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# TBW-Colonial Bank

- **\$2.9 BILLION SCHEME**
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**We had a \$3.5 billion fraud investigation that had all three of these schemes:**

**From 2002 to 2009, former Taylor, Bean & Whitaker (TBW) Chairman Lee Farkas directed the sale of more than \$1.5 billion in fake mortgage assets to Colonial Bank and misappropriated more than \$1.5 billion from Ocala Funding LLC, a financing vehicle used and controlled by TBW.**

**Farkas, 58, oversaw the “triple-selling” of \$900 million worth of mortgage loans to Colonial, Ocala Funding & Freddie Mac, and led an effort to obtain \$553 million from the Troubled Asset Relief Program.**

**On June 30th, 2011, Farkas was sentenced to 30 years in prison. Seven other convictions so far. The CFO for TBW will be sentenced tomorrow**

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

June 22, 2011

FEDERAL HOME LOAN MORTGAGE  
CORPORATION (Freddie Mac)

(Exact name of registrant as specified in its charter)

Federally Chartered Corporation  _____ (State or other jurisdiction of incorporation)  8200 Jones Branch Drive, McLean, Virginia  _____ (Address of principal executive offices)	000-53330  _____ (Commission File Number)	52-0904874  _____ (I.R.S. Employer Identification No.)  22102-3110  _____ (Zip Code)
Registrant's telephone number, including area code:		703-903-2000
Not Applicable  _____ Former name or former address, if changed since last report		

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))



**Top of the Form****Item 8.01 Other Events.**

With the approval of the Federal Housing Finance Agency, as Conservator, Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation) has entered into a proposed settlement with Taylor, Bean & Whitaker Mortgage Corp., or TBW, and the creditors' committee appointed in the TBW bankruptcy proceeding to represent the interests of the unsecured trade creditors of TBW. The proposed settlement, which is discussed below, was filed with the Bankruptcy Court for the Middle District of Florida on June 22, 2011 and is subject to the court's approval in connection with confirmation of TBW's proposed plan of liquidation.

Under the terms of the proposed settlement, we will be granted an unsecured claim in the TBW bankruptcy estate in the amount of \$1.022 billion, largely representing our claims to past and future loan repurchase exposures. We estimate that this claim will result in a distribution to us of approximately \$40-45 million, which is less than the outstanding repurchase requests. This estimate is based on the plan of liquidation and disclosure statement filed with the court by TBW, which indicates that general unsecured creditors are likely to receive a distribution of 3.3 to 4.4 cents on the dollar. We will also be entitled to approximately \$203 million on deposit in certain TBW bank accounts relating to our mortgage loans, \$150 million of which we received on June 21, 2011 from the Federal Deposit Insurance Corporation as receiver of Colonial Bank. We will also receive certain other mortgage loan receipts estimated to be \$6 million.

The proposed settlement provides for us to pay a total of \$61 million to TBW and the trade creditors represented by the creditor's committee in satisfaction of their potential claims against us, as follows: (i) Freddie Mac will assign its ownership rights to TBW for the approximately \$53.5 million in loan receipts on deposit in one of TBW's accounts, and will assign to the unsecured trade creditors the first \$6.25 million that would otherwise be paid to Freddie Mac as part of its unsecured claim and (ii) Freddie Mac will receive credit for the \$1.25 million in funds paid by Freddie Mac for TBW employee salaries during the transfer of TBW's servicing portfolio following the termination of TBW's status as a seller/servicer of our loans.

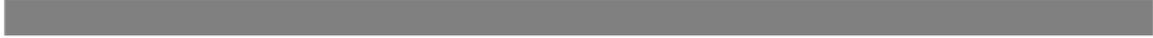
The proposed settlement also allows for our sale of TBW-related mortgage servicing rights, subject to a \$185 million minimum net sales price, with a portion of the proceeds allocated to Sovereign Bank and Natixis Real Estate Capital Inc. as the parties that have asserted interests in the mortgage servicing rights. In addition, the proposed co-brokers of this sale will receive a total of 1% commission for the sale. Presently, it is contemplated that Navigant Capital Advisors, LLC and Milestone Advisors, LLC will act as co-brokers in this sale.

We continue to estimate our uncompensated loss exposure to TBW to be approximately \$690 million, but our ultimate losses could exceed this estimate. This estimated exposure largely relates to outstanding repurchase claims which have already been adjusted in our financial statements to their net realizable value through our provision for loan losses. If the settlement is approved by the court, we will recognize the difference between amounts we would pay to TBW and other creditors and the liability recorded on our balance sheet as a gain. We expect this to result in a one time gain in income of less than \$250 million. We also expect to incur losses on TBW loans in future periods related to future repurchase claims that would likely be uncollectible. The estimated exposure excludes potential claims by Ocala Funding, LLC, discussed below. Ocala is a wholly owned subsidiary of TBW.

The proposed settlement does not extend to any claims that may be made by Ocala or by other parties with which it did business. As previously disclosed, we understand that Ocala or its creditors may attempt to assert fraudulent transfer and possibly other claims totaling approximately \$840 million against us related to funds that were allegedly transferred from Ocala to Freddie Mac custodial accounts. Ocala may also attempt to make claims against us asserting ownership of a large number of loans that we purchased from TBW.

The proposed settlement also does not extend to our right to pursue claims related to certain mortgage

bankers bonds issued to TBW. As previously disclosed, such claims are the subject of pending litigation with certain underwriters at Lloyds, London and London Market Insurance Companies.



**Top of the Form**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERAL HOME LOAN MORTGAGE CORPORATION (Freddie Mac)

*June By: John R. Dye  
24,  
2011*

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*Name: John R. Dye*

*Title: Senior Vice President — Principal Deputy General Counsel, Corporate Affairs*



# FHFA Office of Inspector General Investigations Division

*Fraud Prevention through Awareness, Investigation & Enforcement*



## Colonial Bank – Taylor, Bean & Whitaker Mortgage Company Investigation and Prosecution



This briefing contains information sensitive to the operations of the FHFA-OIG



# Investigative Agencies



- SIGTARP
- FBI
- FHFA-OIG
- HUD-OIG
- FDIC-OIG
- SEC
- IRS-CID





# Prosecution Team



<b>Eastern District of Virginia</b>	<b>Department of Justice Fraud Section</b>
Charles Connolly	Patrick Stokes
Paul Nathanson	Rob Zink



# TARP Capital Raise



April 1, 2009 – Colonial BancGroup files 8K announcing the signing of a Stock Purchase Agreement, dated March 31, 2009, with investors led by Taylor, Bean & Whitaker Mortgage Corporation pursuant to which Colonial BancGroup would raise \$300 million of additional capital, in order to receive \$550 million in TARP funds



# Case Initiation



- SIGTARP opened an investigation to determine if it was a “round trip” transaction
- SIGTARP Subpoena issued to Colonial Bank and TBW
- Agents learned of concerns that Colonial employees were overstating the value of mortgages



# Teresa Kelly



- Teresa Kelly, Operations Supervisor, Mortgage Warehouse lending Division, Colonial Bank Orlando, Florida, approached in June 2009
- Kelly agreed to cooperate and identified \$500 million “hole”
- Agreed to wear a wire



# Cathie Kissick



- Cathie Kissick, Senior Vice President and Director of Mortgage Warehouse Lending Division
- Approached in July 2009 and agreed to cooperate further



# Desiree Brown



- Desiree Brown, TBW Treasurer
- Approached on August 3, 2009, and agreed to cooperate
- First to identify the Ocala Funding fraud



# Search Warrants

- Search warrants executed August 3, 2009, at TBW and Colonial Bank





# Additional Frauds



1. Sweeping (2002-Dec 2003)	2. Plan B on COLB (Dec. 2003 – Mid 2005)	3. Plan B on AOT (2005 - 2009)	4. Ocala Funding (2005 -2009)	5. TARP Capital Raise (2009)
Lee Farkas -TBW	Lee Farkas -TBW	Lee Farkas -TBW	Lee Farkas -TBW	Lee Farkas -TBW
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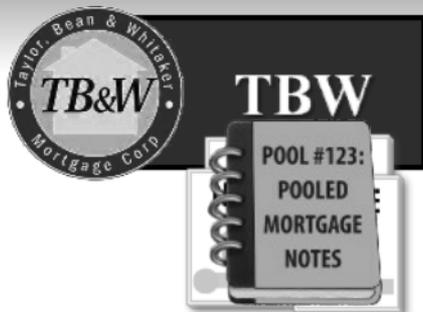


