additional funding from the banking industry. Further, in December 2009, to increase the FDIC's liquidity, the FDIC required that the industry prepay almost $46 billion in assessments, representing over 3 years of estimated assessments.

Since the FDIC imposed these measures, the DIF balance has steadily improved. It increased throughout 2010 and stood at negative $1.0 billion as of March 31, 2011. During the second quarter of 2011, the fund rose to a positive $3.9 billion. Under the Restoration Plan for the DIF, the FDIC has put in place assessment rates necessary to achieve a reserve ratio (the ratio of the fund balance to estimated insured deposits) of 1.35 percent by September 30, 2020, as the Dodd-Frank Act requires. FDIC analysis of the past two banking crises has shown that the DIF reserve ratio would need to have been 2 percent or higher to avoid high deposit insurance assessment rates when banking institutions were strained and least able to pay. Consequently, the FDIC established a 2-percent reserve ratio target as a critical component of its long-term fund management strategy.

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

The FDIC, in cooperation with the other primary federal regulators, proactively identifies and evaluates the risk and financial condition of every insured depository institution. The FDIC also identifies broader economic and financial risk

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

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

Over recent years, the consolidation of the banking industry resulted in fewer and fewer financial institutions controlling an ever-expanding percentage of the Nation's financial assets. The FDIC has taken a number of measures to strengthen its oversight of the risks to the insurance fund posed by the largest institutions, and its key programs have included the Large Insured Depository Institution Program, Dedicated Examiner Program, Shared National Credit Program, and off-site monitoring systems.

Importantly, with respect to the largest institutions, Title II of the Dodd-Frank Act will help address the notion of "Too Big to Fail." The largest institutions will be subjected to the same type of market discipline facing smaller institutions. Title II provides the FDIC authority to wind down systemically important bank holding companies and non-bank financial companies as a companion to the FDIC's authority to resolve insured depository institutions. As noted earlier, the FDIC's new CFI is now playing a key role in overseeing these activities.

To help the FDIC maintain the viability of the DIF, the OIG's **2011 performance goal** was as follows:

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

OIG Work in Support of Goal 2

We completed a comprehensive assignment on Prompt Regulatory Action (PRA) during the reporting period, looking at the overall history, intent, impact, and implementation of PRA provisions. This work was conducted jointly with the Treasury and FRB OIGs and resulted in options presented to the banking agencies to strengthen or further support PRA provisions, thus helping ensure the viability of the FDIC's insurance fund. Our results are discussed in more detail below.

We would note that the OIG's work referenced in Goal 1 also fully supports the goal of helping the FDIC maintain the viability of the DIF. Each institution for which we conduct an MLR or an IDR, by definition, causes a substantial loss to the DIF. The OIG's failed bank work is designed to help prevent such losses in the future. Other assignments in the supervision area are designed for the same purpose. Similarly, investigative activity described in Goal 1 fully supports the strategic goal of helping to maintain the viability of the DIF. The OIG's efforts often lead to successful prosecutions of fraud in financial institutions, with restitution paid back to the FDIC when possible, and/or deterrence of fraud that can cause losses to the fund.

Prompt Regulatory Action

We evaluated section 38 (Prompt Corrective Action) and section 39 (Standards for Safety and Soundness) of the FDI Act. Referred to in our report as the PRA provisions, sections 38 and 39 were established by the FDIC Improvement Act (FDICIA) of 1991. FDICIA was enacted to make fundamental changes in federal oversight of insured depository institutions in response to the financial crisis of the 1980s and early 1990s. The PRA provisions mandated that regulators establish a two-part regulatory framework for improving safeguards for the DIF. Section 38 focuses on capital levels and section 39 focuses on non-capital measures of an institution's safety and soundness.

Section 38(k) also requires that our offices conduct MLRs of failed institutions that cause material losses to the DIF. As part of our review of the supervision of the failed institution, we examine the implementation of section 38. In addition to MLRs, prior studies by the Government Accountability Office (GAO) and the OIGs have assessed the implementation of PRA at various points, but those assessments were mostly done during periods when the financial condition of insured depository institutions was strong and, accordingly, the federal banking regulators' use of PRA was somewhat limited. We initiated this review to further evaluate the role and federal banking regulators' use of the PRA provisions over the last several years in light of the significant increase in the number of troubled financial institutions and failures since mid-2007 (the current crisis), a period when those provisions came into play more frequently.

As part of our work, we reviewed laws and regulations, legislative history, lessons learned from the financial crisis of the 1980s and early 1990s, and prior reports and studies on PRA, including MLR reports. We also selected and reviewed the supervisory history for two statistical samples of insured depository institutions to determine whether PRA-related supervisory actions were taken as required and the underlying cause necessitating such actions.

As summarized below, our report provides the overall context for assessing implementation of PRA provisions. It further describes the extent to which PRA provisions have been a factor in supervisory activity during the current crisis and our assessment of the impact of PRA provisions in limiting losses to the DIF. We end our report with a discussion of non capital factors that provide a leading indication of bank problems and recommend matters for the federal banking regulators' consideration to strengthen the effectiveness of the PRA provisions.

History of Provisions and Results of Prior Reviews. Congress enacted sections 38 and 39 as part of a broader effort to address problems experienced during the banking crisis of the 1980s and early 1990s. Those problems included, among other things, a concern that the exercise of regulatory discretion did not adequately protect the safety and soundness of the banking system or minimize losses to the DIF. The FDIC's *History of the Eighties — Lessons for the Future* outlined a number of lessons about the performance of bank regulators during that period. Treasury and GAO were also required to conduct studies of the nation's deposit insurance system. In our view, the following lessons from those documents are relevant to understanding issues and expectations surrounding the development and implementation of PRA provisions:

- Early identification of problems is critical and requires continuous and sometimes burdensome monitoring of the institutions' activities.
- Regulators had difficulty restricting risky behavior while institutions were profitable.
- Regulators must have adequate powers and a willingness to use supervisory authority.
- The regulatory process had better outcomes when regulators took the most forceful action available.
- Capital was a lagging indicator, yet the timing of enforcement actions tended to focus on capital inadequacy rather than underlying problems.

The addition of sections 38 and 39 to the FDI Act was intended to improve the regulators' ability to identify and promptly address deficiencies at an institution to better safeguard the DIF. Section 38 principally establishes capital-based safeguards, and section 39 directs regulatory attention to non-capital areas of an institution's operations and activities.

Use and Impact of PRA During the Crisis. In terms of PRA-related activity during the current crisis, we found that approximately 6 percent of all insured institutions (489 of 8,494) fell below the minimum capital requirements established by section 38 (i.e., were undercapitalized) between January 2006 and March 2010. We refer to these institutions as "PCA banks" in our report. PCA banks accounted for approximately 39 percent of the problem banks and 90 percent of all failures. With the exception of the OCC, regulators rarely used their section 39 authority, which was designed to address deficiencies related to an institution's operations and activities other than inadequate capital, opting instead to address deficiencies using other regulatory tools and/or authorities.

With respect to whether PRA provisions prompted regulators to act more quickly and more forcefully to limit losses to the DIF, our findings are generally consistent with prior reviews: PRA provisions were

appropriately implemented and helped strengthen oversight to a degree. More specifically, we found:

- Regulators implemented PCA appropriately. Based on our review of a sample of PCA banks, including banks that failed, we found that regulators generally implemented section 38 provisions as required. The appropriate implementation of section 38 helped prevent seriously troubled institutions from engaging in high-risk strategies to restore capital and limited regulatory discretion and/or forbearance for undercapitalized institutions. These two factors had been a common concern in the pre-FDICIA era. However, the fact that 60 percent of PCA banks failed (291 of 489) supports the conclusion of prior studies that by the time seriously troubled banks become subject to mandatory provisions under section 38, there are few options available to resolve the problems of those institutions.
- Inherent limitations associated with PCA's capital-based framework and the sudden and severe economic decline impacted PCA's effectiveness. As prior reviews have reported, section 38's capital-based regulatory approach has inherent limitations. Capital is a lagging indicator and does not typically begin to decline until an institution has experienced substantial deterioration in other areas, such as asset quality and the quality of bank management, as reflected in examiners' ratings. Further, reported capital levels do not always accurately reflect an institution's financial condition, either due to rapidly declining asset values or an institution's delay in recognizing asset write-downs. The suddenness and severity of the economic decline during the current crisis also impacted PCA's effectiveness in terms of resolving the problems of troubled institutions.
- Regulators identified deficiencies prior to declines in PCA capital categories. Regulators generally identified deficiencies, including capital deficiencies, before the institutions became PCA banks. For example, during the period of our review, a large percentage of PCA banks were first designated as problem banks – defined as those banks with CAMELS ratings of "4" or "5" – and 61 percent of the problem banks had never been undercapitalized.
- We found that examiner concerns with asset quality and management were the leading indicators of whether a bank would become a problem bank, become undercapitalized, or fail, which is similar to the experience of the financial crisis of the 1980s and 1990s.
- Regulators used other enforcement actions to address safety and soundness concerns before undercapitalization, but after financial decline occurred. Most of the PCA banks (86 percent) and problem banks (96 percent) in our samples had formal enforcement actions in place. In most cases, regulators imposed formal enforcement actions before troubled banks became undercapitalized. However, MLR reports often concluded that, although regulators identified the risks, in hindsight, earlier supervisory concern and intervention would have been prudent. The results of our MLRs indicate that, similar to the experience of the 1980s and early 1990s, the ability of regulators to curb excessive risk when the risky behavior was profitable (i.e., before financial condition deteriorated) remained a challenge.
- Regulators made limited use of section 39 to address asset quality and management deficiencies identified. Accordingly, section 39 had little impact on problem or failed banks during this crisis. Section 39 was intended to provide regulators with a tool to effect corrective action in seemingly healthy banks with operational or risk management weaknesses. However, the regulators generally used other regulatory tools that, in their view, provided greater flexibility and were equally effective. OCC did use section 39 to require 21 institutions to submit compliance plans to address safety and soundness issues during our period of review.
- Critically undercapitalized institutions were closed promptly, but overall losses were significant. Although PCA was intended to result in reduced loss rates, preliminary cost data suggests that losses were significant during the current crisis, and losses as a percentage of assets are higher in comparison to loss rates experienced in the 1980s and early 1990s. FDIC officials noted that making loss rate comparisons at this point may be premature because current loss

figures are best estimates that may not reflect actual loss experience over the next 5 to 10 years. Bank losses significantly depleted the DIF, which remained in a negative position until the quarter ending June 30, 2011.

Leading Indicators and Matters for Consideration. Going forward, the question is how to effectively address safety and soundness concerns prior to financial deterioration to avoid, or at least lessen, significant failures and losses emanating from a future crisis. The Congress, the FDIC, and the other banking agencies have responded to the financial crisis by planning and undertaking numerous initiatives to strengthen regulatory oversight. These efforts include the landmark Dodd-Frank Act and internal initiatives by the banking agencies. Further, in June 2011, GAO issued a study of PCA with recommended actions for the banking agencies. GAO found that non-capital measures – earnings, liquidity, asset quality, and asset concentration risk – were statistically valid and significant predictors of bank failure during the current crisis period.

