

Lee Farkas was sentenced to 30 years in prison last week. Prosecutors wanted life. Once you hear the story I'm going to tell you, you'll think "life" in prison would not have been enough.

Farkas was the former chairman of the board and the majority shareholder of Taylor Bean Whitaker. The company was a giant in home mortgage originations, selling loans to Fannie Mae, Freddie Mac, Colonial Bank and others. It also created its own mortgage backed securities, and sold THOSE to supposedly sophisticated heavy hitters like Deutsche Bank and French company BNP Paribas. Taylor, Bean's rapid growth and incredible success were the envy of others in the industry. Incredible—as in "not believable" was truly the correct word.

Investigations revealed it was all a house of cards. In the aftermath, billions of dollars have been lost forever. Homeowners are in limbo regarding who actually owns their mortgage, who is responsible for paying taxes and insurance escrows, who has the right to foreclose, and who has the right to dictate loan modification or short sale terms. Colonial Bank, its jobs and its community support are gone forever because of TB&W. At the time of its collapse, TB had about 2,400 of its own employees and was servicing more than 500,000 mortgages, including \$51 billion of Freddie Mac loans and \$26 billion of Ginnie Mae loans.

We should have seen this coming, and stopped it a long time ago, a long time before the ax FINALLY fell in the summer of 2009.

As early as January of 2000, Fannie Mae got its first clue that TB's success came from not playing by the rules. At the time, Fannie was the largest purchaser of TB mortgages, which were then also serviced by TB. In other words, Fannie Mae owned the loans, but TB collected payments and kept up with all the accounting. In January of 2000, a FM executive named Samuel Smith discovered that one of the mortgages sold to it by TB had already been sold to someone else. It was brushed off as a clerical mistake.

Over the next two years, FM discovered another 200 loans that were either completely bogus, in default at the time sold to FM, or missing vitally important documentation and mortgage insurance! Eight of the delinquent loans were in Farkas' own name! At the time, it was enough evidence to justify bringing criminal charges against him, and would have resulted in a conviction way back in 2002.

The problem was, Fannie didn't want to "rock the boat." They were afraid that if they publicly fired TB, and pressed charges against Farkas, the fallout would hurt Fannie more than anyone else! Fannie Mae officials feared that seizing the loan portfolio would signal poor loan quality to the mortgage industry, according to deposition testimony and an internal Fannie Mae memo.

According to an undated internal Fannie Mae memo, officials were also concerned that an immediate termination of the relationship would have "a devastating effect on TBW's ability to continue as a viable company." I'm not sure why they would care, but apparently they did.

Once the fraud was discovered, Fannie Mae could have refused to buy any more loans from Taylor Bean, blocked the company's access to its online loan processing programs, and seized the servicing rights.

It did none of those things.

Instead, they negotiated a hush-hush settlement with TB. Fannie would not buy any more mortgages from it. The company would not be allowed to service any of the existing loans. That's important, because if you are the one selling the mortgages AND the one interacting with borrowers and keeping the accounting, it's a lot easier to cover up fraud. So, no more servicing for TB. BUT, it would all remain confidential. If anyone asked about the reason for the abrupt change, Fannie would decline to comment.

Farkas was free to say whatever he wanted, and make up a FINE story to explain things.

Most importantly, instead of seizing the servicing rights, Fannie allowed TB to sell them! That fact gave credibility to Farkas' story that all was well, nothing was wrong, it was all just a personality clash with Zach Oppenheimer, who was senior vice president for single family mortgage business at Fannie Mae.

TB sold the servicing rights to GMAC for \$27.6MM. Not all of the money was paid up front. As it turns out, TB sued GMAC in 2008 for \$8.3 million of the purchase price that still remain unpaid. GMAC said it had the contractual right to retain the money until certain documentation irregularities were cleared up. Taylor Bean was outraged that its credibility was being questioned, and sued GMAC, charging it with outright theft of TB's money!

Going back to 2002, though, it was important to replace the Fannie business before the TB/FM "divorce" became public. As a result, TB executive (and later the President) Raymond Brown leaped into action. He called a friend of his over at Freddie Mac. Did he have a deal for Freddie—TB would desert Fannie and do business exclusively with Freddie instead! Freddie would be the lucky recipient of the huge quantity of loans originated by TB, and would be able to get TB as a servicer! How lucky can you get? It was all because that Fannie Mae idiot—Oppenheimer—had personality issues with Lee Farkas, and couldn't see beyond that.