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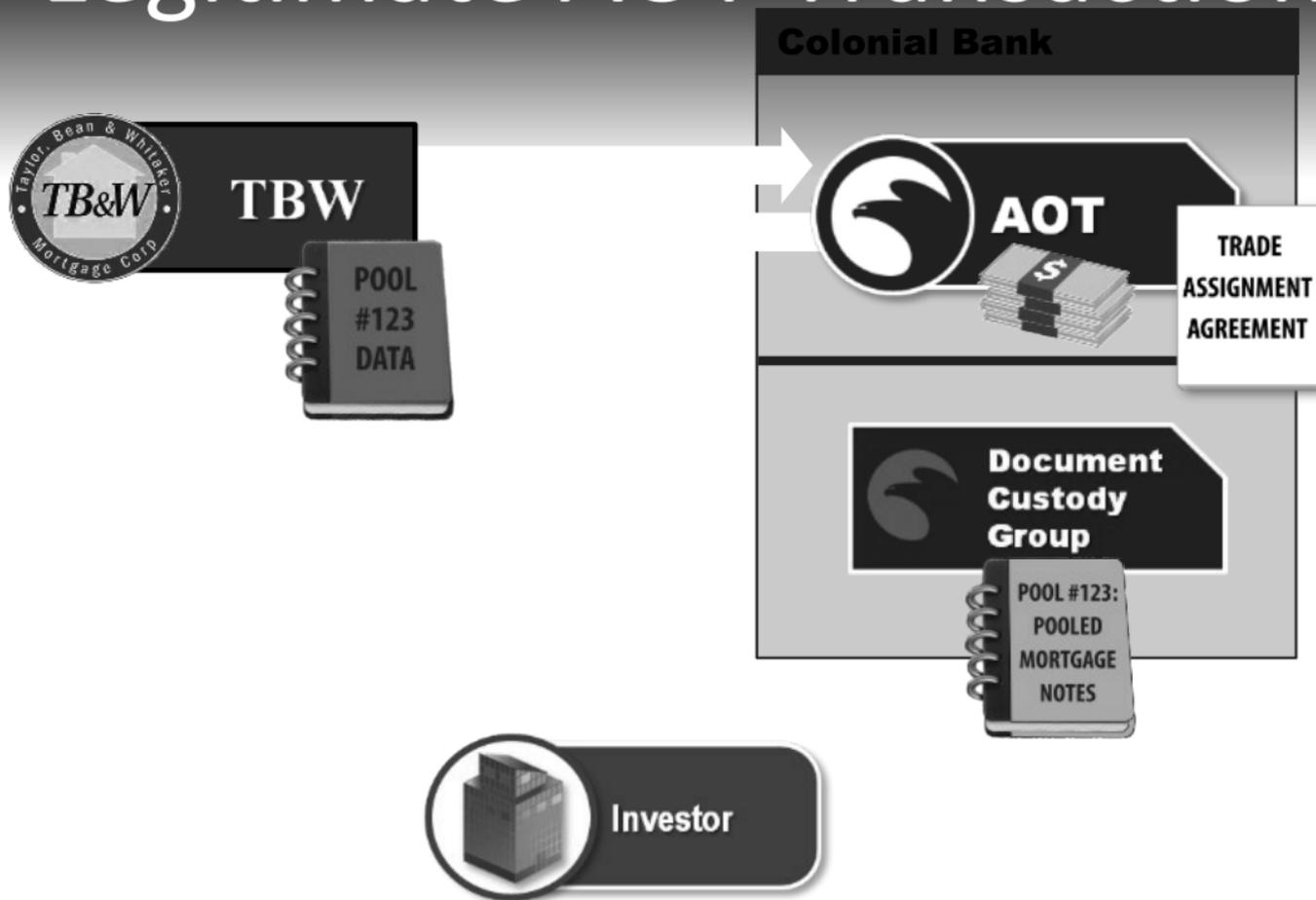
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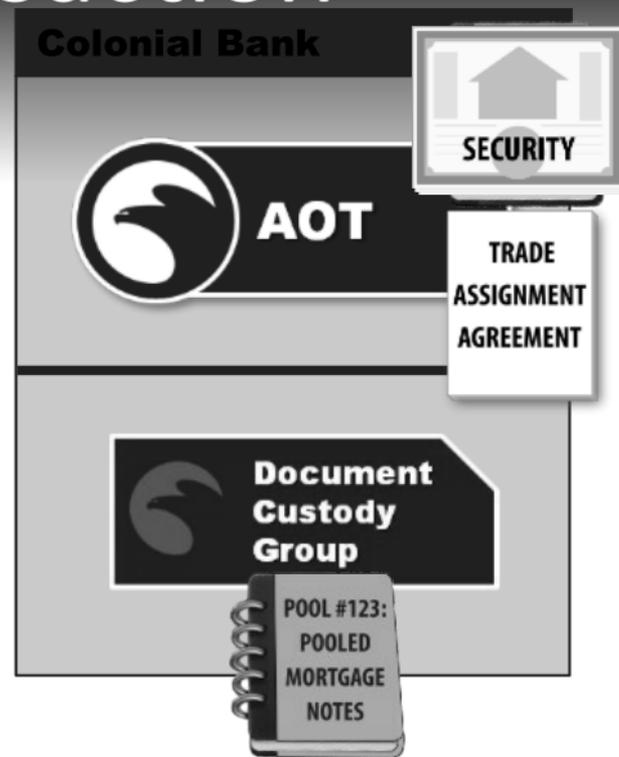
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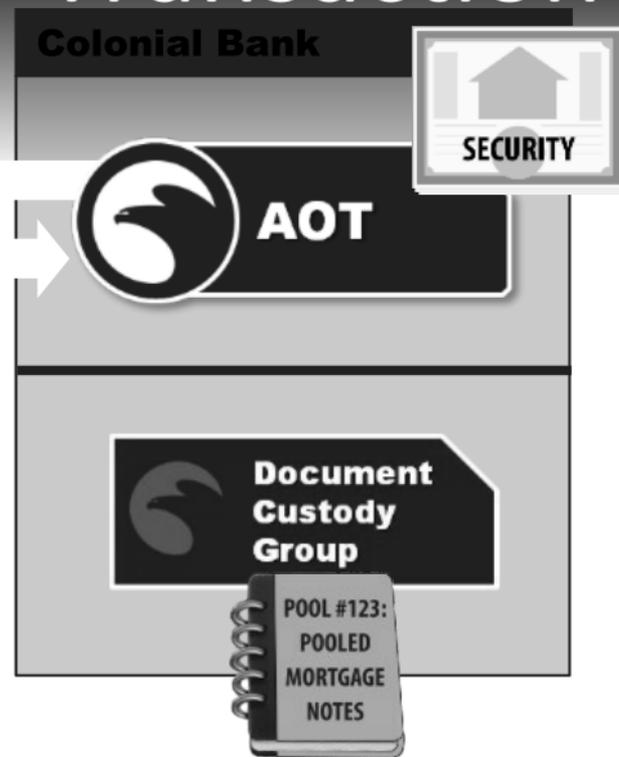
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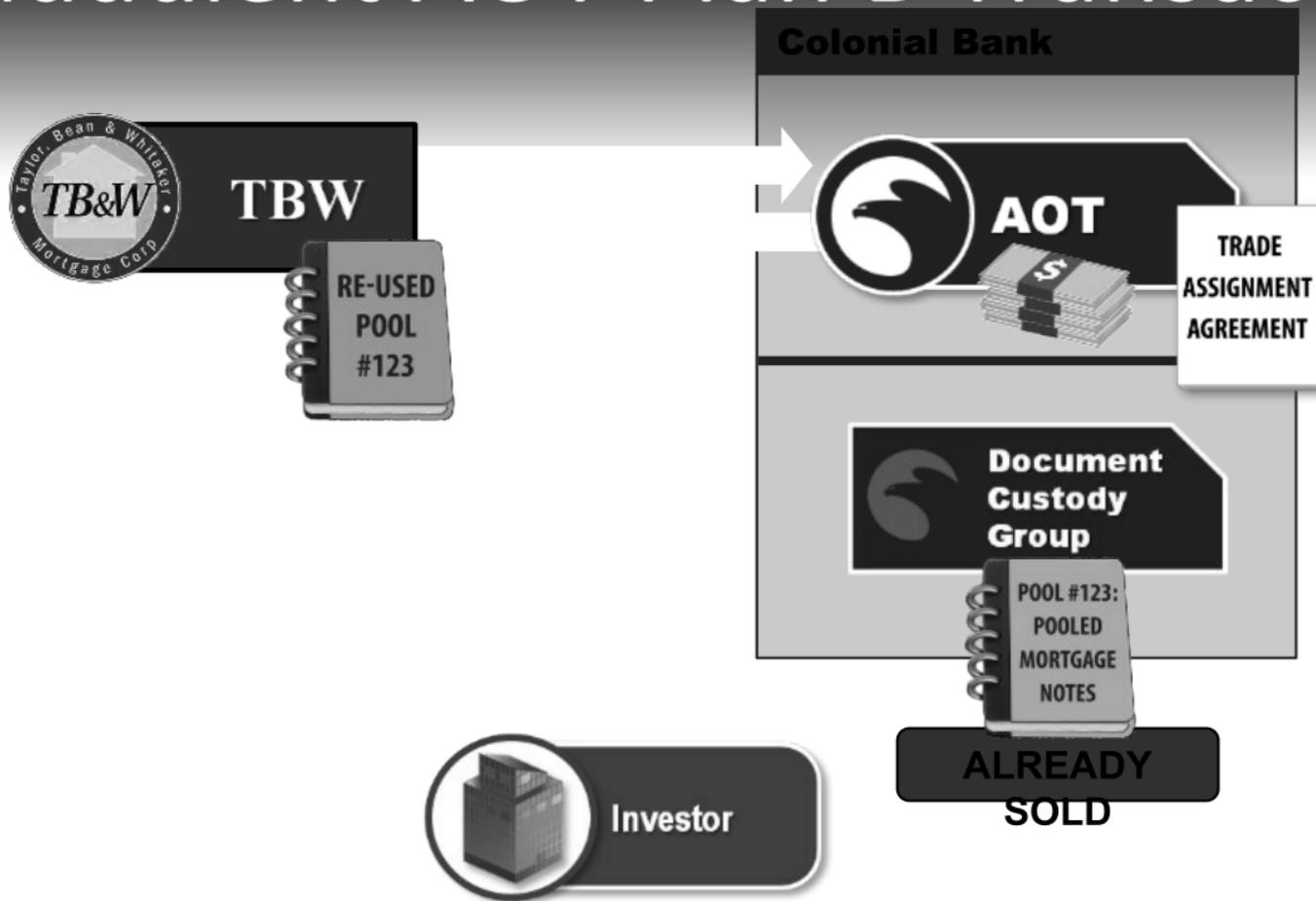