We also identified non-capital factors that are leading indicators of potential troubles that may strengthen the PRA framework if used as triggers for mandatory regulatory intervention. These factors are not new, and examiners at the regulatory agencies consider them during safety and soundness examinations. These factors include high-risk business strategies, such as aggressive growth, asset concentrations, and dependence on volatile funding sources; risk management weaknesses, such as poor underwriting and credit administration practices; and asset quality or earnings deterioration.

To improve the effectiveness of the PRA framework and to meet the section 38 and 39 goals of identifying problems early and minimizing losses to the DIF, we recommended that the FDIC, FRB, and OCC agency heads review the matters for consideration presented in our report and work through the Financial Stability Oversight Council to determine whether the PRA legislation or implementing regulations should be modified. As a recap, the matters for consideration are (1) develop specific criteria and corresponding enforcement actions for non-capital factors, (2) increase the minimum PCA capital levels, and (3) continue to refine the deposit insurance system for banks with assets under $10 billion to assess greater premiums commensurate with risk taking.

The banking agencies each responded to our report. Each of the agency responses to our draft report and the identified planned actions address the intent of the recommendation.

The FDIC's response, in particular, acknowledged that early warning factors identified in our report could be indicators of inappropriate risk-taking and agreed that the agencies should undertake a comprehensive review of these and other factors, along with corresponding supervisory actions, that could augment the existing PRA framework. The FDIC responded that both the agencies and the industry stand to benefit from the transparency and improved risk management that appropriate non-capital standards and supervisory responses could provide.

With respect to the second matter to be considered, the FDIC noted that the consensus of lessons-learned studies undertaken after the recent financial crisis is that capital requirements should be strengthened. The FDIC agreed to consider possibly modifying the PCA capital tripwires in the context of reviewing comments on an upcoming Notice of Proposed Rulemaking for the domestic implementation of the Basel III standards.

The FDIC also agreed that refining the deposit insurance system for banks with assets under $10 billion could improve the alignment of premiums and risk-taking and noted that staff is currently analyzing the initial performance of the new large bank pricing method. When this analysis is complete, staff will draw upon it to determine whether features of the large bank pricing methodology or other changes may improve the pricing method for small banks. The FDIC responded that by September 1, 2012, the FDIC Division of Insurance and Research staff will provide to the Chairman an analysis, with recommendations where appropriate, of refinements to the deposit insurance pricing method for banks with assets under $10 billion.

3

Strategic Goal 3

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

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

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

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

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

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

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

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

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

To assist the FDIC to protect consumer rights and ensure customer data security and privacy, the OIG's **2011 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 did not devote audit or evaluation resources directly to this goal area. However, investigative work related to misrepresentation of FDIC insurance or affiliation, and protection of personal information supported this strategic goal area. Additionally, in response to an increase in the number of consumer inquiries in our public inquiry system, the OIG has referred a number of matters either to the FDIC's Consumer Response Center or to other entities offering consumer assistance on banking-related topics. These efforts are discussed below.

Office of Investigations Works to Prevent Misrepresentations of FDIC Affiliation

Unscrupulous individuals sometimes attempt to misuse the FDIC's name, logo, abbreviation, or other indicators to suggest that deposits or other products are fully insured or somehow connected to the FDIC. Such misrepresentations induce the targets of schemes to trust in the strength of FDIC insurance or the FDIC name while misleading them as to the true nature of the investments or other offerings. Abuses of this nature not only harm consumers, they can also erode public confidence in federal deposit insurance. During the reporting period, one of our investigations resulted in the indictment of the perpetrator of a scheme targeting senior citizens.

Indictment in Ponzi Scheme Targeting Senior Citizens

On August 17, 2011, a Phoenix man was indicted in connection with his role in operating a $6.3 million Ponzi scheme through which he posed as an "FDIC Broker" and marketed and sold fictitious FDIC-insured certificates of deposit (CDs) to senior citizen investors. The 67-count indictment includes 45 counts of mail fraud, 14 counts of money laundering, and 8 counts of false impersonation of an officer or employee of the FDIC. According to the indictment, from July 2000 through June 2011, the fraudulent broker marketed what he falsely claimed were FDIC-insured CDs to investors. He acted primarily under the assumed

Sample Phishing Email Purporting to Be from the FDIC

From: @fdic.gov

Sent: Thursday, June 02, 2011 6:06 AM

To:

Subject: FDIC: Your business account

FEDERAL DEPOSIT INSURANCE CORPORATION

INSURING AMERICA'S FUTURE

Dear Business Customer,

We have important news regarding your bank.

Please click here to view further details.

This includes information on the acquiring bank (if applicable), how your accounts and loans are affected, and how vendors can file claims against the receivership.

names of BankNet, Nationwide Banknet Services, Capital One Custodial Services, and WWI.

He solicited investors through newspaper advertisements and fliers, and he often spoke to investors by telephone in furtherance of the scheme. He provided authentic appearing documents to investors, including CD offerings, CD certificates, investment statements, and income tax information. Some of the CD information was copied from genuine CDs in which the broker and his entities had no interest, and some was entirely fabricated. All of the documents he provided to investors were phony and fraudulent. No investor funds were used to purchase CDs. He instead used the funds for personal expenses and for purported interest and principal payments on fraudulent CDs sold to other victim investors. At least 17 victim investors have been identified so far in this scheme.

Source: *Maricopa County Sheriff's Office, Surprise, Arizona.* ***Responsible Agencies:*** *This is a joint investigation by the FDIC OIG and the Maricopa County Sheriff's Office. The case is being prosecuted by the U.S. Attorney's Office for the District of Arizona.*

Electronic Crimes Unit Responds to Email and Other Schemes

The ECU continues to work with agency personnel and an FDIC contractor to identify and mitigate the effects of phishing attacks claiming to be from the FDIC. In one instance, the FDIC received over 800 emails about the phishing scam depicted to the left. FDIC staff immediately posted a warning regarding the phishing email on the FDIC Web site. Additionally, the FDIC's contractor, Brandprotect, was notified and began the process of deactivating the fraudulent links. Over 60 fraudulent links were discovered related to this scam and deactivated by Brandprotect.

In another instance, the ECU became aware of phishing emails sent to FDIC employees. The ECU worked with FDIC information technology (IT) staff and immediately had all unopened copies of the emails removed from FDIC employees' email accounts. This action prevented any FDIC employee from inadvertently clicking on a fraudulent link and possibly unleashing malware on the FDIC network.

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

The OIG has developed a new inquiry intake system to supplement the OIG Hotline function. The Hotline contines to address allegations of fraud, waste, abuse, and possible criminal misconduct. However, over the past year or so, our office has received an increasing number of public inquiries ranging from media inquiries to requests for additional information on failed institutions to pleas for assistance with mortgage foreclosures to questions regarding credit card companies and associated interest rates. These inquiries come by way of phone calls, emails, faxes, and other correspondence. The OIG makes every effort to acknowledge each inquiry and be responsive to the concerns raised. We handle those matters within the OIG's jurisdiction and refer inquiries, as appropriate, to other FDIC offices and units or to external organizations. During the past 6-month period, we addressed approximately 250 such matters.

4

Strategic Goal 4:

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

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

The FDIC's DRR 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 and other creditors in accordance with the statutory priority scheme.

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

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

In addition to the future challenges associated with exercising this new resolution authority, the Corporation is currently dealing with a daunting resolution and receivership workload. To date during the crisis, approximately 400 institutions have failed, with total assets at inception of $657.9 billion. Estimated losses resulting from the failures total approximately $85.1 billion. As of June 30, 2011, the number of institutions on the FDIC's "Problem List" was 865, indicating the potential of more failures to come and an increased asset disposition workload. Total assets of problem institutions were $372 billion as of June 30, 2011.

Franchise marketing activities are at the heart of the FDIC's resolution and receivership work. As required by the FDI Act, the FDIC pursues the least costly resolution to the DIF for each failing institution. Each failing institution is subject to the FDIC's franchise marketing process, which includes valuation, marketing, bidding and bid evaluation, and sale components. The FDIC is often able to market institutions such that all deposits, not just insured deposits, are purchased by the acquiring institution, thus avoiding losses to uninsured depositors.

Of special note, through purchase and assumption (P&A) agreements with acquiring institutions, the Corporation has entered into 261 shared-loss agreements (SLA) involving about $148.2 billion in assets. Under these agreements, the FDIC agrees to absorb a portion of the loss—generally 80-95

percent—which may be experienced by the acquiring institution with regard to those assets, for a period of up to 10 years. In addition, the FDIC has entered into 24 structured asset sales to dispose of about $17.4 billion in assets. Under these arrangements, the FDIC retains a participation interest in future net positive cash flows derived from third-party management of these assets.

Other post-closing asset management activities will continue to require much FDIC attention. FDIC receiverships manage assets from failed institutions, mostly those that are not purchased by acquiring institutions through P&A agreements or involved in structured sales. The FDIC is managing 412 receiverships holding about $23.2 billion in assets, mostly securities, delinquent commercial real-estate and single-family loans, and participation loans. Post-closing asset managers are responsible for managing many of these assets and rely on receivership assistance contractors to perform day-to-day asset management functions. Since these loans are often sub-performing or nonperforming, workout and asset disposition efforts are intensive.

The FDIC increased its permanent resolution and receivership staffing and significantly increased its reliance on contractor and term employees to fulfill the critical resolution and receivership responsibilities associated with the ongoing FDIC interest in the assets of failed financial institutions. At the end of 2008, on-board resolution and receivership staff totaled 491, while on-board staffing as of August 3, 2011 was 1,981. As of year-end 2010, the dollar value of contracts awarded in the resolution and receivership functions accounted for approximately $2.4 billion of the total value of $2.6 billion. As of September 30, 2011 DRR-related contracts awarded for 2011 totalled $1.0 billion of a total projected $1.2 billion for all contracts.

The significant surge in failed-bank assets and associated contracting activities has required effective and efficient contractor oversight management and technical monitoring functions. Bringing on so many contractors and new employees in a short period of time can strain personnel and administrative resources in such areas as employee background checks, which, if not timely and properly executed, can compromise the integrity of FDIC programs and operations.

While OIG audits and evaluations address various aspects of resolution and receivership activities, OIG investigations benefit the Corporation in other ways. For example, in the case of bank closings where fraud is suspected, our Office of Investigations may send case agents and computer forensic special agents from the ECU to the institution. ECU agents use special investigative tools to provide computer forensic support to OIG investigations by obtaining, preserving, and later examining evidence from computers at the bank.

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

To help ensure the FDIC efficiently and effectively resolves failing banks and manages receiverships, the OIG's **2011 performance goals** 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 continued to carry out and plan a number of new assignments involving resolution and receivership activities. We continued work related to the FDIC's risk-sharing agreements with acquiring institutions and/or limited liability companies involved in structured asset sales. One such assignment is summarized below. Another assignment related to receivership financial statements resulted in $10.5 million in questioned costs. We are also providing an update on an investigative case involving concealment of assets in connection with the actions of the former president of Countrywide Bank and his wife. These efforts are discussed below.

