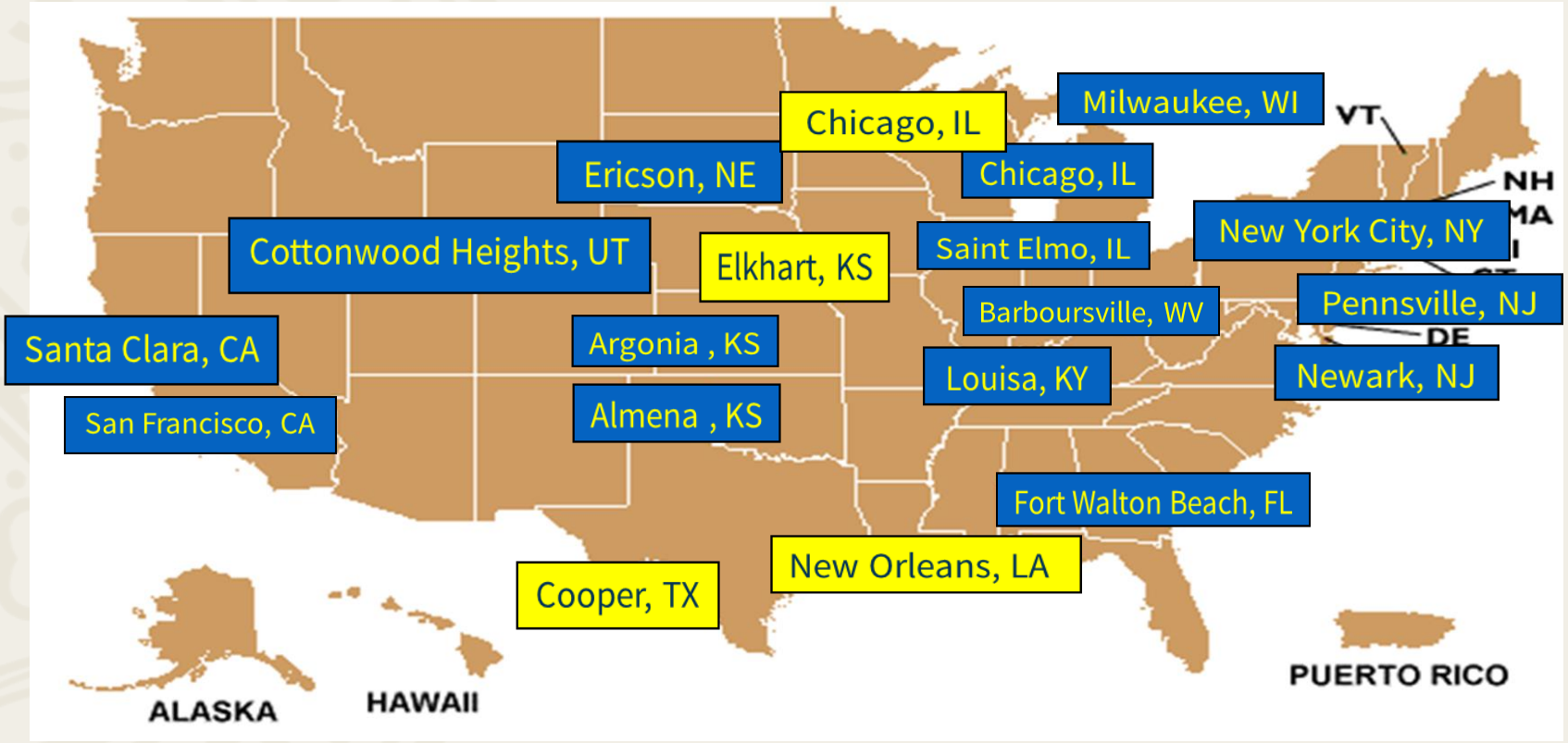
# Financial Institution Fraud: Observations from the FDIC

October 20, 2023

**Michael B. Benardo**
Associate Director
Anti-Money Laundering & Cyber Fraud Branch

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

# Frauds Leading to Bank Failures



# Frauds Leading to Bank Failures




**First NBC Bank**
**New Orleans, Louisiana**

# First NBC Bank

- Opened May 2006.
- Grew rapidly to become a $5 billion institution with 40 branches in Louisiana and Florida.
- Annualized asset growth of 40 percent using a high reliance on volatile funding.
- Significant concentrations in trade receivables and complex tax credit investments.
- Several subsidiaries were used to facilitate investments in federal and state tax credit investment programs.

# First NBC Bank

Failure: April 28, 2017

Total Assets: $4.74 billion

Estimated Cost: $996.9 million

- The 2015 external audit identified significant accounting errors related to the tax credit investments. Restatements reduced earnings by approximately $54 million.
- Deposit run-offs further impacted liquidity.
- Liberal underwriting and poor credit administration led to significant loan losses.