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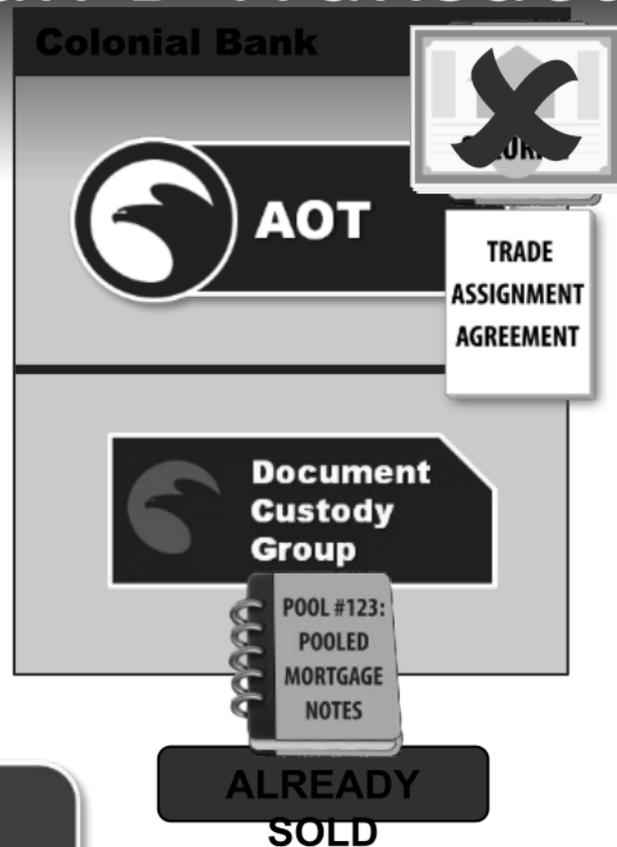
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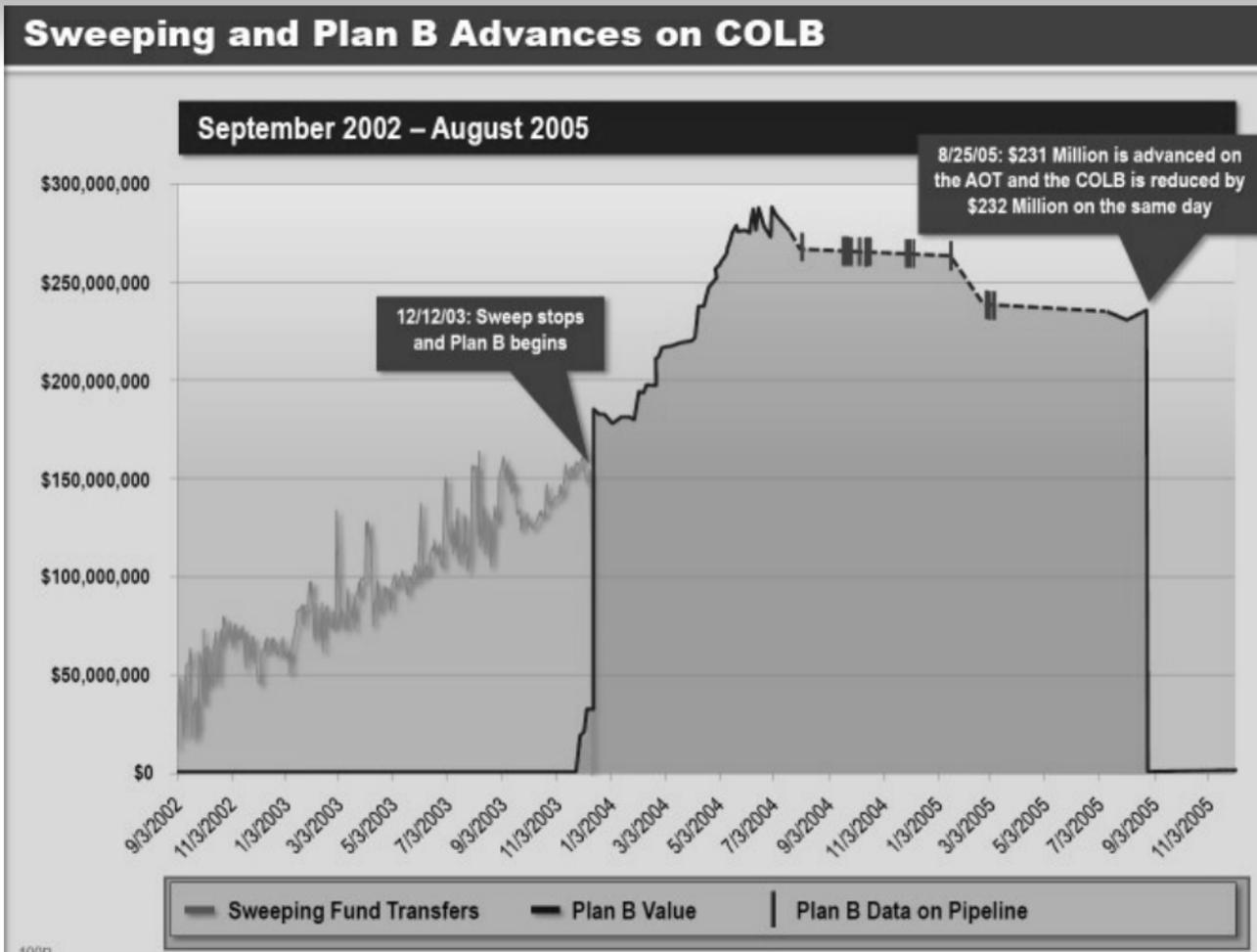
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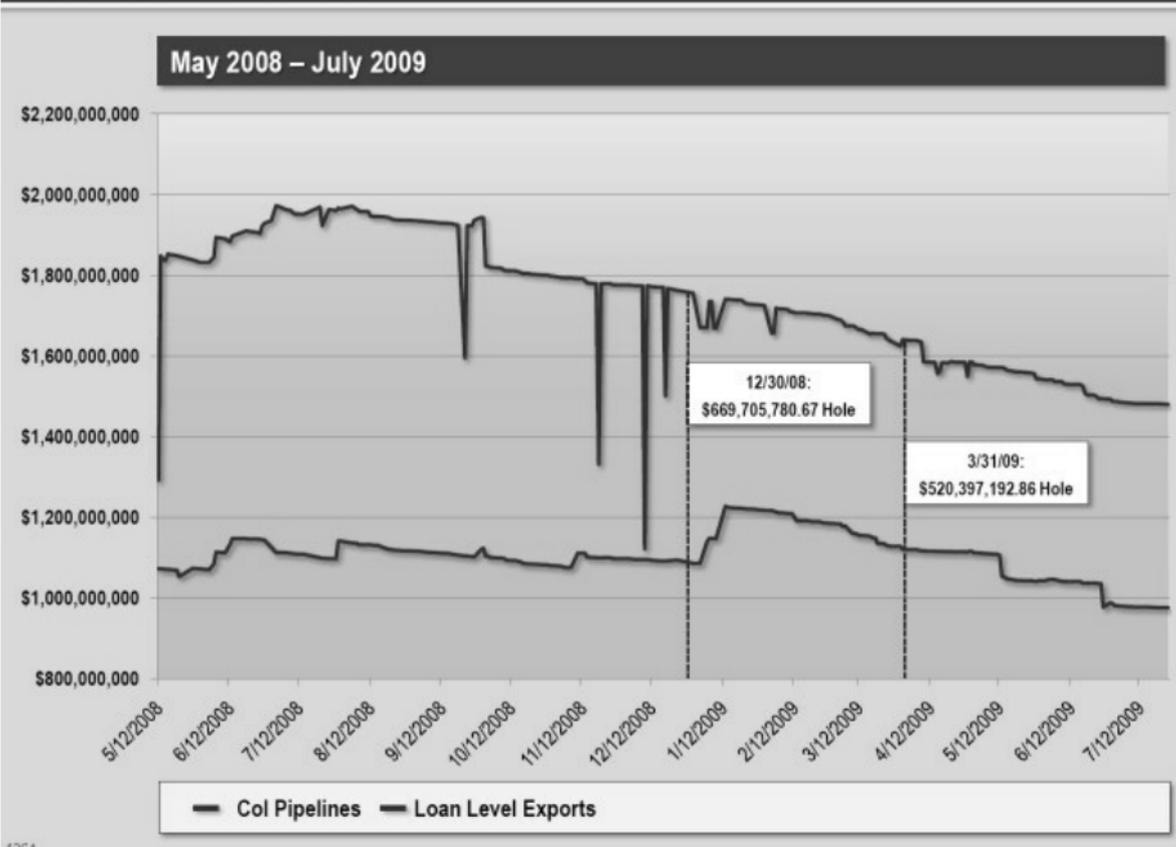