OIG Audit Work Focuses on Resolution and Receivership Activities

The FDIC's SLA with an Acquiring Institution

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

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

We contracted with BDO USA, LLP (BDO) to conduct a performance audit of the FDIC's SLAs with an acquiring institution. These SLAs covered both single-family and commercial assets totaling $892 million. In this case, under the terms of the SLAs, the FDIC reimburses the institution for 80 percent of losses incurred up to $303 million, and 95 percent of losses that exceed $303 million. The audit objectives were to assess (1) the institution's compliance with the terms of the SLAs and (2) the FDIC's monitoring and oversight of the institution's compliance with the SLAs.

As part of the audit, BDO selected 30 assets under the commercial SLA and 20 assets under the single-family SLA for a detailed review. BDO also considered the results of visitations conducted by the FDIC's compliance monitoring contractors (CMC), that is, independent firms engaged to monitor and assess acquiring institutions for compliance with their SLAs. BDO further evaluated the institution's compliance with its customary asset servicing policies and procedures related to foreclosures, modifications, and force placed insurance.

BDO reported that the institution had submitted timely certificates, indicated a desire to comply with the SLAs, and was receptive to recommendations from DRR and the CMCs.

However, the institution had not performed adequate loan collectability analyses or maintained appropriate documentation to support commercial asset loss claims; notified the FDIC of large commercial loan charge-offs; implemented loss mitigation strategies and documented least loss determinations for single-family loans in default, or for which a default was reasonably foreseeable; adopted a loan modification program for single-family loans within 90 days; and properly reported certain commercial real estate owned (REO) on monthly certificates.

BDO questioned loss claims pertaining to (1) charge-offs without adequate documentation, (2) accrued interest on non-accrual loans and REO, and (3) unallowable expenses. Additionally, with respect to foreclosures, modifications, and force placed insurance, BDO found that the acquiring institution complied with its internal foreclosure policies and procedures, selected and implemented a loan modification program approximately 1 year later than permitted by the SLA, and did not participate in force placed insurance on covered assets.

As for the FDIC's monitoring, BDO found that monitoring and oversight of the institution was in substantial compliance with the FDIC's Risk Sharing Asset Management Manual. Among other things, BDO noted that the FDIC completed timely reviews of loss share certificates, engaged CMCs to asses the institution's compliance with the SLAs, and actively communicated with the CMCs regarding matters of SLA compliance.

BDO did, however, also note that the FDIC's guidance pertaining to the treatment of loss claims for third-party services needed improvement; procedures for tracking rental income on single-family REO properties needed to be developed; questionable charge-off claims identified by the CMCs had not been disallowed; and CMCs needed to further assess the acquiring institution's loan

collectability analyses and loan modification program(s) and place greater attention on SLA requirements pertaining to charge-off notifications and the treatment of accrued interest.

To address the institution's compliance with the SLAs, BDO recommended that the FDIC disallow $30.3 million in questioned loss claims. (The FDIC's share of the questioned claims totals $24.2 million or 80 percent of the $30.3 million.) It is important to note that the monetary amount ultimately disallowed by the FDIC may be lower, pending further review of the loss claims that the OIG questioned.

BDO also recommended that the FDIC reiterate to the acquiring institution the commercial SLA requirement to submit charge-off notifications to the FDIC, when appropriate; advise the institution to better evaluate and document its consideration of least loss alternatives to support loss mitigation efforts on single-family loans; properly account for accrued interest and reimbursable expenses; and improve tracking of certain REO properties on commercial certificates.

With regard to the FDIC's monitoring and oversight of the acquiring institution, BDO recommended that the FDIC clarify guidance regarding the treatment of loss claims for third-party services; develop procedures to track rental income on single-family REO; request that CMCs recommend, when appropriate, the disallowance of questionable loss claims, and disallow, when appropriate, questionable loss claims identified by CMCs; assess the acquiring institution's processes and documentation for performing loan collectability analyses and implementing a loan modification program(s); and emphasize to CMCs the importance of assessing compliance with all SLA provisions and FDIC guidance, particularly with respect to charge-off notifications and the treatment of accrued interest.

The FDIC agreed with all 13 of the report's recommendations. Management's response indicated that the FDIC planned to share BDO's findings with both the institution and the CMCs responsible for reviewing the acquiring institution.

Preliminary Receivership Financial Statement Work Identifies Questioned Costs

We planned an audit to assess the FDIC's controls over the preparation of receivership financial statements but closed out the assignment after concluding that our available resources would be better used to address risks associated with other FDIC programs or activities. We communicated relevant control issues and observations identified during our preliminary research to officials in DRR and the Division of Finance during May 2011, highlighting one such control issue warranting management's attention.

Specifically, we determined that principal and interest payments on three investment securities in one of the FDIC's receiverships had not been properly remitted to the receivership or recorded in the receivership's financial statements. We brought this matter to the attention of DRR personnel in the Washington Office, and after researching the payments made on these securities, DRR personnel determined that a total of $10.5 million in payments had been misdirected to the acquiring institution. On June 21, 2011, DRR Settlements personnel requested that the acquiring institution reimburse the receivership for the misdirected payments.

DRR personnel advised us that the misdirected securities payments pertaining to the receivership are not an isolated case. DRR recognized that there were problems in this area last year and, in August 2010, initiated the Securities Payment Recapture and Reconciliation project to determine whether payments on receivership securities have been properly received and recorded in the books and records of receiverships. DRR personnel indicated that they had not yet reviewed the securities payments for this particular receivership as part of the ongoing project prior to our identification of the misdirected funds.

We captured monetary amounts associated with the misdirected securities payments for the receivership in communications with the FDIC Audit Committee and have noted the $10.5 million as questioned costs in our semiannual reporting tables in this document. In addition, we completed a review of DRR's controls over principal and interest payments for receivership securities as part of an evaluation, entitled *Acquisition and Management of Securities Obtained Through Resolution and Receivership Activities*. As part of that evaluation, we addressed the status of DRR's Securities Payment Recapture and Reconciliation project, and our report, which will be

discussed in an upcoming semiannual report, provides updated information on this project.

Examinations of Institutions with Assets Covered by Shared-Loss Agreements

While the primary responsibility for administering the SLA program resides with DRR, RMS also plays an important role with respect to examinations of acquiring institutions. In May 2010, RMS issued guidance entitled, Examinations of Institutions with Assets Covered by Loss-Sharing Agreements. According to the guidance, examiners need to consider the impact of SLAs when performing asset reviews, assessing accounting entries, assigning adverse classifications, and determining CAMELS ratings and examination conclusions.

During April and May, we performed preliminary research to develop an approach to address examination coverage of institutions with shared-loss agreements and observed that opportunities existed to enhance the program. Instead of initiating an audit, we believed it would be more expedient to share our preliminary observations informally with RMS and DRR officials.

Accordingly, we met with RMS and DRR officials to share our observations and discuss whether existing guidance and program expectations needed to be revised and/or clarified. At the conclusion of the meeting, the participants agreed that it would be helpful for RMS and DRR to further discuss potential opportunities to enhance coordination and communication in this area from an enterprise-wide perspective.

RMS subsequently drafted a proposed amendment to its Regional Directors memo in an effort to enhance coordination with DRR, avoid duplication of work processes, and reemphasize institutions' SLA responsibilities. In light of the proposed amendment to the memo and commitments by RMS and DRR officials to address our observations, we did not initiate an audit in this area. We communicated this information to the FDIC's Audit Committee for informational purposes because of the Committee's role in overseeing the Corporation's internal controls. We continue to communicate with both DRR and RMS on these issues.

OIG Investigation Involving Concealment of Assets Leads to Sentencing of Wife of Former Bank President

On June 14, 2011, the wife of the former president of Countryside Bank was sentenced to 12 months and one day in prison followed by 2 years of supervised release. The wife previously pleaded guilty on May 17, 2011, to one count of conspiracy to defraud the bank. Countryside Bank, formerly Meriden State Bank, was an FDIC-regulated institution. She was charged with conspiracy to interfere and obstruct justice, and to commit perjury, wire fraud, and money laundering in assisting her husband hide assets obtained through his illegal acts.

As previously reported, the former bank president was sentenced to concurrent terms of 72 months and 60 months in prison for his embezzlement and misapplication of bank funds. Commencing in 1999 and continuing until he was removed from the bank in April 2003, the former president used his knowledge of internal banking operations to facilitate and conceal evidence of his fraudulent activity, including, among other things, the preparation and execution of general ledger debit tickets to obtain access to operating funds of the bank for his own personal use and benefit. He also engaged in nominee loan transactions.

Sometime in 2003, the president began the process of creating the appearance that he was indigent. After marrying in 2009, his wife aided and abetted his criminal conduct, and together, they began to systematically liquidate, transfer, and conceal his assets. As an example, they purchased a fully managed corporation in the country of Panama for the sole purpose of liquidating and transferring assets to offshore accounts. In addition, they purchased a yacht through their Panama corporation for the purposes of absconding from the United States.

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

5

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, IT, and physical resources. These resources have been stretched during the past years of the recent crisis, and the Corporation will continue to face challenges as it seeks to return to a steadier state of operations.

Importantly, and as referenced earlier, in the coming months, as the Corporation responds to Dodd-Frank Act requirements and continues to pursue its long-standing mission in the face of lingering financial and economic turmoil, the resources of the entire FDIC will be challenged. For example, as required by the Dodd-Frank Act, the Corporation established an Office of Minority and Women Inclusion responsible for all agency matters relating to diversity in management, employment, and business activities. The Corporation has transferred its former Office of Diversity and Economic Opportunity staff to this new office. Other new responsibilities, reorganizations, and changes in senior leadership and in the makeup of the FDIC Board will continue to impact the FDIC workforce in the months ahead. Promoting sound governance and effective stewardship of its core business processes and human and physical resources will be key to the Corporation's success.

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

The Corporation's contracting level has also grown, especially with respect to resolution and receivership work. Contract awards in DRR totaled $2.4 billion during 2010 and as of September totaled $1.0 billion for 2011. To support the increases in FDIC staff and contractor resources, the Board of Directors approved a $4.0 billion Corporate Operating Budget for 2011, down slightly from the 2010 budget the Board approved in December 2009. The FDIC's operating expenses are paid from the DIF, and consistent with sound corporate governance principles, the Corporation's financial management efforts must continuously seek to be efficient and cost-conscious.

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

From an IT perspective, amidst the heightened activity in the industry and economy, the FDIC is engaging in massive amounts of information sharing, both internally and with external partners.

FDIC systems contain voluminous amounts of critical data. The Corporation needs to ensure the integrity, availability, and appropriate confidentiality of bank data, personally identifiable information (PII), and other sensitive information in an environment of increasingly sophisticated security threats and global connectivity. Continued attention to ensuring the physical security of all FDIC resources is also a priority. The FDIC needs to be sure that its emergency response plans provide for the safety and physical security of its personnel and ensure that its business continuity planning and disaster recovery capability keep critical business functions operational during any emergency.