# First NBC Bank

- President and CEO Ashton J. Ryan, Jr. guilty of 43 counts of disguising the true financial status of certain borrowers and concealing the true financial condition of the bank from the Board, auditors, and examiners.
- Several borrowers used bank money to pay Ryan individually or fund his businesses.
- Sentenced to 14 years imprisonment and a three-year term of supervised release.

# First NBC Bank

- Board of Directors (now prohibited from banking)
- Chief Credit Officer William J. Burnell (plead guilty)
- Executive Vice President Robert B. Calloway (plead guilty)
- Senior Vice President Fred V. Beebe (not guilty)
- General Counsel Gregory St. Angelo (plead guilty)
- Borrower Gary R. Gibbs (plead guilty)
- Borrower Warren Treme (plead guilty)
- Borrower Kenneth Charity (plead guilty)
- Borrower Jeffrey Dunlap (plead guilty)
- Borrower Arvind Vira (plead guilty)
- Borrower Frank J. Adolph (plead guilty)

# Frauds Leading to Bank Failures




**Washington Federal Bank for Savings**
**Chicago, Illinois**

# Washington Federal Bank for Savings

- Insured in 1989.
- Operated two offices in the Chicago area.
- Loan mix was mostly residential lending with some development and commercial real estate loans.
- Funding structure was mostly core deposits
- Regarded as “strong” for five consecutive examinations prior to failure.

# Washington Federal Bank for Savings

Failure: December 15, 2017

Total Assets: $166.3 million

Estimated Cost: $68.0 million

- Whistleblower came forward to the OCC examiners.
- Identified 29 loans totaling $68 million where payments had been falsified.
- Examiners determined losses of at least $61.5 million and moved to appoint FDIC as receiver.

# Washington Federal Bank for Savings

- President John F. Gembarra – deceased five days after the Board suspended him from the institution.
- Ordered employees to shred delinquent loan notifications for "Friends of John."
- Placed delinquent loans and foreclosed properties in names of other bank borrowers.
- Created an illusion that no borrowers were delinquent or had problems.

# Washington Federal Bank for Savings

## FALSIFYING RECORDS

- CFO Rosallie Corvite – plead guilty
- VP James Crotty – plead guilty
- Corporate Secretary Jane Iriondo – plead guilty
- Loan Servicer Alicia Mandujano – plead guilty
- Loan Processor Cathy Torres – plead guilty
- Branch Manager Brian Fong – plead not guilty with a deferred prosecution agreement
- Board Members William Mahon, George Kozdemba, and Janice Weston (SVP and Compliance Officer) – plead guilty

# Washington Federal Bank for Savings

- Attorney Robert M. Kowalski – plead guilty to embezzlement and fraud charges
- Attorney Jan R. Kowalski – plead guilty to concealment
- William A. Kowalski – deferred prosecution agreement
- Attorney Patrick D. Thompson – convicted of making false statements to the FDIC and filing false tax returns
- Real Estate Developers Marek Matczuk and Miroslaw Krejza – convicted on conspiring to commit embezzlement and falsify bank records
- Developer Boguslaw Kasprowicz – plead guilty to embezzlement

# Frauds Leading to Bank Failures




**The Enloe State Bank**
**Cooper, Texas**

# The Enloe State Bank



https://www.youtube.com/watch?v=hX1TzH_d1f0

# The Enloe State Bank

Failure: May 31, 2019

Total Assets: $36.7 million

Estimated Cost: $27.0 million

- President Anita Gail Moody originated and concealed many fraudulent loans over many years.
- Estimated amount of the fraudulent loans was $11 million.
- Vice President Jeannie Swaim also created fake loans totaling $411,000.

# Frauds Leading to Bank Failures




**Heartland Tri-State Bank**
**Elkhart, Kansas**

# Heartland Tri-State Bank

Failure: July 28, 2023
Total Assets: $139.0 million
Estimated Cost: $54.2 million

FROM MEDIA REPORTS:

- Cryptocurrency investments.
- Wire Transfers.
- Immediate insolvency.