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## Ocala Funding Loan & Cash Collateral Analysis as of 8/3/09

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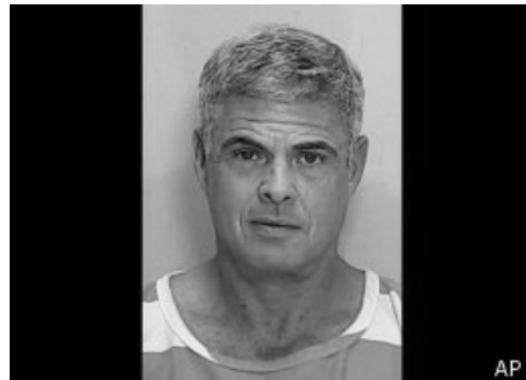
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# Questions





**FHFA**

**Office of Inspector General  
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*Fraud Prevention through Awareness, Investigation & Enforcement*



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**Georgia Real Estate Fraud Prevention Awareness Coalition  
Annual Education Conference  
March 6, 2013**

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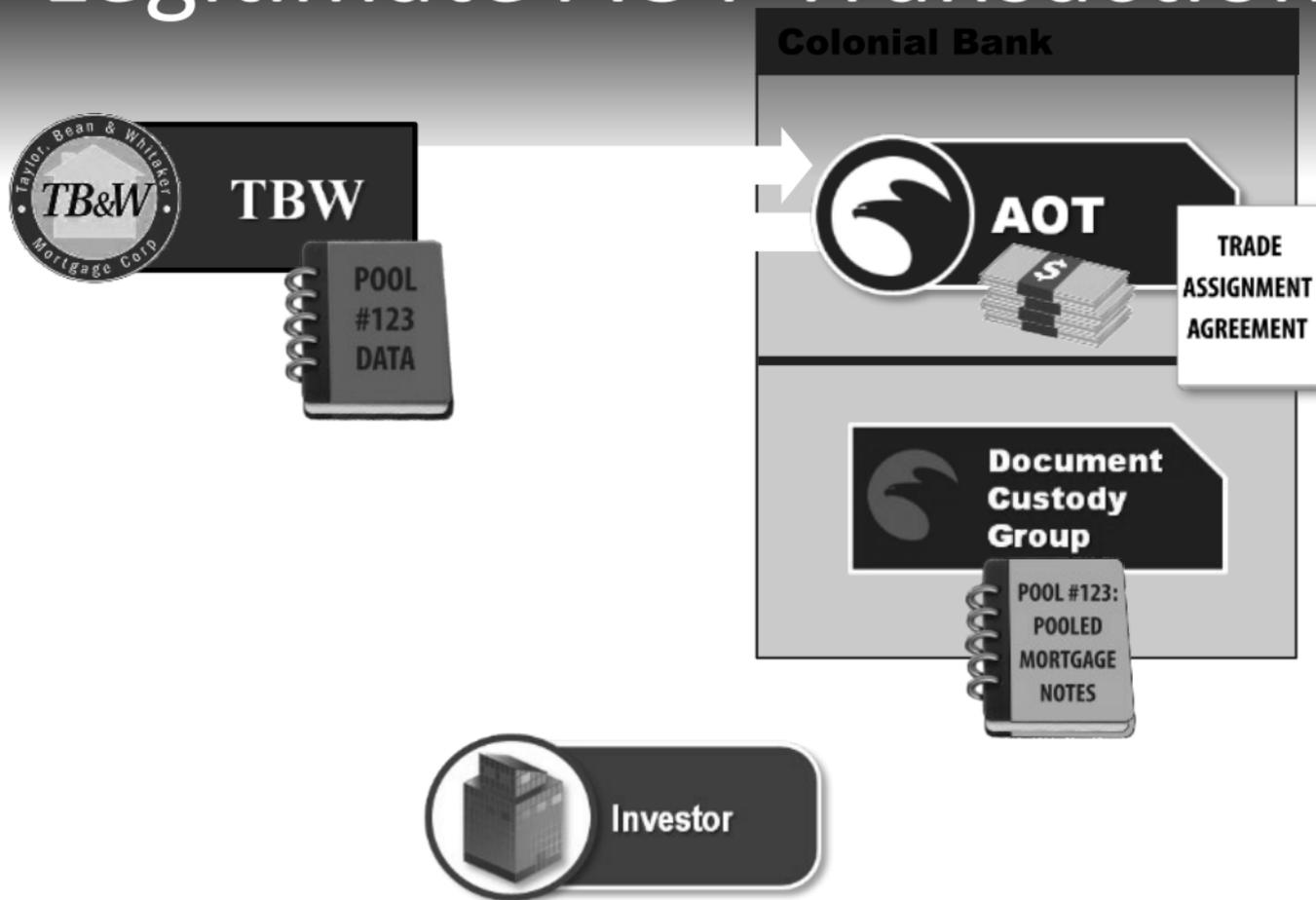
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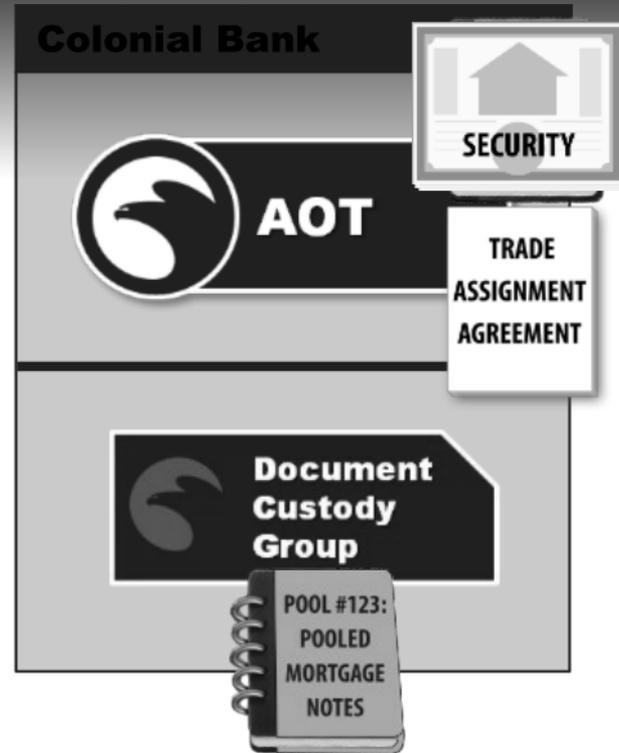
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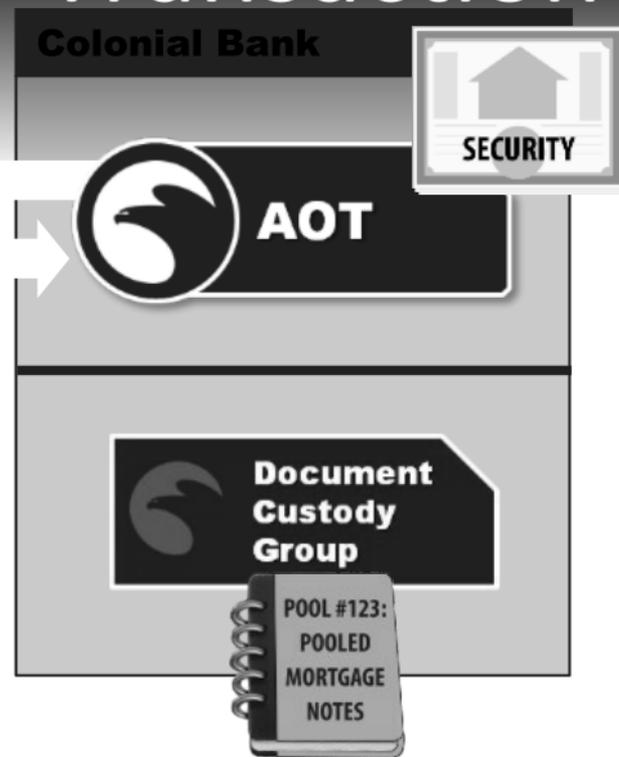
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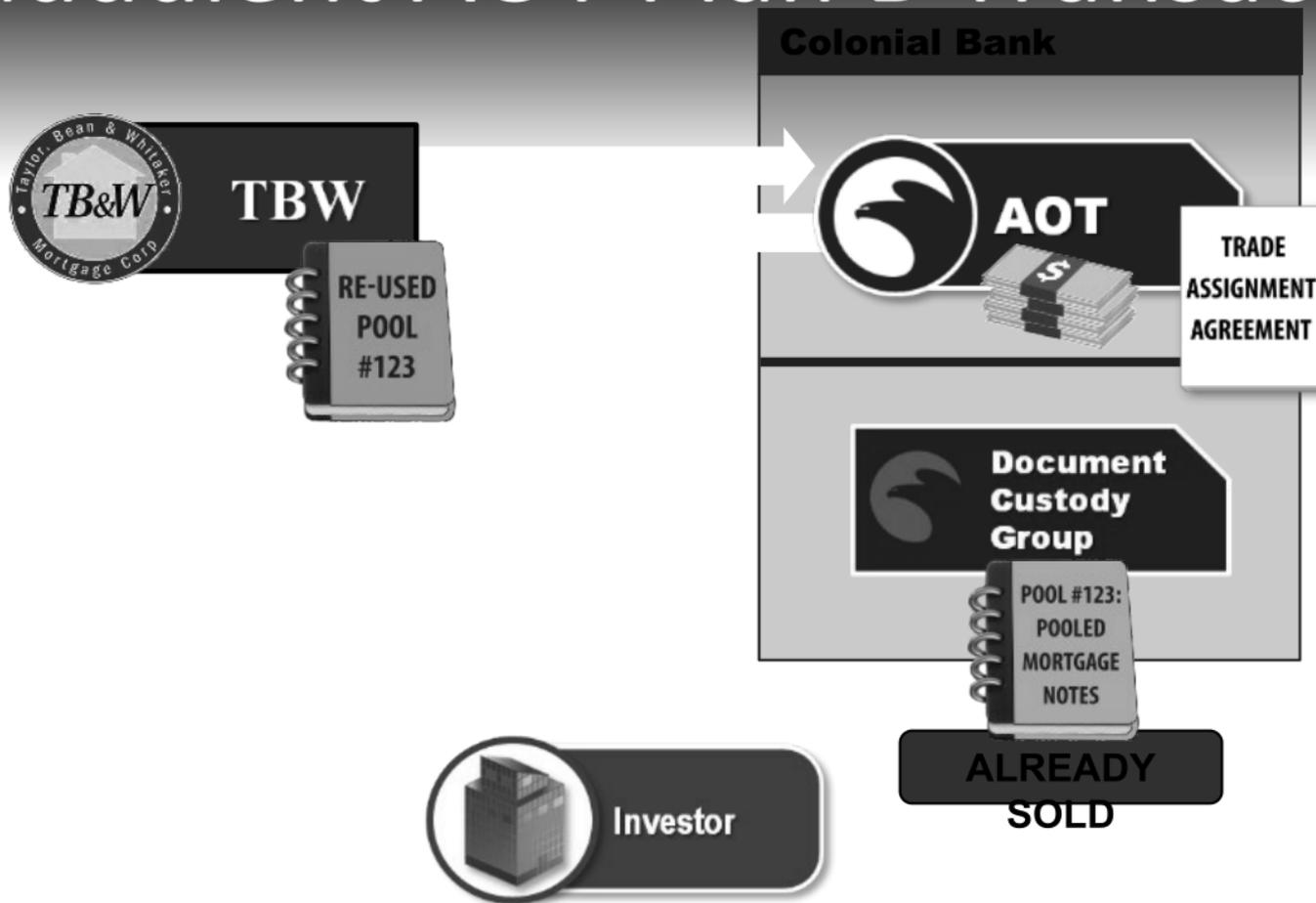
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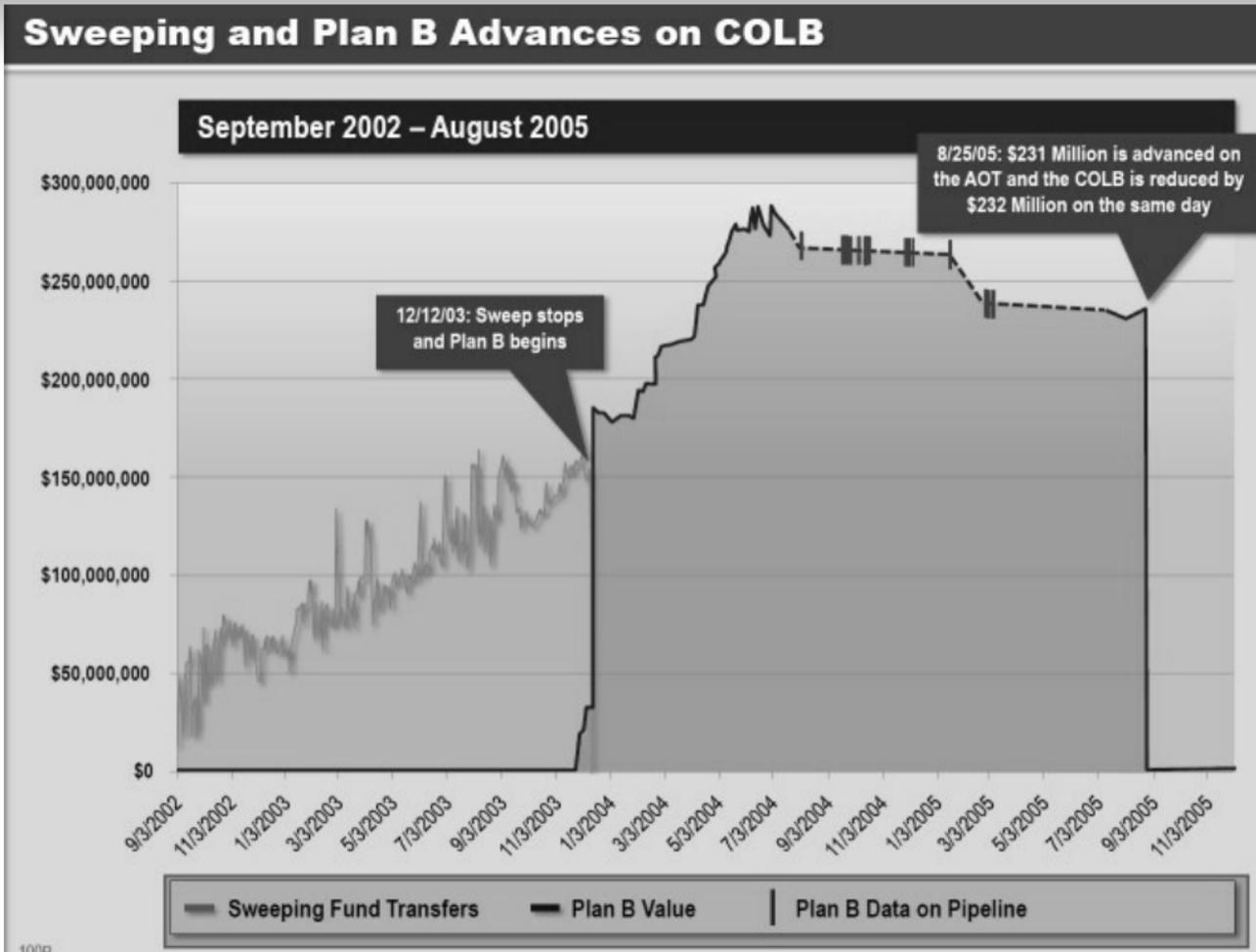
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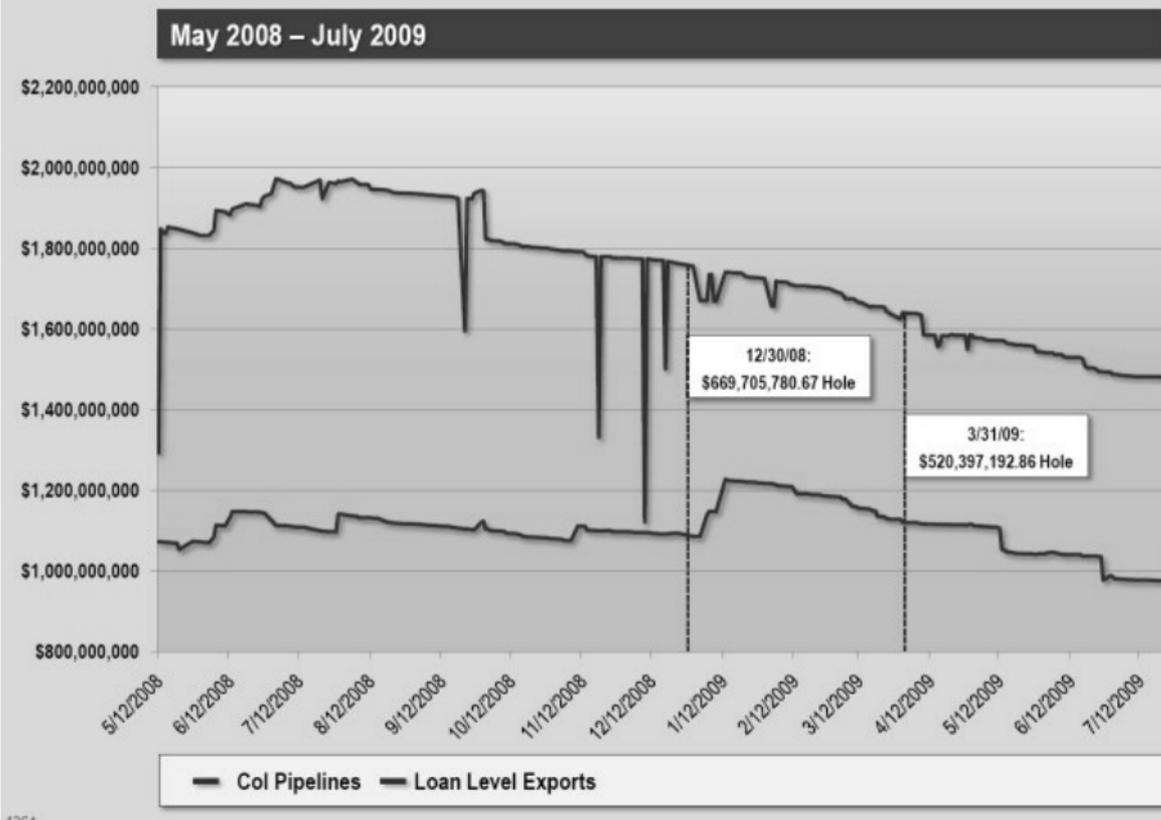