The FDIC is led by a five-member Board of Directors, all of whom are appointed by the President and confirmed by the Senate, with no more than three being from the same political party. Until recently, the FDIC had in place three internal directors—the Chairman, Vice Chairman, and one independent Director—and two ex officio directors, the Comptroller of the Currency and the Director of OTS. With the passage of the Dodd-Frank Act, the OTS no longer exists and the Director of OTS will be replaced on the FDIC Board by the Director of the Consumer Financial Protection Bureau. Former FDIC Chairman Bair left the Corporation when her term expired—in early July 2011. Vice Chairman Gruenberg was serving as Acting Chairman as of the end of the reporting period, and had been nominated by the President to serve as Chairman. His confirmation is pending in the Congress. Similarly, the internal Director, Mr. Curry, was nominated by the President to serve as Comptroller of the OCC and his confirmation was also pending as of September 30, 2011.

Given the relatively frequent turnover on the Board, it is essential that strong and sustainable governance and communication processes be in place throughout the FDIC and that Board members possess and share the information needed at all times to understand existing and emerging risks and to make sound policy and management decisions.

Enterprise risk management is a key component of governance at the FDIC. The FDIC's numerous enterprise risk management activities need to consistently identify, analyze, and mitigate operational risks on an integrated, corporate-wide basis. Additionally, such risks need to be communicated throughout the Corporation, and the relationship between internal and external risks and related risk mitigation activities should be understood by all involved. To further enhance risk monitoring efforts, the Corporation established six Program Management Offices to address risks associated with such activities as loss-share agreements, contracting oversight for new programs and resolution activities, the systemic resolution authority program, and human resource management concerns. Lessons from these areas have been and continue to be integrated into corporate thinking and decision-making. Additionally, the former FDIC Chairman charged members of her senior staff with planning for and presenting a case to the Board for the establishment of a Chief Risk Officer at the FDIC to better ensure that risks to the Corporation are identified and mitigated to the fullest extent. In 2011, the Chairman subsequently announced creation of a new Office of Corporate Risk Management to be led by a Chief Risk Officer. In mid-August 2011, that position was filled and the first-ever Chief Risk Officer at the FDIC came on board. The addition of such a function is another important organizational change that should serve the best interests of the Corporation.

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

During the reporting period, we completed an audit of the FDIC's Privacy Program. The audit resulted in three recommendations agreed to by management, as further explained below. We also joined the Treasury and FRB OIGs in reviewing the status of the transfer of OTS personnel and functions to the OCC, FRB, and FDIC, pursuant to the Dodd-Frank Act, as discussed below as well. We completed our 2011 evaluation of the FDIC's information security program, as required by Federal Information Security Management Act (FISMA), the results of which will be included in our next semiannual report.

Privacy Program Review

The FDIC's Privacy Program

In fulfilling its legislative mandate of insuring deposits, supervising financial institutions, and managing receiverships, and in its role as a federal employer and acquirer of services, the FDIC creates and acquires a significant amount of PII (e.g., names, Social Security numbers, or biometric records) related to depositors and borrowers at FDIC-insured financial institutions and FDIC employees and contractors. Implementing proper security controls over this PII is critical to mitigating the risk of an unauthorized disclosure that could lead to identity theft, consumer fraud, and potential legal liability or public embarrassment for the Corporation.

A number of Federal statutes establish requirements associated with analyzing how PII is handled, such as performing Privacy Impact Assessments (PIA) and making public notifications regarding completed PIAs and the categories of PII collected, maintained, retrieved, and used. A PIA is a process for (1) examining the risks and ramifications of using IT to collect, maintain, and disseminate PII from or about members of the public and (2) identifying and evaluating protections and alternative processes to mitigate the impact to privacy of collecting such information. The public notification regarding completed PIAs and the categories of PII collected, maintained, retrieved, and used by the agency is referred to as a System of Records Notice (SORN).

We engaged the independent professional services firm of KPMG LLP (KPMG) to assess the FDIC's privacy program and practices. KPMG's audit focused on the FDIC's processes for conducting and publicly posting PIAs and SORNs for information systems and collections of records that contain PII. KPMG's work assessed the FDIC's compliance with a number of privacy-related statutes and OMB guidance.

KPMG concluded that, for the most part, the FDIC's privacy program and practices for processing PIAs and SORNs were compliant with selected provisions of federal statutes and OMB guidance. Among other things, the FDIC had appointed a Chief Privacy Officer with overall responsibility for the FDIC's privacy program and submitted annual privacy reports to OMB and the Congress as required. Consistent with relevant requirements, the FDIC had established processes for preparing PIAs and SORNs and making them publicly available and posted its privacy policies on the FDIC's public Web site. In addition, PIAs for five of the six PII collections sampled contained the required information regarding the FDIC's collection and use of PII. The one exception is described below. Moreover, the two SORNs that KPMG sampled had been properly approved by FDIC management, published in the Federal Register, and addressed the content requirements of the Privacy Act. Further, the FDIC included the required legal disclosures, referred to as a Privacy Act Statement, on all sampled forms that collect PII from the public in accordance with the Privacy Act.

While the above results are positive, KPMG also found that for three of the six PII collections sampled, the PIAs were not made available to the public until after the FDIC began collecting the PII. Additionally, the PIA covering one of the six sampled PII collections did not fully describe (a) what information was being collected, (b) the purpose of the collection, or (c) how the information was secured. To address these concerns, the report included three recommendations intended to strengthen the Corporation's privacy program practices pertaining to PIAs and SORNs.

The FDIC's Chief Information Officer, who also serves as the Director, Division of Information Technology, and Chief Privacy Officer, provided a written response to a draft of this report in which he concurred with the recommendations and described planned responsive actions.

Status of the Transfer of Office of Thrift Supervision Functions

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

We issued the results of a coordinated review of the status of the implementation activities of the Joint Implementation Plan (Plan) prepared by the FRB, the FDIC, the OCC, and the OTS. The Plan detailed the steps the agencies were to take to carry out the provisions of Title III, Transfer of Powers to the Comptroller of the Currency, the Corporation, and the Board of Governors (Title III), of the Dodd-Frank Act. Section 327 of Title III mandated an initial joint review of the Plan to determine whether the Plan conformed to relevant Title III provisions. We joined the Treasury and FRB OIGs in completing that review and issued our report on March 28, 2011, concluding that the Plan generally conformed to the relevant provisions of Title III. We noted, however, that the Plan did not address the prohibition in Title III against the involuntary separation or the involuntary reassignment of a transferred OTS employee outside the employee's locality pay area for 30 months (except under certain circumstances). In response to a related recommendation, the agencies amended the Plan in April 2011.

The objective of our second and most recent review, as defined by section 327, was to determine and report on the status of the implementation of the Plan. As such, we reviewed the actions that the FRB, FDIC, OCC, and OTS have taken to implement the Plan. In brief, we concluded that the FRB, FDIC, OCC, and OTS have substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to the FRB, FDIC, and OCC, as appropriate. Certain aspects of the Plan, as discussed below, are on-going or were not yet required to be completed as provided in Title III.

In our March 2011 report, we reported that, while not impacting our overall conclusion on the Plan, certain details needed to be worked out to ensure that OTS employees were not unfairly disadvantaged and an orderly transfer of OTS powers, authority, and employees could be effectively accomplished. For example, neither the number of employees to be transferred to OCC nor the assignment of functions for those employees had been finalized at the completion of our last review. Those details have largely been resolved with the exception that the Acting Director of OTS had not yet received a notice of position assignment from the OCC. In this regard, the OCC has 120 days after the date the Acting Director is transferred to OCC to issue the notice. Such transfer must occur not later than 90 days after the transfer date (July 21, 2011). Title III also provides for the OTS Director to have 90 days after the transfer date to wrap up OTS affairs.

Our March 2011 report also identified a concern expressed by OTS officials related to additional OCC certification requirements in order to qualify to lead examinations of national banks, in addition to savings associations. The OCC is addressing this matter with a project to develop a cross-credentialing process for both OCC and former OTS examiners but has not estimated a date for its completion. Finally, we provided an update on several other matters identified in our March 2011 report associated with the transfer of OTS functions, including an OTS pension fund, savings association assessments, and financial reporting by OTS.

We made no recommendations in this second report. In accordance with section 327, we will continue to monitor implementation of the Plan.

Strategic Goal 6

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

While the OIG's audit, evaluation, and investigation work is focused principally on the FDIC's programs and operations, we have an obligation to hold ourselves to the highest standards of performance and conduct. We seek to develop and retain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships with all stakeholders. A major challenge for the OIG has been ensuring that we had the resources needed to effectively and efficiently carry out the OIG mission at the FDIC, given a sharp increase in the OIG's statutorily mandated work brought about by numerous financial institution failures, and in light of the new activities and programs that the FDIC undertook to restore public confidence and stability in the financial system, all of which warrant vigilant, independent oversight.

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

To carry out our responsibilities, the OIG must be professional, independent, objective, fact-based, nonpartisan, fair, and balanced in all its work. Also, the Inspector General (IG) and OIG staff must be free both in fact and in appearance from personal, external, and organizational impairments to their independence. 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 MLR, IDR, audit, and evaluation reports; information related to completed investigations; comments on legislation and regulations; written statements for congressional hearings; contacts with congressional staff; responses to congressional correspondence and Member requests; and materials related to OIG appropriations.

The FDIC OIG is a member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE), an organization created by the IG Reform Act of 2008 and that combined the former PCIE and ECIE. We fully support and participate in CIGIE activities and the FDIC IG currently serves as Chair of its Audit Committee. We coordinate closely with representatives from the other the financial regu-

latory OIGs. In this regard, as noted earlier in this report, the Dodd-Frank Act created the Financial Stability Oversight Council and further established the Council of Inspectors General on Financial Oversight (CIGFO). This Council facilitates sharing of information among CIGFO member IGs and discusses ongoing work of each member IG as it relates to the broader financial sector and ways to improve financial oversight. CIGFO may also convene working groups to evaluate the effectiveness of internal operations of the Financial Stability Oversight Council. The Treasury IG chairs the CIGFO and the FDIC IG is currently serving as Vice Chair.

The IG is a member of the Comptroller General's Yellow Book Advisory Board. Additionally, the OIG meets with representatives of the 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 committed to applying its principles of strategic planning and performance measurement and reporting to our operations. The OIG's Business Plan lays the basic foundation for establishing goals, measuring performance, and reporting accomplishments consistent with the principles and concepts of GPRA. We are continuously seeking to better integrate risk management considerations in all aspects of OIG planning—both with respect to external and internal work.

To build and sustain a high-quality staff, effective operations, OIG independence, and mutually beneficial working relationships, the OIG's **2011 performance goals** 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	Reorganized the OIG's audit and evaluation resources under new leadership and continued realignment of the OIG's resources to address the need for additional investigative coverage in FDIC regions and satellite offices.
2	Monitored FDIC OIG expenses for Fiscal Year 2011 and our funding status for Fiscal Year 2011 to ensure availability of funds especially in light of continuing resolutions and uncertainty regarding the status of future appropriations.
3	Provided the OIG's FY 2013 budget to the Acting Chairman of the FDIC and OMB. This budget requests $34.6 million to support 130 full-time equivalents.
4	Continued to partner with the Division of Information Technology to ensure the security of OIG information in the FDIC computer network infrastructure.