# Notable Attributes of Financial Institution Fraud Failures

- Dominant senior management
- Resistance towards regulatory feedback
- Lack of robust policies and procedures
- Poor internal controls
- Inadequate oversight of system access

# Expectations from Examiners

- Code of Ethics / Conduct
- Loan Underwriting and Credit Administration Policies
- Audit Policy and Procedures
- Insider and Affiliate Relationship Transactions

# Expectations from Examiners

- System access controls
- Segregation of duties
- Regular audit reviews
- Anti-fraud training

# Insider Fraud – Prohibition Actions

| Operational Area | FDIC | FRB | OCC | Total |
|---|---|---|---|---|
| Fixed Assets | 1 | 0 | 1 | 2 |
| BSA | 0 | 0 | 2 | 2 |
| Unknown | 1 | 0 | 2 | 3 |
| Trust | 3 | 0 | 1 | 4 |
| FX | 2 | 1 | 1 | 4 |
| HR | 3 | 2 | 1 | 6 |
| Personal | 2 | 8 | 3 | 13 |
| COVID-Related | 2 | 13 | 1 | 16 |
| Loans | 21 | 6 | 6 | 33 |
| Senior Management | 20 | 4 | 14 | 38 |
| Ops | 48 | 11 | 23 | 82 |
| Total | 103 | 45 | 55 | 203 |

Source: Public notification of prohibition actions from FDIC, FRB, and OCC (1Q2020 – 2Q2023)

# Frauds Affecting Consumers

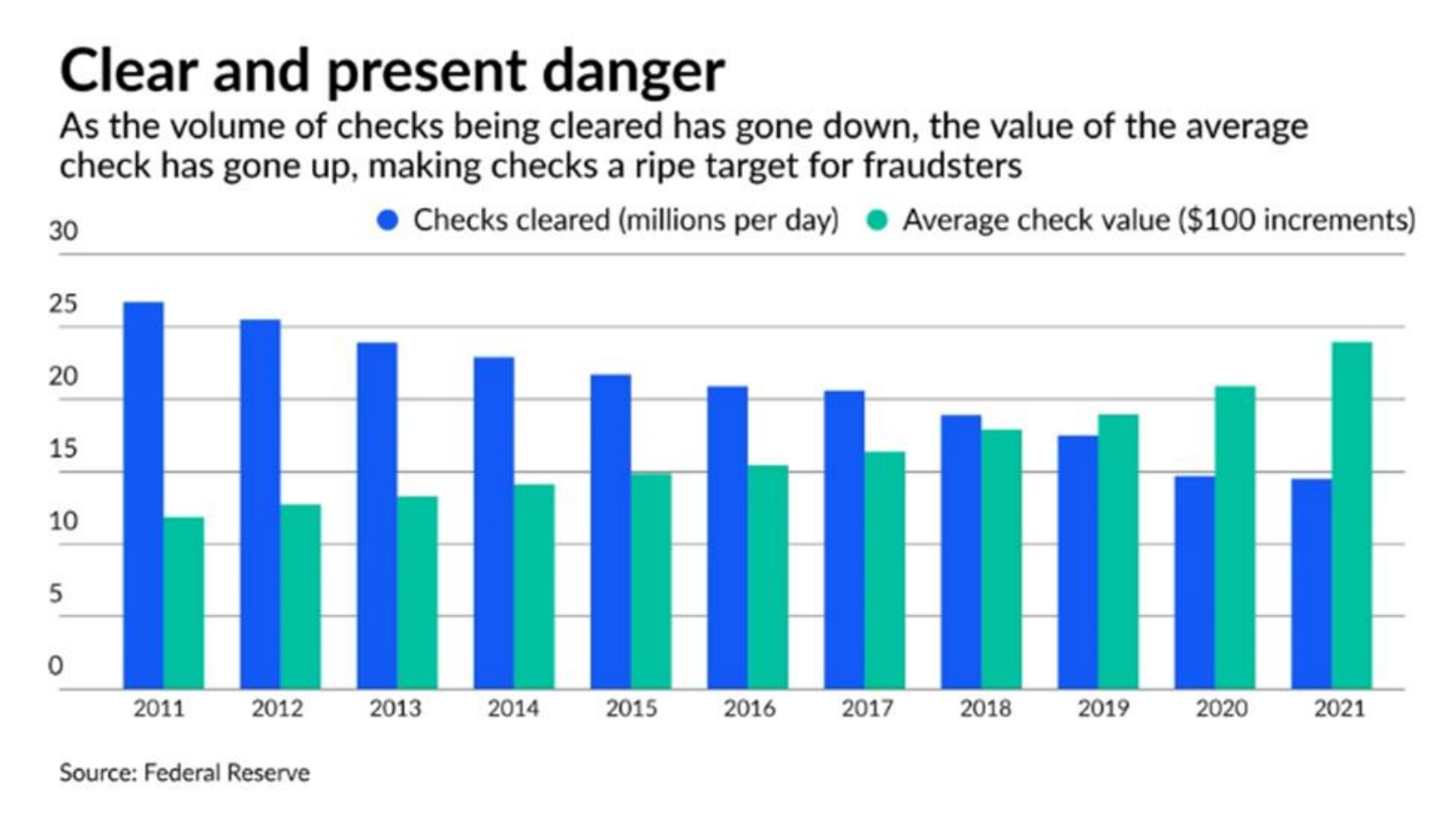
- Check Fraud – stolen checks; check washing
- Synthetic Identity Fraud - stolen personally identifiable information (PII) used to fabricate an identity
- Pig Butchering Scams – promise of high return on investment involving crypto assets
- Fake Bank Websites