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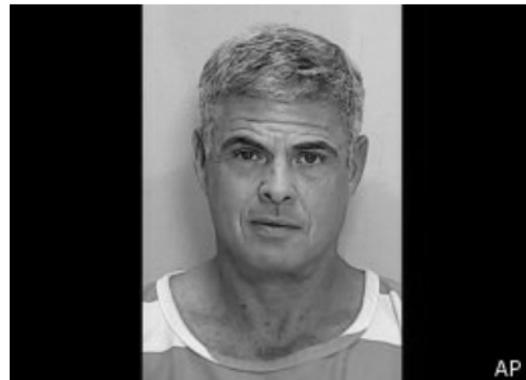
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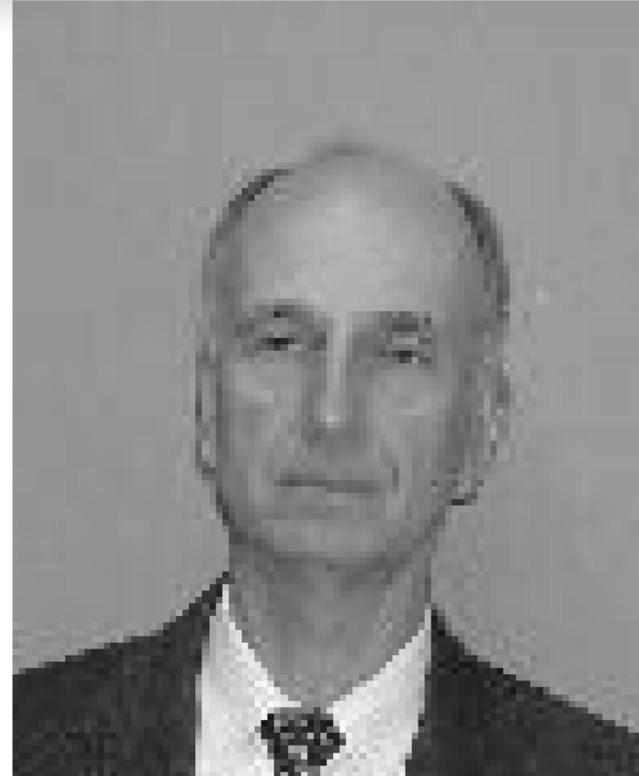