Freddie was ecstatic. Did anyone at Freddie think to pick up the phone and call anyone at Fannie for the real scoop? No! According to Freddie execs, it was because they were "concerned about anti-trust issues." The real reason was because greedy people don't look gift horses in the mouth. Previously, Freddie received only about 5% to 10% of the TB business. NOW, they were going to get ALL of it! Nobody wanted to ask too many questions.

Fannie took its lumps, which eventually amounted to over \$1.7 billion in losses. Those 200 loans that got TB fired—just the laughably tiniest tip of the deadly iceberg created by TB. Freddie eventually lost \$1.8 billion. When Fannie audited \$1B worth on loans in 2009, it discovered that \$650M of them were complete bogus!

The fraud with Fannie and Freddie wasn't enough, though. TB needed more money. It got its hooks into Colonial Bank and others.

TB had bank accounts at Colonial for its mortgage lending operations. When it got several million dollars overdrawn, Colonial asked TB to cover the overdraft. It didn't, but nothing bad happened. Colonial didn't bounce any checks, like they would have done with you or me. No, they just kept

covering them, as the negative balances got larger and larger. Finally, when TB was over \$150 million overdrawn, Colonial demanded action. TB didn't have that much cash. Instead, it agreed to sell Colonial \$1.5B in mortgage loans that had previously been promised to someone else. Lucky Colonial! It was finally able to take advantage of the TB originations, just like the "big boys" at Fannie and Freddie! Life was good, life was wonderful, the future was rosy...

Except, it wasn't. TB hadn't just promised those loans to someone else, it had already sold them to someone else! But, no one at Colonial figured it out, which made them an easy mark for future scams. Colonial re-sold many of those same loans, unwittingly passing the problem on to others. At the end of the day, Colonial was left holding the bag on \$1.5 billion of fake loans, \$1.5 billion of fraudulently documented loans, and another \$800 million of double-sold loans. That rosy future—it wasn't the dawn of a rich new age. No, it was rosy red from the massive amounts of blood on the ground.

To help with its insatiable need for money, TB also decided to securitize mortgages as well as originating them. It formed a company called Ocala Funding. Ocala bought mortgages from TB, and then sold mortgage backed securities to Deutsche Bank and others. Eventually, DB purchased \$1.2B of securities, and BNP Paribas bought \$481 million. As a result of those sales, Ocala was required to maintain at least \$1.25B in cash and collateral to cover the securities it had issued.

Ocala Funding didn't have any of its own employees—it simply "borrowed" people from TB when necessary. In return, TB thought it was okay to "borrow" cash from Ocala Funding. Among other things, investigators found that the TB payroll was routinely paid out of the Ocala Funding account into which mortgage payments from borrowers were deposited! Money was moved willy-nilly among accounts, depending on who needed money and who had it. A Deutsche Bank lawsuit alleges that hundreds of millions of dollars of ITS money in Colonial accounts somehow ended up in the wrong hands, also.

Within days of opening, Ocala Funding had an asset shortfall. In other words, it didn't have \$1.25B in cash and assets, or anything even close to \$1.25B. You and I call that "insolvent" or "bankrupt." TB officials delicately referred to it as the "asset hole." To cover it up, they generated fake reports and did some fancy accounting with Colonial Bank-owned mortgages. \$900 million of mortgage loans were TRIPLE sold to Fannie Mae, Colonial Bank, and Ocala Funding! Farkas called that "moving the hole to Colonial Bank." Prosecutors had less polite names for the maneuver.

Remember, Deutsche Bank and BNP Paribas are big boys. They didn't just fall off the turnip truck. They were greedy, but not stupid. To protect themselves, they hired LaSalle Bank to be the Trustee, and oversee all the accounting and the paperwork and such for the securitized mortgages. LaSalle was supposed to be the "gatekeeper" protecting all the DB and BNP Paribas cash. Unfortunately, LaSalle's parent company sold it to Bank of America in 2007. That was right about the time the bottom starting dropping out of things, and TB was desperate for massive amounts of cash. Right when TB needed the most cash, someone new was put in charge of guarding the vault with all the cash.