5	Continued to refine our new inquiry intake system to better capture inquiries from the public, media, Congress, and the Corporation, in the interest of prompt and more effective handling of such inquiries. Participated with the FDIC's group of Public Service Providers to share information on inquiries and complaints received, identify common trends, and determine how best to respond to public concerns.
6	Coordinated with the Assistant Inspectors General for Investigations at the Department of the Treasury and the FRB to leverage resources by planning joint investigative work.
7	Coordinated with counterparts at the Department of the Treasury and FRB and updated our working memorandum of understanding with these parties for a consistent, efficient, and effective response to new requirements of the Dodd-Frank Act.
8	Continued to implement a new assignment management process for FDIC OIG review of failures when losses are not material under the Dodd-Frank Act. Ensured that the OIG's audit tracking system captured information needed for required Dodd-Frank Act reporting of these reviews.
9	Revised the OIG's Emergency Response Quick Reference Guide to better ensure the physical safety and security of all OIG staff in emergency situations.

Ensure Quality and Efficiency of OIG Audits, Evaluations, Investigations, and Other Projects and Operations	
1	Continued to implement the OIG's Quality Assurance Plan for October 2010–March 2013 to ensure quality in all audit and attestation engagement work, in keeping with Government Auditing Standards.
2	Completed our peer review of the Smithsonian Institution's audit operations and undertook a peer review of the investigative operations of the National Aeronautics and Space Administration OIG as part of the IG community's peer review processes for audits and investigations.
3	Oversaw contracts to qualified firms to provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise as we conduct MLRs, IDRs, audits, and evaluations, and closely monitored contractor performance.
4	Continued use of the IG's feedback form to assess time, cost, and overall quality and value of audits and evaluations.
5	Relied on OIG Counsel's Office to provide legal advice and counsel to teams conducting failed bank and resolution and receivership audits and evaluations, and to support investigations of fraud and other criminal activity, in the interest of ensuring legal sufficiency and quality of all OIG work.
6	Coordinated the IG community's audit peer review activities for OIGs government-wide to ensure a consistent and effective peer review process and quality in the federal audit function.
7	Developed a revised approach to ensure more efficient and effective handling of follow-up and corrective action closure activities for audit and evaluation recommendations. Collaborated with FDIC management to implement the approach and ensure accurate tracking and reporting of corrective actions.
8	Spearheaded a joint training initiative for FDIC, FRB, and Treasury investigative staff to cover topics related to open bank investigations.
9	Participated in benchmarking studies conducted by fellow OIGs in search of information sharing and best practices in the IG community.
10	Monitored and participated in the Corporation's Plain Writing Act initiative to ensure OIG compliance with the intent of the Act.

Encourage Individual Growth and Strengthen Human Capital Management and Leadership Through Professional Development and Training	
1	Continued to support members of the OIG attending long-term graduate banking school programs sponsored by the Southeastern School of Banking at Vanderbilt University, the Southwest Graduate School of Banking at Southern Methodist University, and the Graduate School of Banking at the University of Wisconsin to enhance OIG staff expertise and knowledge of the banking industry.
2	Employed college interns on a part-time basis in the OIG to provide assistance to the OIG.
3	Supported individuals seeking certified public accounting certifications by underwriting certain study program and examination costs and supported others in pursuit of qualifications such as certified fraud examiners, certified government financial managers, and certified information systems auditors.
4	Continued involvement in the IG community's introductory auditor training sessions designed to provide attendees with an overall introduction to the community and enrich their understanding of fundamental aspects of auditing in the federal environment. Devoted resources to teaching or facilitating various segments of the training.
5	Enrolled two OIG Executives in the Lincoln Leadership Institute in Gettysburg, PA., to enhance their leadership capabilities.
6	Presented IG Commendation Awards to select members of the OIG to acknowledge their outstanding efforts in carrying out the mission and goals of the OIG.
7	Nominated two OIG teams for CIGIE recognition with Awards for Excellence in support of their outstanding efforts in the audit and investigative realms.

Foster Good Client, Stakeholder, and Staff Relationships	
1	Maintained congressional working relationships by briefing and communicating with various Committee staff on issues of interest to them; providing our Semiannual Report to the Congress for the 6-month period ending March 31, 2011; notifying interested congressional parties regarding the OIG's completed audit and evaluation work; attending or monitoring FDIC-related hearings on issues of concern to various oversight committees; and coordinating with the Corporation's Office of Legislative Affairs on issues of mutual interest.
2	Communicated with the FDIC Chairman, Vice Chairman (and Acting Chairman), Director Curry, the Chief Financial Officer, and other senior FDIC officials through the IG's regularly scheduled meetings with them and through other forums.
3	Participated in numerous outreach efforts with such external groups as the Federal Financial Institutions Examination Council, the Association of Government Accountants, and the American Institute of Certified Public Accountants, to provide general information regarding the OIG and share perspectives on issues of mutual concern and importance to the financial services industry.
4	Held quarterly meetings with FDIC Division Directors and other senior officials to keep them apprised of ongoing OIG reviews, results, and planned work.
5	Kept RMS, DRR, the Legal Division, and other FDIC program offices informed of the status and results of our investigative work impacting their respective offices. This was accomplished by notifying FDIC program offices of recent actions in OIG cases and providing Office of Investigations' quarterly reports to RMS, DRR, the Legal Division, and the Chairman's Office outlining activity and results in our cases involving closed and open banks.
6	Participated at FDIC Audit Committee meetings to present the results of significant completed MLRs, IDRs, and other audits and evaluations for consideration by Committee members. Provided a briefing to OCC staff on several completed assignments and methodologies, at the request of the Acting Comptroller, a member of the Audit Committee.

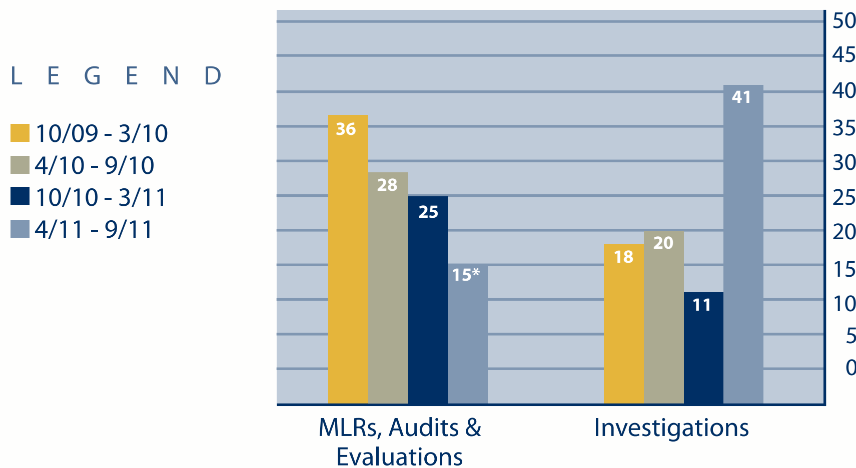
7	Reviewed six proposed or revised corporate policies related to, for example, the FDIC's general travel regulations, delegations of authority for non-procurement expenses, and communicating on social media Web sites. Made substantive suggestions on the FDIC's Physical Security Program policy, including suggesting a total reorganization of the Threat Alert Procedures in the policy.
8	Supported the IG community by having the IG serve as Chair of the CIGIE Audit Committee and coordinating the activities of that group, including introductory auditor training and oversight of the community's audit peer review process and scheduling; attending monthly CIGIE meetings and participating in Investigations Committee, Council of Counsels to the IGs, and Professional Development Committee meetings; commenting on proposed legislation through the Legislative Committee; and providing support to the IG community's investigative meetings.
9	Met regularly and communicated with representatives of the OIGs of the federal banking regulators and others (FRB, Department of the Treasury, National Credit Union Administration, SEC, Farm Credit Administration, Commodity Futures Trading Commission, Federal Housing Finance Agency, Export-Import Bank, SIGTARP, HUD) to discuss audit and investigative matters of mutual interest and leverage knowledge and resources. Participated on the Council of Inspectors General for Financial Oversight, as established by the Dodd-Frank Act, with the IGs from most of the above-named agencies, a Council on which the FDIC IG currently serves as Vice Chair.
10	Responded, along with others in the IG community, to Representative Darrell Issa's request for information on open and unimplemented recommendations at the FDIC.
11	Coordinated with the Department of Justice and U.S. Attorneys' Offices throughout the country in the issuance of press releases announcing results of cases with FDIC OIG involvement.

Enhance OIG Risk Management Activities	
1	Coordinated with the Corporation's Chief Risk Officer as he established his office and function at the FDIC to help ensure that the OIG complements the work of his office, the Office of Enterprise Risk Management, and division-level internal review and control staffs to limit the Corporation's risk exposure.
2	Participated regularly at corporate meetings of the National Risk Committee and other senior-level project management meetings to monitor emerging risks at the Corporation and tailor OIG work accordingly.
3	Prepared the OIG's 2011 assurance letter to the FDIC Chairman, under which the OIG provides assurance that it has made a reasonable effort to meet the internal control requirements of the Federal Managers' Financial Integrity Act, Office of Management and Budget A-123, and other key legislation.
4	Continued to monitor the management and performance challenge areas that we identified at the FDIC, in accordance with the Reports Consolidation Act of 2000 as we conducted audits, evaluations, and investigations: Restoring and Maintaining Public Confidence and Stability in the Financial System; Assuming New Resolution Authority, Resolving Failed Institutions, and Managing Receiverships; Ensuring and Maintaining the Viability of the Insurance Fund; Ensuring Institution Safety and Soundness Through an Effective Examination and Supervision Program; Protecting and Educating Consumers and Ensuring an Effective Compliance Program; and Effectively Managing the FDIC Workforce and Other Corporate Resources.
5	Finalized the OIG's *Office Shutdown Plan During Lapsed Appropriations* to cover procedures and continuity of operations in the event of a government shutdown caused by a funding hiatus, an event that would impact the OIG as an appropriated entity but spare the FDIC, as it is not appropriated.

Cumulative Results (2-year period)

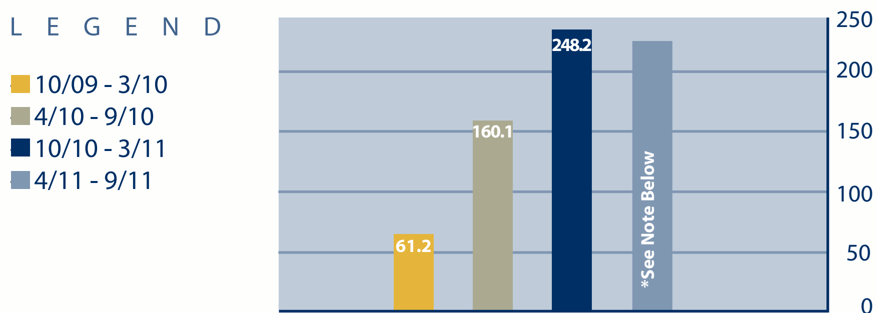
Nonmonetary Recommendations	
October 2009 – March 2010	11
April 2010 – September 2010	43
October 2010 – March 2011	58
April 2011 – September 2011	13

Products Issued and Investigations Closed



*Includes two audit-related memoranda.