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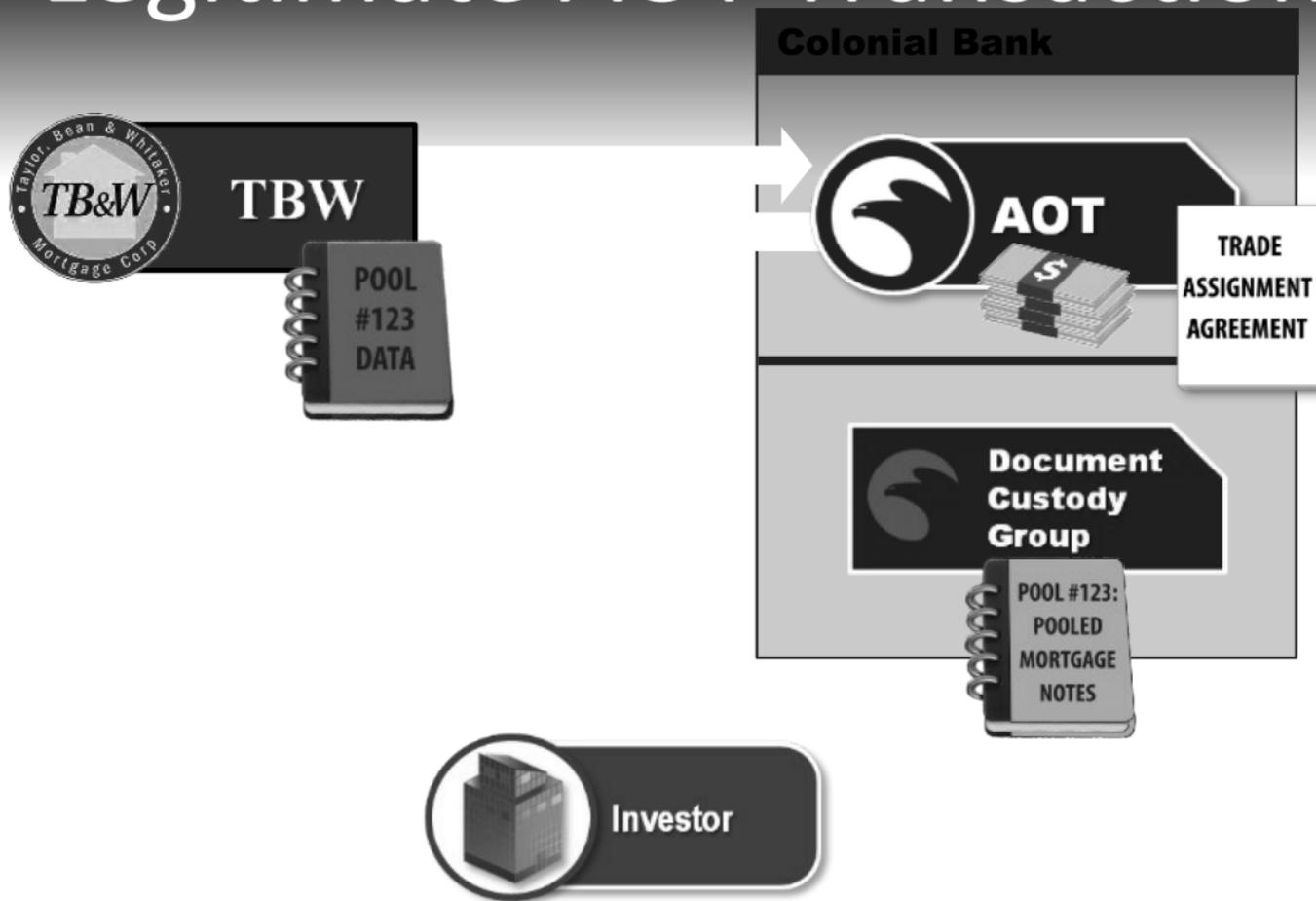
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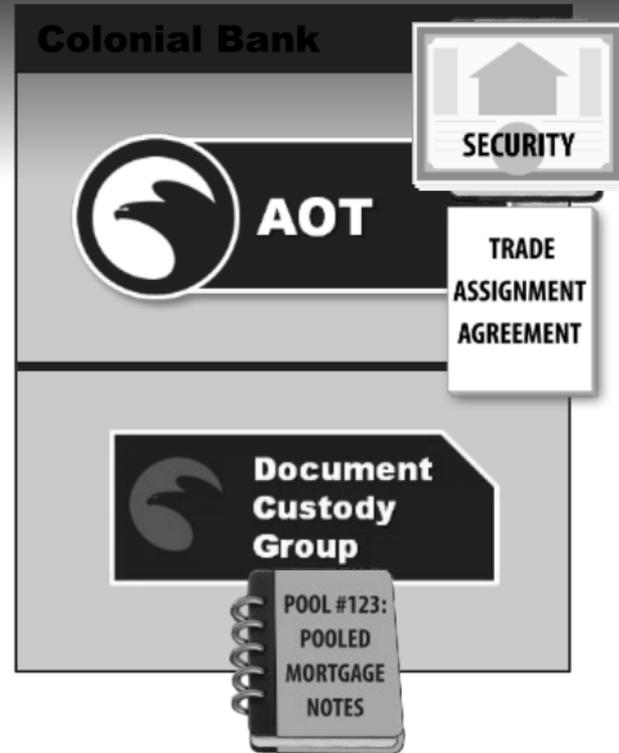
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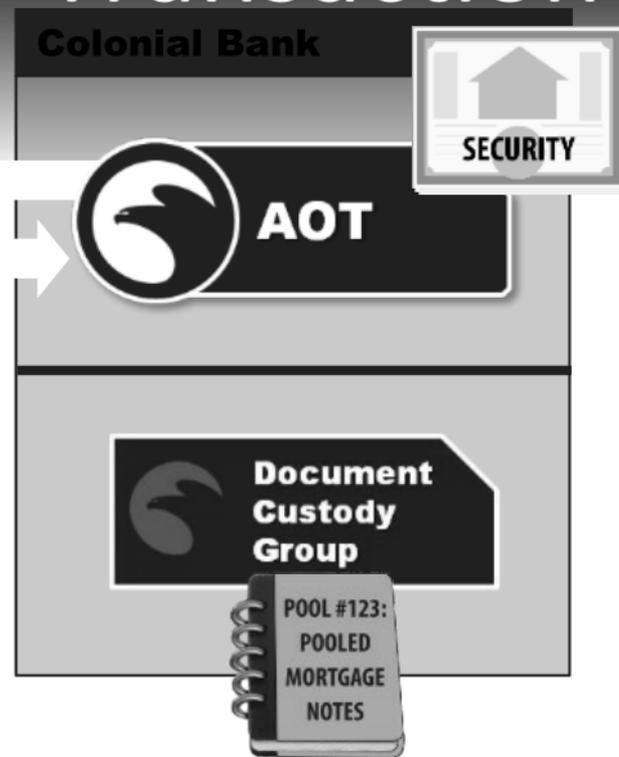
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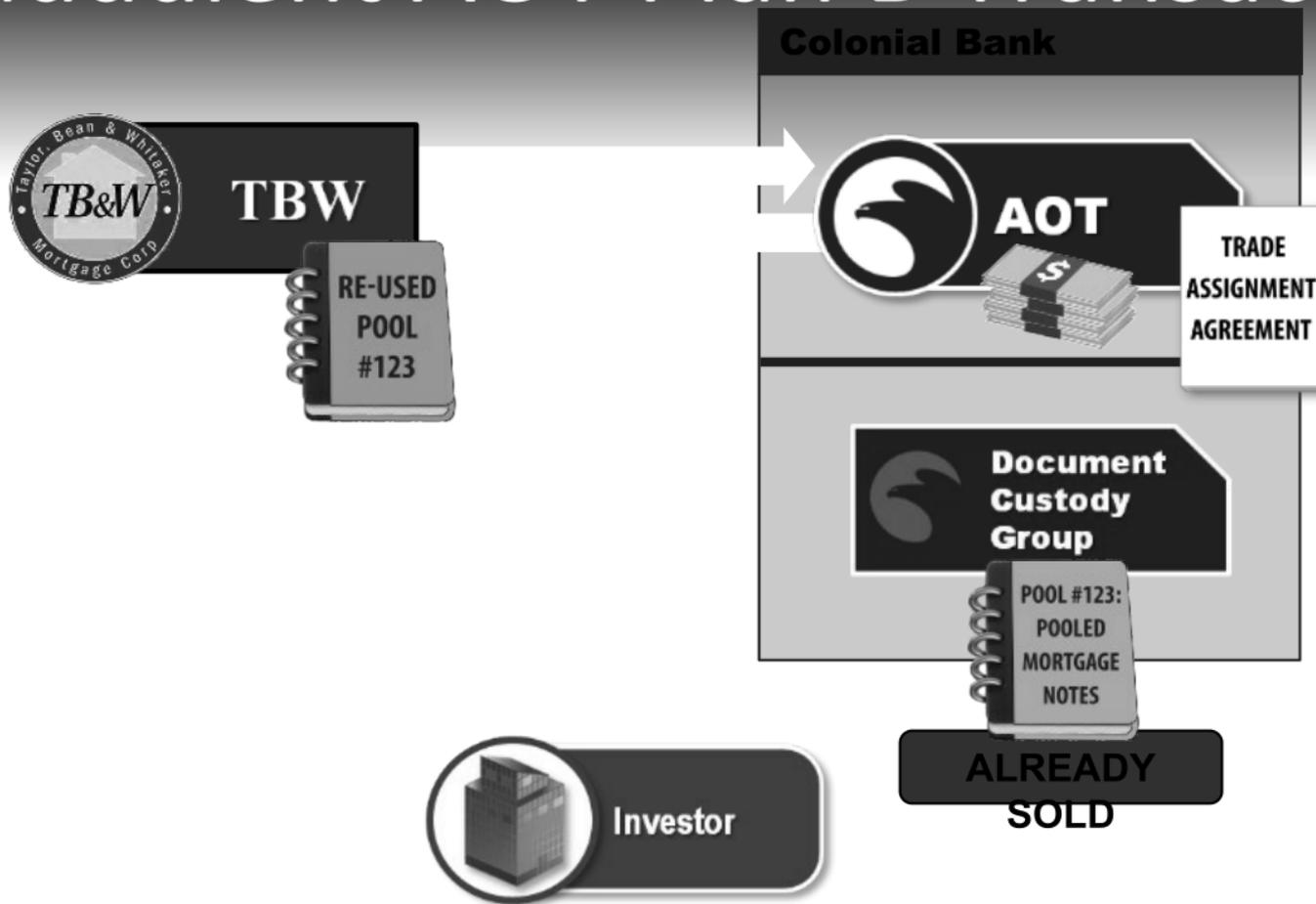
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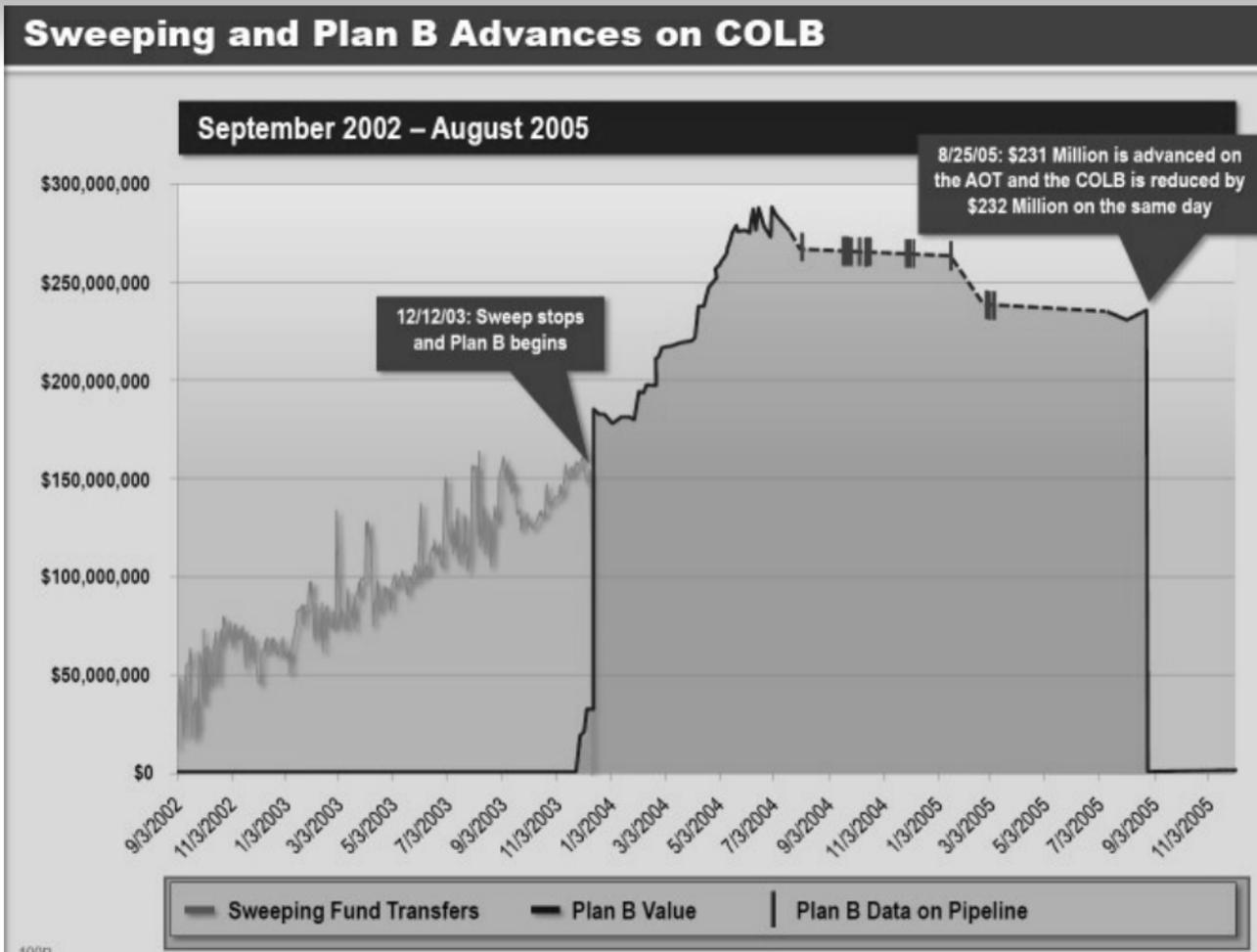
## One Example of an AOT Loan Recycled Through Multiple AOT Pools

## Loan ID #1478144

POOL	11/10/20 08	12/23/20 08	1/12/200 9	1/15/200 9	3/13/200 9	5/1/2009	5/14/200 9	6/11/200 9	6/23/200 9	6/29/200 9	7/28/200 9
69853 9	\$95,458. 55										
69879 7		\$97,833. 12									
58163 9			\$100,848. 08								
57521 7				\$100,581. 37							
70830 7					\$100,016. 94						
70859 0						\$99,994. 58					
71623 9							\$99,994. 58				
71629 5								\$99,994. 58			
71637 9									\$99,994. 58		
71637 9										\$100,632. 88	
71647 8											\$100,747. 84