Those of you trying to get short sales approved with Bank of America KNOW how terrific they are with accounting, and paperwork, and follow up, don't you? In case you can't tell from my voice, that last sentence was dripping with sarcasm. DB might as well have put the Three Stooges in charge of things. If

you want to read the lawsuit DB filed against Bank of America, it has a very well written narrative of how BofA and Colonial practically gave TB the keys to the money vaults, asking only that TB promise to be honest, and that it turn out the lights when it was finished. Nobody kept track of anything. Cash was disappearing at an alarming rate, while bogus and double or triple sold loans were having a population explosion. You can go to my website, at www.deniselevans.com and find a link that will take you to the lawsuit itself.

In another scam, TB went to Freddie and generously offered to create an online portal so community banks could originate their own loans and then sell them to TB for eventual sale to Freddie. The website, Community Banks Online, would make it really easy to get billions of dollars more in mortgages into the pipeline for Freddie. Freddie was ecstatic. What a REALLY nice thing for TB to do. It was incredible (there's that word again.) Unknown to everyone except TB, the online portal also gave TB executives the ability go to in and manipulate data to a degree that was shocking. With the ability to manipulate data regarding new mortgage loans, TB took full advantage of the opportunity.

Things came to a head in 2008 when Colonial needed TARP money. It had been bled dry by TB and by mounting commercial and development loan losses. It could have survived either one, but it couldn't survive both. TB came to the rescue, offering to buy Colonial stock and arrange for the TARP money. TB would have done anything to keep its golden-egg-laying goose alive. In addition, TB invented an outside investor who would buy more Colonial stock. The outside investor promised to buy \$50 million of stock, and put up \$5 million in earnest money, which was wired to an account at Colonial Bank. Yeah—one of THOSE accounts, where money flowed in and out to the tune of millions and billions of dollars, with no one knowing where it came from or where it was going. As it turned out, the investor was fake, and the \$5 million came from Ocala Funding, which had stolen most of its money from Colonial! It gets a little dizzying, doesn't it?

Finally, Freddie got wind that not all was right at TB. It immediately fired the company. The feds raised TB's offices with search warrants and it then filed for bankruptcy. Colonial Bank was abruptly closed by regulators, who feared a run on the bank when the news started breaking. Colonial was under FDIC scrutiny, and threatened with closing if it didn't raise more capital, but the actual bank closing wasn't scheduled for another year.

What do you think happened to the people who pulled this off for years? As of today, 7 people have been sentenced for their roles in this fiasco. You decide if the sentences fit their crimes.

Lee Farkas, who maintained his innocence to the end, was sentenced to 30 years in prison. Prosecutors wanted life.

Paul Allen, former CEO of TB, received 40 months in prison for co-operating with prosecutors.

Raymond Bowman, former president of TB, was sentenced to 2.5 years. Prosecutors wanted 5.

Desiree Brown, former treasurer at TB, got 6 years. Feds wanted 8.-

Sean William Ragland, former senior financial analyst at TB, received 3 months in prison and two years of supervised release. Although he assisted in preparation of some bogused reports regarding Ocala Funding, prosecutors noted that he “raised concerns” about the books early and often.

Catherine Kissick, the former Colonial Bank executive who assisted TB in its theft and fraud, received 8 years in prison. Prosecutors were stunned to discover she did everything for no personal gain whatsoever, but felt “trapped” by events and unable to fix the problems.

Teresa Kelly, who worked under Kissick, received 3 months in prison.

Why don't we hear about this on television? I feel for little Casey Anthony, whose young life was cut short and her body discarded like last week's trash. Truly, I do care about her and the case. I don't care enough to hear about it constantly on television, all day long, week in and week out. Why aren't there even a few minutes devoted to Taylor Bean, Colonial Bank, Fannie, Freddie and the rest? It's because people would say, “That can't be true! You must be lying!” People would recoil at the thought that our financial institutions are so stupid, so greedy, so lax in their oversight. Most don't want to hear about this stuff. I know you are different. That's why I'm bringing you this story.