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



* **For the period 04/11 – 09/11**
Fines, restitution, and monetary recoveries resulted in $3.7 billion, largely attributable to a criminal investigation involving $3.5 billion in ordered restitution.

Fiscal Year 2011 Performance Report

This performance report presents an overview of our performance compared to our Fiscal Year 2011 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.

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 efforts that represent our initiatives in Fiscal Year 2011 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 90 percent of our performance goals in Fiscal Year 2011. A discussion of our success in each of the goals begins on page 51.

Fiscal Year 2011 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	1	1	3
Receivership Management: Help Ensure that the FDIC Efficiently and Effectively Resolves Failed Banks and Manages Receiverships	2			2
FDIC Resources Management: Promote Sound Governance and Effective Stewardship and Security of Human, Financial, IT, and Physical Resources		5	1	6
OIG Internal Processes: Build and Sustain a High-Quality OIG Work Environment	5			5
Total	11	6	2	19
Percentage	58	32	10	100

Quantitative Performance Measures 2011			
Performance Measure	**FY 2011 Target**	**FY 2011 Actual**	**Status**
Financial Benefit Return [1]	100%	13,258%	Met
Other Benefits [2]	75	117	Met
Past Recommendations Implemented [3]	95%	100%	Met
Complete 100% of Audit/Evaluation Assignments Required by Statute by the Required Date	100%	100%	Met
Audit Assignments Completed Within 30 Days of Established Final Report Milestone	90%	78%	Not Met
Evaluation Assignments Completed Within 30 Days of Established Final Report Milestone	90%	83%	Not Met
Audit Assignments Completed Within 15 Percent of Established Budget	90%	71%	Not Met
Evaluation Assignments Completed Within 15 Percent of Established Budget	90%	100%	Met
Investigation Actions [4]	200	714	Met
Closed Investigations Resulting in Reports to Management, Convictions, Civil Actions, or Administrative Actions	80%	79%	Not Met
Investigations Accepted for Prosecution Resulting in Convictions, Pleas, and/or Settlements	70%	59%	Not Met
Investigations Referred for Prosecution or Closed Within 6 Months of Opening Case	85%	94%	Met
Closing Reports Issued to Management Within 30 Days of Completion of all Judicial Actions	100%	80%	Not Met

Comment: In reviewing our qualitative performance results, we note that the demands of our material loss review (MLR) workload and our more recent focus on resolution and receivership activities, along with several unanticipated requests during the year have precluded us from devoting resources to certain other important goal areas. We are hopeful that an apparent easing of the crisis will allow us to resume more discretionary audit, evaluation, and investigative coverage of other important areas of risk at the FDIC during the upcoming fiscal year. With respect to quantitative results, we are pleased to have completed all of the 24 statutorily required MLRs/in-depth reviews (IDR) and our Federal Information Security Management Act (FISMA) review on time. In the case of MLRs/IDRs, we accomplished each of these comprehensive reviews within 6-months of the FDIC's notification to us of the loss amounts. We did, however, fall short in several areas. For example, we were unable to fully meet some of our timeliness and cost goals for the conduct of audits and evaluations. This is in part attributable to a number of special, unanticipated assignments, including congressional requests and a request from the FDIC Chairman, that diverted audit and evaluation resources from previously planned work. We also did not fully meet certain investigative goals and plan to further assess the impact of those shortcomings. As our workload becomes more stabilized, we hope to be able to better meet the quantitative measures that we establish.

[1] *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 actual fiscal year budget obligations.* ***Note that FY 2011 results for this measure are highly unusual and due principally to a criminal investigation involving $3.5 billion in ordered restitution.***

[2] *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.*

[3] *Fiscal year 2009 recommendations implemented by fiscal year-end 2011.*

[4] *Indictments, convictions, informations, arrests, pre-trial diversions, criminal non-monetary sentencings, monetary actions, employee actions, and other administrative actions.*

Strategic Goal 1 – Supervision: Assist the FDIC to Ensure the Nation's Banks Operate Safely and Soundly

Our work in helping to ensure that the nation's banks operate safely and soundly takes the form of audits, investigations, evaluations, and extensive communication and coordination with FDIC divisions and offices, law enforcement agencies, other financial regulatory OIGs, and banking industry officials. In early May 2009, we conveyed to the FDIC Audit Committee and the former 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 and continues to take a number of actions that address the concerns since that time. We continue a very cooperative working relationship with the Division of Risk Management Supervision (RMS) on these matters. During FY 2011, we completed 24 reports on institutions whose failures resulted in substantial losses to the Deposit Insurance Fund. In each review, we analyzed the causes of failure and the FDIC's supervision of the institution. Many of our initial MLR observations were confirmed in our FY 2011 work, and we continued to share our views on trends in the failures and the FDIC's supervision of the institutions during the past year. Of note, during the fiscal year, we also completed a follow-up review of the actions RMS has taken in response to issues and trends identified in MLRs. Given requirements of the Dodd-Frank Act, we completed 59 failure reviews of institutions whose failures caused losses to the Deposit Insurance Fund of less than the threshold of $200 million and determined whether unusual circumstances existed that would warrant an IDR in those cases.

We responded to a letter from 10 minority Members of the Senate Committee on Banking, Housing, and Urban Affairs who expressed concern that regulatory agencies were conducting rulemakings to implement specific provisions of the Dodd-Frank Act without adequately considering the costs and benefits of their rules and the effects those rules could have on the economy. We looked at three specific rules as part of that assignment. We also responded to a request from former FDIC Chairman Sheila Bair regarding allegations she received with respect to loan modification activities at OneWestBank.

With respect to investigative work, as a result of cooperative efforts with U.S. Attorneys throughout the country, numerous individuals were prosecuted for financial institution fraud, and we also achieved successful results in combating a number of mortgage fraud schemes. Our efforts in support of mortgage fraud and other financial services working groups also supported this goal. Particularly noteworthy results from our casework include the sentencings of a number of former senior bank officials and bank customers involved in fraudulent activities that undermined the institutions and, in some cases, contributed to the institutions' failure. A former bank president was sentenced to 6 years and 6 months in prison and ordered to pay $5 million in restitution to the FDIC for falsifying loan documents and concealing problem loans. In another case, a former director of Troy Bank who engaged in an $8 million check kiting scheme was sentenced to 58 months in prison and ordered to pay $8 million in restitution. In another case, six defendants were sentenced for their roles in an equipment leasing scheme and ordered to pay $172 million jointly and severally to 85 financial institutions that were defrauded. The former executive vice president and chief credit officer of Community Bank and Trust, Cornelia, GA, and three bank customers were sentenced for schemes to defraud the bank. The bank executive was sentenced to 10 years in prison and ordered to pay restitution of $6 million. A businessman, developer, and builder who were also involved were sentenced to prison for 2 years, 3 years, and 2½ years, respectively, and each was ordered to pay more than $2 million in restitution. All four were ordered to forfeit any and all fraud proceeds.

As another key example, seven executives associated with the failure of Colonial Bank and Taylor, Bean, & Whitaker, a private mortgage company, were sentenced for conspiracy to commit bank, wire, and securities fraud for their part in a $2.9 billion scheme. Former officials associated with the failed Omni National Bank also received stiff sentences for schemes to defraud that institution. The former Omni executive vice president, who overvalued assets and misled auditors, regulators, and shareholders, was sentenced to 5 years in prison and ordered to pay $6.8 million in restitution. Also of note during past fiscal year

were successes in numerous mortgage fraud cases, for example, one involving a scheme in the Washington metropolitan area, and others worked in connection with the Mortgage Fraud Strike Force, Southern District of Florida.

Overall, investigative work during FY 2011 resulted in 184 indictments, 138 convictions, and $3.9 billion in fines, restitution, and other reported monetary benefits. The Office of Investigations also continued its close coordination and outreach with the Division of Risk Management Supervision, the Division of Resolutions and Receiverships (DRR), and the Legal Division by way of attending quarterly meetings, regional training forums, and regularly scheduled meetings with RMS 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 failed bank work fully supports this goal, as does the investigative work highlighted above. In both cases, our work can serve to prevent future losses to the fund by way of findings and observations that can help to prevent future failures, and the deterrent aspect of investigations and the ordered restitution that may help to mitigate an institution's losses. We issued the results of our comprehensive evaluation of the implementation of Prompt Regulatory Action (PRA), a review conducted jointly with the OIGs from the Department of the Treasury and the Board of Governors of the Federal Reserve System (FRB). The report presents a historical look at PRA, describes the extent to which PRA provisions have been a factor in supervisory activity during the current crisis, and assesses the impact of PRA provisions in limiting losses to the DIF. The report presents non-capital factors that provide a leading indication of bank problems and recommends matters for the federal banking regulators' consideration to strengthen the effectiveness of the PRA provisions. Each of the agency responses to our draft report and the identified planned actions address the intent of the recommendation.

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

Audits and evaluations can contribute to the FDIC's protection of consumers in several ways. We did not devote substantial resources of this type to specific consumer protection matters during the past 6-month period because for the most part, we continued to devote resources to failed bank-related work and more recently to critical FDIC activities in the resolution and receivership realms. Our Office of Investigations, however, supports this goal through its work. As a result of an ongoing investigation, a former managing director of AmeriFirst was sentenced to 25 years in prison for his role in a securities fraud involving misrepresentation of FDIC affiliation that targeted elderly investors in Florida and Texas. In a similar case, an Arizona man posing as an "FDIC broker" who marketed and sold fictitious FDIC-insured certificates of deposits to at least 17 senior citizen investors was indicted for mail fraud, money laundering, and impersonating an employee of the FDIC. Of note, our Electronic Crimes Unit responded to instances where fraudulent emails and facsimiles purportedly affiliated with the FDIC were used to entice consumers to divulge personal information and/or make monetary payments. The Electronic Crimes Unit successfully deactivated fraudulent email accounts used for such purposes and worked closely with the FDIC's information technology staff to protect FDIC systems from malicious intrusion.

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

We completed five assignments in this goal area during FY 2011. We issued the results of two assignments related to shared-loss agreements between the FDIC and acquiring institutions, an audit of a structured asset sale, and an audit of the franchise marketing of AmTrust Bank. With respect to the impact of our audit of the FDIC's various risk-sharing arrangements with acquiring institutions and/or limited liability companies, and other receivership-related activities, we identified questioned costs of $43.3 million and funds to be put to better use of $2.5 million, with which FDIC management agreed and has already pursued or is currently pursuing. Additionally, management has taken action on a number of our non-monetary recommendations to enhance its monitoring and oversight of resolution and receivership activities. We also issued an evalua-

tion report, conducted at the request of the Ranking Member of the House Financial Services Committee and the Ranking Member of the Subcommittee on Oversight and Investigations, related to the timeliness and factors considered in closing Shore Bank, Chicago, Illinois. As of the end of the reporting period, ongoing work included additional audits of loss share agreements, structured sales, and asset management and marketing activities.

From an investigative standpoint, we continued to coordinate with DRR to pursue concealment of assets investigations related to the criminal restitution that the FDIC is owed and fostered strong working relationships with DRR in the interest of more proactively identifying and mitigating risks and threats to the success of the Corporation's resolution and receivership activities.