# Transition from “Sweeping” to Plan B

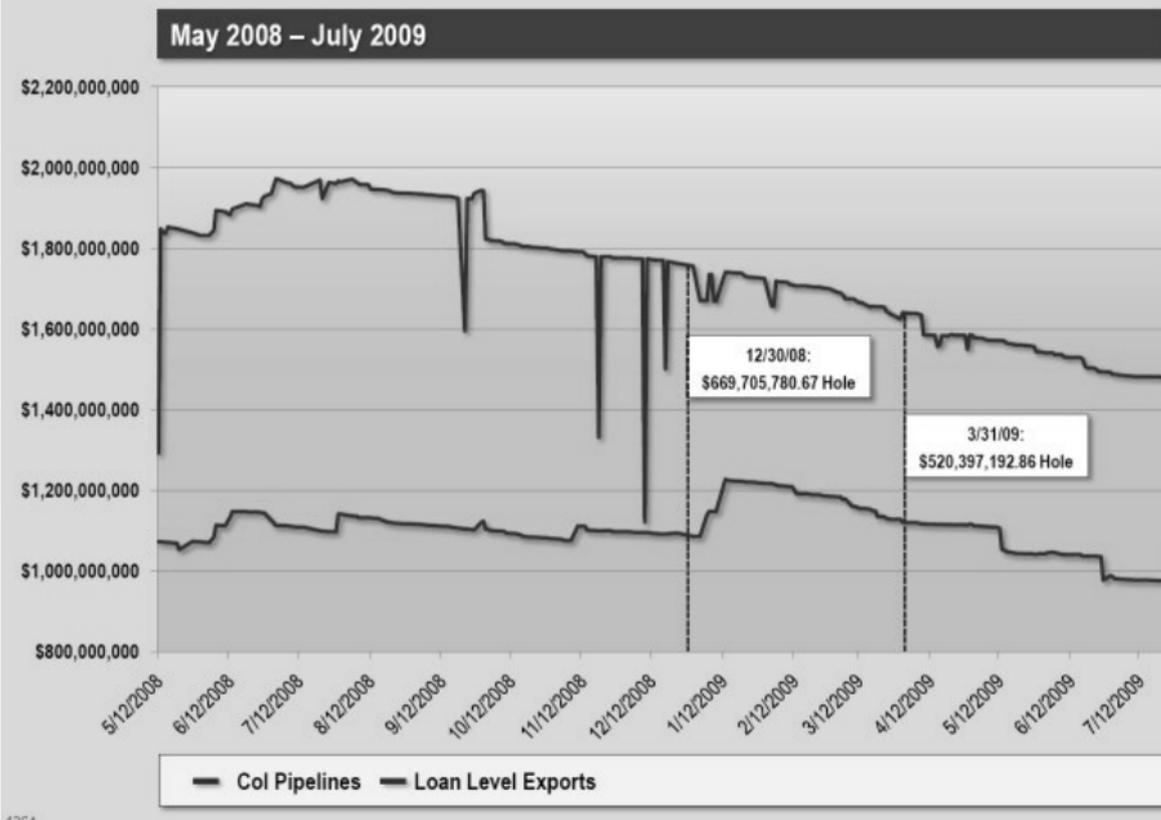




# The Size of the "Hole" in Assignment of Trade



## Historical AOT Hole





# Ocala Funding



## Ocala Funding Loan & Cash Collateral Analysis as of 8/3/09

Category	9,301 Ocala Funding Loans		
	Loan Count	Asset Amount	Collateral Amount
Active Loans	766	\$ 154,119,293	\$ 154,119,293
Cash Collateral 8/3/09	n/a	5,928,083	5,928,083
REO	-	-	X
Double Sold	3,609	772,300,743	X
Triple Sold	4,857	899,180,373	X
Lee Loans	-	-	X
Paid in Full	65	13,624,231	X
Charge-Off	-	-	X
Not in Servicing	4	760,866	X
<b>Total</b>	<b>9,301</b>	<b>\$ 1,845,913,588</b>	<b>\$ 160,047,375</b>



# TARP Fraud



- False Financial statements were submitted to support Colonial's application for \$553 million in TARP funds
- Funds were diverted from Ocala Funding to the capital raise escrow account
- Investors were added without their knowledge or approval



# Lee Loans



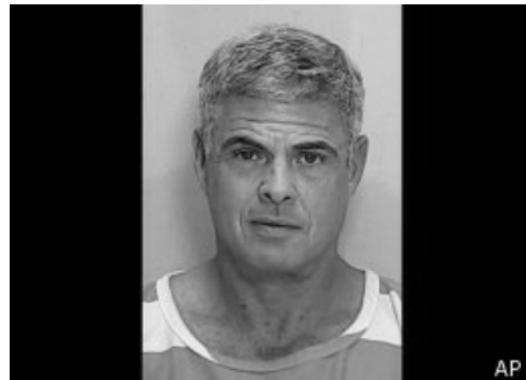
- Loans authorized by Farkas to himself and friends that did not have to be paid back
- He used these mortgages to purchase properties, airplanes, and businesses sometimes in other peoples names



# Indictment-Arrest



- Lee Bentley Farkas was indicted and arrested on June 15, 2010





# Desiree Brown



- Desiree Brown, was the former TBW Treasurer
- Brown was involved in the Sweeping, Plan B, and Ocala Funding frauds
- Brown pled guilty to conspiracy to commit securities fraud on February 24, 2011
- Brown was sentenced on June 10, 2011 to 72 months (6 years)



# Teresa Kelly



- Teresa Kelly was the former Colonial Bank Operations Supervisor
- Kelly was involved in the Sweeping 7 Plan B frauds
- Kelly pled guilty to conspiracy on March 16, 2011
- Kelly was sentenced on June 17, 2011 to 12 months imprisonment, 3 months to serve and 9 months in a half way house



# Cathie Kissick



- Cathie Kissick was the former Colonial Bank Director Mortgage Warehouse Lending Division
- Kissick was involved in the Sweeping & Plan B frauds
- Kissick pled guilty to conspiracy to commit securities fraud on March 2, 2011
- Kissick was sentenced on June 17, 2011 to 96 months (8 Years) in prison.



# Ray Bowman



- Bowman was the former TBW President
- Bowman was involved in the Sweeping and Plan B frauds.
- Pled guilty to conspiracy and lying to federal agents
- Sentenced on June 10, 2011 to 30 months in prison



# Sean Ragland



- Former TBW Senior Financial Analyst
- Ragland was involved in the OF Fraud
- Ragland Pled guilty to conspiracy on March 31, 2011
- Ragland was sentenced on June 21, 2011 to 12 month imprisonment, 3 months to serve and 9 months in a half way house



# Paul Allen



- Allen was the former TBW CEO
- Allen was involved in the OF and TARP Fraud
- Plead guilty on April 1, 2011 to conspiracy and submitting false documents to HUD due to his participation in the Ocala Funding and TARP frauds
- Allen was sentenced on June 21, 2011 to 27 months in prison.



# Delton De Armas



- De Armas was the former TBW CFO
- De Armas was involved in the OF Fraud
- Pleaded guilty to conspiracy to commit bank fraud and false statements
- De Armas was sentenced on June 15, 2012 to 5 years in prison



# Trial



- 10 day trial
- Approximately 2 dozen witnesses
- Over 300 Government Exhibits
- We were challenged in explaining how the complex mortgage market operated to jurors in an easy-to-understand manner
- We wanted to avoid having to call industry experts to explain industry and key terms
- We used insiders to greatest extent possible





# Trial



- Judge limited government to 30 minute opening statement
- We used numerous summary charts and slides to explain complex counts
- On April 19<sup>th</sup>, after less than one full day of deliberation, the jury convicted Farkas on all 14 counts
- Immediately taken into custody after verdict



# Sentence



Lee Farkas was Sentenced to 30 years in prison





# Forfeiture/Restitution



Judge Brinkema ordered the forfeiture of over \$38 million in properties and cash and restitution in the following amounts of:

- Farkas:           \$3,507,743,557
- Brown:           \$3,507,743,557
- Allen:            \$2,611,909,882
- Ragland:         \$2,611,909,882
- Bowman:         \$ 500,524,882
- Kissick:          \$ 500,524,882
- Kelly:            \$ 500,524,882



# Losses/Impact



- Colonial Bank-FDIC
- BNP Paribas
- Deutsche Bank
- GNMA/FHA
- Freddie Mac
- Investors
- TBW employees



# Red Flags/Lessons Learned



- Fannie terminating their relationship with TBW for fraud without making any type of referral;
- TBW's unusually close relationship and reliance on Colonial Bank;
- MWLD claimed to be one of the few profitable divisions of Colonial but this was during the mortgage melt down with significant investment in the Florida residential real estate market;
- Colonial Bank changing regulators quickly during a review;
- TBW was a thinly marginalized company and was trying to buy the bank;
- Farkas led an extravagant lifestyle and the décor of the TBW offices was "over the top"



# Questions



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