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

In support of this goal area, we reported on our 2010 work on the FDIC's information security practices pursuant to the FISMA. The objective of that audit was to evaluate the effectiveness of the FDIC's information security program and practices, including the FDIC's compliance with the Act and related policies, procedures, standards, and guidelines. We concluded that the FDIC's information security program generally met FISMA requirements and the National Institute of Standards and Technology security guidance. The final report did, however, make 12 recommendations to enhance security practices and related internal controls. Our 2011 FISMA work was also nearing completion at the end of the fiscal year, and we shared our results throughout that effort as well. We also issued the results of a report on the FDIC's Privacy Program. The FDIC creates and acquires a significant amount of personally identifiable information related to depositors and borrowers at FDIC-insured institutions, FDIC employees, and FDIC contractors, and we examined controls over such information. We concluded that the FDIC's privacy program and practices were generally compliant with related federal statutes and OMB guidance. We made three recommendations to enhance privacy practices and related internal controls. In connection with the Dodd-Frank Act and the transfer of OTS functions and resources to the other regulators, we issued the results of two coordinated reviews related to the Joint Implementation Plan prepared by the FRB, the FDIC, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). We reported that the Plan generally conformed to relevant provisions of the Act and that the FRB, FDIC, OCC, and OTS had substantially implemented the actions in the Plan that were necessary to transfer OTS functions, employees, funds, and property to FRB, FDIC, and OCC, as appropriate.

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

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 reorganized our audit and evaluation resources, continued realignment of the OIG investigative resources with FDIC regions and satellite offices, and examined staffing plans and budget resources to ensure our office was positioned to handle our increasing workload and risks to the FDIC. We monitored OIG expenses for Fiscal Year 2010 and our funding status for Fiscal Year 2011 to ensure availability of funds, particularly in light of the budget impasse, continuing resolutions, and uncertainty about the status of appropriations. We provided our FY 2012 budget request to the House and Senate Appropriations Committees. This budget requested $45.3 million to support 144 full-time equivalents. Based on future outlooks and trends, during the latter part of the fiscal year, we submitted our FY 2013 budget request to the FDIC's Acting Chairman and OMB, reflecting $34.6 million to support 130 full-time equivalents.

We completed 59 mandatory reviews of failures of FDIC-supervised institutions not meeting the Dodd-Frank Act $200 million threshold triggering an MLR and captured this and other reporting information newly required under the Dodd-Frank Act. We oversaw contracts with qualified firms to

provide audit and evaluation services to the OIG to enhance the quality of our work and the breadth of our expertise. We continued use of the Inspector General feedback form for audits and evaluations that focuses on overall assignment quality elements, including time, cost, and value.

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

Our office continued to foster positive stakeholder relationships by way of Inspector General and other OIG executive meetings with senior FDIC executives; presentations at Audit Committee meetings; congressional interaction; coordination with financial regulatory OIGs, other members of the Inspector General community, other law enforcement officials, and the Government Accountability Office. The IG served in key leadership roles as the Chair of the Council of the Inspectors General on Integrity and Efficiency Audit Committee; Vice Chair of the Council of Inspectors General on Financial Oversight, as established by the Dodd-Frank Act; and as a Member of the Comptroller General's Yellow Book Advisory Board.

Senior OIG executives were speakers at a number of professional organization and government forums, for example those sponsored by the Association of Government Accountants, the American Institute of Certified Public Accountants, Department of Justice, and FDIC Divisions and Offices. The OIG participated in corporate diversity events, and we continued to refine a new public inquiry intake system and maintained and updated the OIG Web site to respond to the public and provide easily accessible information to stakeholders interested in our office and the results of our work.

In the area of risk management activities, in connection with SAS 99 and the annual financial audit of the FDIC's funds, we provided comments on the risk of fraud at the FDIC to the Government Accountability Office. We provided the OIG's 2010 statement of assurance to the Chairman regarding our efforts to meet internal control requirements and on an on-going basis, prepared to submit our 2011 statement. We began coordination with the Corporation's newly appointed Chief Risk Officer. We also participated regularly at meetings of the National Risk Committee and other senior-level project management meetings to monitor emerging risks at the Corporation and tailor OIG work accordingly. In keeping with the Reports Consolidation Act of 2000, we provided our assessment of management and performance challenges facing the Corporation for inclusion in its annual report and monitored the issues identified as challenges throughout the fiscal year.

Reporting Requirements

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

Reporting Requirements	Page
Section 4(a)(2): Review of legislation and regulations	56
Section 5(a)(1): Significant problems, abuses, and deficiencies	9-42
Section 5(a)(2): Recommendations with respect to significant problems, abuses, and deficiencies	9-42
Section 5(a)(3): Recommendations described in previous semiannual reports on which corrective action has not been completed	57
Section 5(a)(4): Matters referred to prosecutive authorities	8
Section 5(a)(5) and 6(b)(2): Summary of instances where requested information was refused	61
Section 5(a)(6): Listing of audit reports	58
Section 5(a)(7): Summary of particularly significant reports	9-42
Section 5(a)(8): Statistical table showing the total number of audit reports and the total dollar value of questioned costs	59
Section 5(a)(9): Statistical table showing the total number of audit reports and the total dollar value of recommendations that funds be put to better use	60
Section 5(a)(10): Audit recommendations more than 6 months old for which no management decision has been made	61
Section 5(a)(11): Significant revised management decisions during the current reporting period	61
Section 5(a)(12): Significant management decisions with which the OIG disagreed	61

Evaluation report statistics are shown on pages 59, 60, and 61, in accordance with the Inspector General Reform Act of 2008.

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

Review of Legislation and Regulations

The FDIC OIG's review of legislation and regulations during the past 6-month period involved the following activities:

- Commented on draft legislation that would revise the OIGs' responsibilities in reviewing agency information security practices as currently mandated in the Federal Information Security Management Act.
- Provided comments to the CIGIE Legislative Committee on audit-related aspects of H.R. 2146, the *Digital Accountability and Transparency Act of 2011*, which would establish a board composed in part of certain named Offices of Inspector General that would collect information on government spending and provide oversight of federal funds.
- Provided comments to the Legislative Committee on an amendment to S.782, the *Economic Development Revitalization Act of 2011*, an amendment that would require inspectors general to determine whether agency regulatory reviews were conducted appropriately.
- Identified issues raised by H.R. 2056 (unnamed), as passed by the House of Representatives, a bill that would direct a number of studies be done by the FDIC OIG regarding such topics as failed banks, appraisal issues, and enforcement efforts.
- Provided comments on draft "Procedures to Obtain Assistance from Another OIG in the Execution of Search and Arrest Warrants," being sought by the CIGIE Investigations Committee.

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. Recommendations are closed when (a) OERM notifies the OIG that corrective actions are complete or (b) in the case of recommendations that the OIG determines to be particularly significant, after the OIG confirms that corrective actions have been completed and are responsive. The 3 recommendations from 3 reports involve monetary amounts of over $15.1 million and improvements in operations and programs. OERM has categorized the status of the 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-10-005 **FDIC's Loss Share Agreements with an Acquiring Institution** September 10, 2010	1	Disallow $9,437,620 of claimed losses associated with estimated expenses that are not allowable under the loss share agreement and duplicate or incorrectly calculated loan charge-offs (questioned costs of $7,550,096, which is 80 percent of the $9,437,620 in questioned loss claims).
AUD-11-001 **Independent Evaluation of the FDIC's Information Security Program – 2010** November 8, 2010	12	Complete the design and implementation of an agency-wide continuous monitoring program that addresses continuous monitoring strategies for FDIC information systems.
AUD-11-004 **FDIC's Loss Share Agreements with an Acquiring Institution** January 7, 2011	1	Disallow the unsupported loss claims (questioned costs of $7,549,153, which is 80 percent of $9,436,441 in questioned loss claims).

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

Table II: Audit Reports Issued by Subject Area

Audit Report		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
AUD-11-006 May 11, 2011	In-Depth Review of the Failure of The Gordon Bank, Gordon, Georgia			
AUD-11-007 May 18, 2011	Material Loss Review of Premier Bank, Jefferson City, Missouri			
AUD-11-008 May 18, 2011	Material Loss Review of Hillcrest Bank, Overland Park, Kansas			
AUD-11-010 June 20, 2011	In-Depth Review of the Failure of Washington First International Bank, Seattle, Washington			
AUD-11-011 July 11, 2011	In-Depth Review of the Failure of USA Bank, Port Chester, New York			
AUD-11-012 July 21, 2011	Material Loss Review of Peninsula Bank, Englewood, Florida			
AUD-11-013 August 24, 2011	Material Loss Review of FirsTier Bank, Louisville, Colorado			
Receivership Management				
AUD-11-009 June 10, 2011	FDIC's Shared Loss Agreements with an Acquiring Institution	$24,220,123	$23,860,198	
Not Numbered* July 28, 2011	Controls Over Receivership Financial Statements	$10,482,560		
Resources Management				
AUD-11-014 September 23, 2011	FDIC's Privacy Program - 2011			
Totals for the Period		**$34,702,683**	**$23,860,198**	

** This product was an internal memorandum and is included in this table because it contained questioned costs.*

Table III: Evaluation Reports Issued

Evaluation Reports		Questioned Costs		Funds Put to Better Use
Number and Date	Title	Total	Unsupported	
Supervision				
EVAL-11-003 June 13, 2011	FDIC's Economic Analysis of Three Rulemakings to Implement Provisions of the Dodd-Frank Act			
EVAL-11-004 July 18, 2011	OneWest Bank's Loan Modification Program			
Insurance				
EVAL-11-006 September 30, 2011	Prompt Regulatory Action Implementation			
Resources Management				
EVAL-11-005 September 28, 2011	Status of the Transfer of Office of Thrift Supervision Functions			
Totals for the Period		**$0**	**$0**	**$0**

Table IV: Audit 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.	2	$34,702,683	$23,860,198
Subtotals of A & B	**2**	**$34,702,683**	**$23,860,198**
C. For which a management decision was made during the reporting period.	2	$34,702,683	$23,860,198
(i) dollar value of disallowed costs.	2	$34,702,683	$23,860,198
(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 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 Issued with Recommendations for Better Use of Funds

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

Table VIII: Status of OIG Recommendations Without Management Decisions

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

Table IX: Significant Revised Management Decisions

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

Table X: Significant Management Decisions with Which the OIG Disagreed

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

Table XI: Instances Where Information Was Refused

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

Appendix 2: Information on Failure Review Activity

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

FDIC OIG Review Activity for the Period April 1, 2011 through September 30, 2011 for Failures Causing Losses to the DIF of Less than $200 Million

Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
Failure Review Activity – Updated From Previous Semiannual Reports						
Legacy Bank (Scottsdale, Arizona)	1/7/11	$27.9	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Oglethorpe Bank (Brunswick, Georgia)	1/14/11	$80.4	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
The Bank of Asheville (Asheville, North Carolina)	1/21/11	$56.2	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
The First State Bank (Camargo, Oklahoma)	1/28/11	$20	The bank failed to maintain adequate capital.	No	N/A	N/A
Evergreen State Bank (Stoughton, Wisconsin)	1/28/11	$22.8	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Sunshine State Community Bank (Port Orange, Florida)	2/11/11	$30.0	The bank was imminently insolvent.	No	N/A	N/A
Peoples State Bank (Hamtramck, Michigan)	2/11/11	$87.4	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Badger State Bank (Cassville, Wisconsin)	2/11/11	$17.5	The bank was operating in an unsafe manner.	No	N/A	N/A
Citizens Bank of Effingham (Springfield, Georgia)	2/18/11	$59.4	The bank was critically under-capitalized.	No	N/A	N/A
Charter Oak Bank (Napa, California)	2/18/11	$21.8	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Habersham Bank (Clarkesville, Georgia)	2/18/11	$90.3	The bank was at risk of becoming critically under-capitalized.	No	N/A	N/A
Valley Community Bank (St. Charles, Illinois)	2/25/11	$22.8	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
New Reviews						
The Bank of Commerce (Wood Dale, Illinois)	3/25/11	$41.9	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Nevada Commerce Bank (Las Vegas, Nevada)	4/8/11	$31.9	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Bartow County Bank (Cartersville, Georgia)	4/15/11	$69.5	The bank's capital position was at risk of becoming critically undercapitalized.	No	N/A	N/A

FDIC OIG Review Activity for the Period April 1, 2011 through September 30, 2011 for Failures Causing Losses to the DIF of Less than $200 Million						
Institution Name	Closing Date	Estimated Loss to DIF (Dollars in millions)	Grounds Identified by the State Bank Supervisor for Appointing the FDIC as Receiver	Unusual Circumstances Warranting In-Depth Review?	Reason for In-Depth Review	Due Date or Date Issued
New Reviews (continued)						
New Horizons Bank (East Ellijay, Georgia)	4/15/11	$30.9	The bank was insolvent and in an unsafe & unsound condition.	No	N/A	N/A
Nexity Bank (Birmingham, Alabama)	4/15/11	$175.4	The bank was operating in an unsafe & unsound condition.	No	N/A	N/A
Heritage Banking Group (Carthage, Mississippi)	4/15/11	$49.1	The bank was insolvent.	No	N/A	N/A
Cortez Community Bank (Brooksville, Florida)	4/29/11	$18.6	The bank was insolvent.	No	N/A	N/A
Summit Bank (Burlington, Washington)	5/20/11	**$15.7**	The bank was critically unsafe & unsound.	No	N/A	N/A
Reviews in Process						
First Choice Community Bank (Dallas, Georgia)	4/29/11	$92.4		*		
Community Central Bank (Mount Clemens, Michigan)	4/29/11	$183.2		*		
First Georgia Banking Company (Franklin, Georgia)	5/20/11	$156.5		*		
First Heritage Bank (Snohomish, Washington)	5/27/11	$34.9		*		
McIntosh State Bank (Jackson, Georgia)	6/17/11	$82		*		
First Commercial Bank of Tampa Bay (Tampa, Florida)	6/17/11	$30.5		*		
Mountain Heritage Bank (Clayton, Georgia)	6/24/11	$43.1		*		
High Trust Bank (Stockbridge, Georgia)	7/15/11	$66		*		
First Peoples Bank (Port Saint Lucie, Florida)	**7/15/11**	$7.4		*		
CreekSide Bank (Woodstock, Georgia)	9/2/11	$29.3		*		
First International Bank (Plano, Texas)	9/30/11	$55.6		*		

* Failure review ongoing as of the end of the reporting period.

Appendix 3: Peer Review Activity

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

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

Audit Peer Reviews

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

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

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

As reported in our last semiannual report, we concurred with the recommendations and provided planned and completed corrective actions with which the Railroad Retirement Board OIG agreed. All actions taken in response to the Railroad Retirement Board's recommendations were completed by February 23, 2011.

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

Definition of Audit Peer Review Ratings

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

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

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

FDIC OIG Peer Review of the Smithsonian Institution OIG

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

As is customary, we also issued a Letter of Comment, dated September 21, 2011, that sets forth findings and recommendations that were not considered to be of sufficient significance to affect our opinion expressed in the system review report. We made 11 recommendations, with which the SI OIG agreed. SI OIG indicated it would complete all corrective actions related to the findings and recommendations no later than March 31, 2012. Our findings and recommendations related to the following areas: standards followed on desk reviews, statements of independence for referencers, disciplinary mechanism for reporting personal impairments, reviews of continuing professional education data, reporting whether audit results can be projected, internal quality assurance program enhancements, and SI OIG's letter related to the annual financial statements audit.

SI OIG has posted its peer review report (the system review report and accompanying letter of comment) on its Web site at www.si.edu/oig/.

Investigative Peer Reviews

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

- In 2009, the FDIC OIG was the subject of a peer review conducted by the Department of the Interior (DOI) OIG. DOI issued its final report to us on September 9, 2009. In DOI's opinion, the system of internal safeguards and management procedures for the investigative function of the FDIC OIG in effect for the period October 1, 2007 through September 30, 2008, was in compliance with the quality standards established by CIGIE and the Attorney General guidelines. These safeguards and procedures provided reasonable assurance of conforming with professional standards in the conduct of FDIC OIG investigations. DOI issued a letter of observations but made no recommendations in that letter.
- The FDIC OIG conducted a peer review of the investigative function of the National Aeronautics and Space Administration OIG during the reporting period. We issued our draft report to NASA OIG on October 6, 2011 and will report the results of that review in our next semiannual report.

IGs and CFOs Complete Joint Review of the CFO Act of 1990

Section 3(e) of the Improper Payments Elimination and Recovery Act of 2010 calls for the Chief Financial Officers (CFO) Council and CIGIE to jointly examine the CFO Act of 1990, 20 years after its enactment. The purpose of such a study is to present lessons learned from the Act and any legislative and regulatory compliance framework changes needed to Federal financial management to optimize Federal agency efforts in financial reporting and internal controls. To accomplish this mandate, the CFO Council and CIGIE formed a working group of senior leaders from the government financial management and Inspector General (IG) communities, and included a senior official from the GAO to serve as an observer. The working group considered other relevant Federal financial management legislation and conducted various meetings and "listening sessions" to gather broad input from more than 250 current and past financial and audit community leaders as well as private-sector leaders and members of academia. The FDIC IG led the involvement of the IG community on this project.

The joint report was finalized in July 2011 and sent to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform as well as the Comptroller General of the United States.

The report discusses the many benefits that have been derived from the Act and highlights the need for continued work in a number of areas to fully optimize the impact of the CFO function. The report points out that Congressional attention to two broad areas is specifically warranted, and it makes two recommendations to that effect. It is available in its entirety at www.ignet.gov.

FDIC OIG Joins Colleagues on Council of Inspectors General on Financial Oversight

The FDIC OIG is a member of the Council of Inspectors General on Financial Oversight (CIGFO), established by the Dodd-Frank Act to facilitate sharing of information among CIGFO member IGs and to discuss ongoing work of each IG member as it applies to the broader financial sector and ways to improve financial oversight. In addition, the CIGFO may convene working groups to evaluate the effectiveness and internal operations of the Financial Stability Oversight Council. The CIGFO is chaired by the IG of the Department of the Treasury, and FDIC IG Jon Rymer currently serves as Vice Chair.

IGs from the following agencies complete the membership: FRB, Commodity Futures Trading Commission, HUD, Federal Housing Finance Agency, National Credit Union Administration, Securities and Exchange Commission, and SIGTARP (until termination of authority).

CIGFO has a statutory requirement to produce an annual report that includes a section of individual reports submitted by each CIGFO member highlighting concerns and recommendations that may apply to the broader financial sector. The first such report was issued in July 2011.

CIGIE Award Winners

The FDIC OIG congratulates the following award winners who were honored at the annual CIGIE Awards Ceremony on Tuesday, October 18, 2011, at the Andrew Mellon Auditorium, Washington DC.

left to right: Joe Seitz, Ann Lewis, Joyce Cooper, Mary Carmichael, Mike Lombardi, and Mark Mulholland.

Award for Excellence: Audit

FDIC OIG Leadership Team Overseeing Bank Failure Reviews

In recognition of excellence in leading an extraordinary number of audits addressing financial institution failures that had resulted in substantial losses to the Deposit Insurance Fund

Ann Lewis, Audit Manager, FDIC OIG

Bruce Gimbel, Audit Manager, FDIC OIG

Joseph Seitz, Senior Banking Advisor, FDIC OIG

Joyce Cooper, Audit Manager, FDIC OIG

Mark Mulholland, Assistant Inspector General for Audits, FDIC OIG

Mary Carmichael, Audit Manager, FDIC OIG

Michael Lombardi, Audit Manager, FDIC OIG

left to right: Gary Sherrill, Steve Overby, and Matt Alessandrino.

Award for Excellence: Investigation

FDIC OIG Special Agent and Law Enforcement Colleagues

In recognition of excellence in successfully investigating and prosecuting a complex securities fraud scheme involving misrepresentation of FDIC insurance

Deen D. Abbott, Special Agent, FBI

Alan Buie, Assistant United States Attorney, Northern District of Texas

Bruce L. Card, Forensic Accountant, FBI

Steven Overby, Special Agent, FDIC OIG

Chris Stokes, Assistant United States Attorney, Northern District of Texas

Stephanie Tourk, Attorney, Texas State Securities Board

left to right: Ed Slagle, John Crawford, and Lance Endy.

Award for Excellence: Investigation

Colonial Bank/Taylor, Bean & Whitaker Investigative Team

In recognition of outstanding cooperation in uncovering and jointly investigating a multibillion dollar bank, securities, and TARP fraud scheme

John Crawford, Special Agent, FDIC OIG

Lance Endy, Special Agent, FDIC OIG

Ed Slagle, former Special Agent in Charge, FDIC OIG

Barry Snyder Joint Award

Information Technology Auditors FISMA Team

In recognition of exceptional and unique contributions that furthered the CIGIE mission by collaborating across the OIG community to make sweeping changes to OIG FISMA review methodologies to improve agencies' cyber security infrastructures and controls

Danny Craven, representing the FDIC OIG

Retirement

Bruce Gimbel retired from the FDIC after more than 31 years of federal government service. His career included service at the U.S. Postal Service, U.S. General Accounting Office (GAO--now the Government Accountability Office), the Resolution Trust Corporation (RTC), and the FDIC.

During his tenure at the RTC serving as a regional audit contact, Bruce led teams of auditors in the field on countless important assignments during the tumultuous time of the savings and loan crisis of the early 1990s. With the merger of the RTC and FDIC in 1996, he helped bring the offices together and transition carryover RTC work into the FDIC. Many auditors grew professionally over the years under his guidance.

Over the past several years at the FDIC, his work had an especially important impact. Bruce led teams in the successful completion of MLRs of failed FDIC-supervised institutions. His insights into the causes of failure and the FDIC's supervision of the institutions helped inform the OIG's position on these sensitive matters.

Following his retirement from the FDIC, Bruce embarked on a new career adventure by joining the Office of the Special Inspector General for Afghanistan Reconstruction in Kabul, Afghanistan. It is a testament to his commitment to public service that he sought out that assignment, located in a war-torn country, where he continues his career as an auditor under very difficult working conditions.

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