# Check Fraud

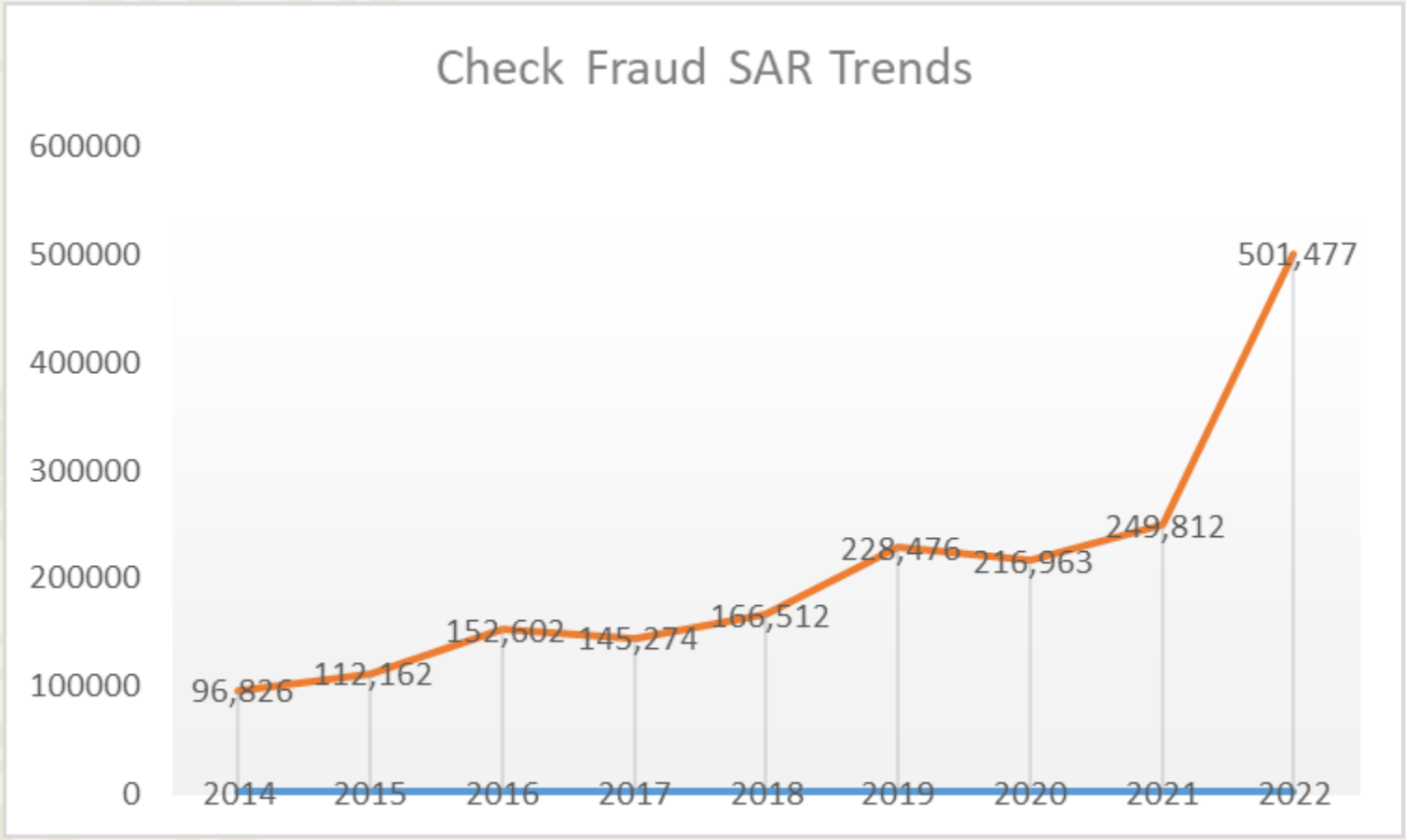
"With the decline in check usage, why are financial institutions and merchants seeing an increase in fraud losses related to checks? The simple answer is because checks are easy to counterfeit or alter."

*~ Take On Payments Blog, Retail Payments Risk Forum, Federal Reserve Bank of Atlanta*

# Check Fraud


Clear and present danger
As the volume of checks being cleared has gone down, the value of the average check has gone up, making checks a ripe target for fraudsters
Checks cleared (millions per day)
Average check value ($100 increments)
30
25
20
15
10
5
0
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Source: Federal Reserve

# Check Fraud

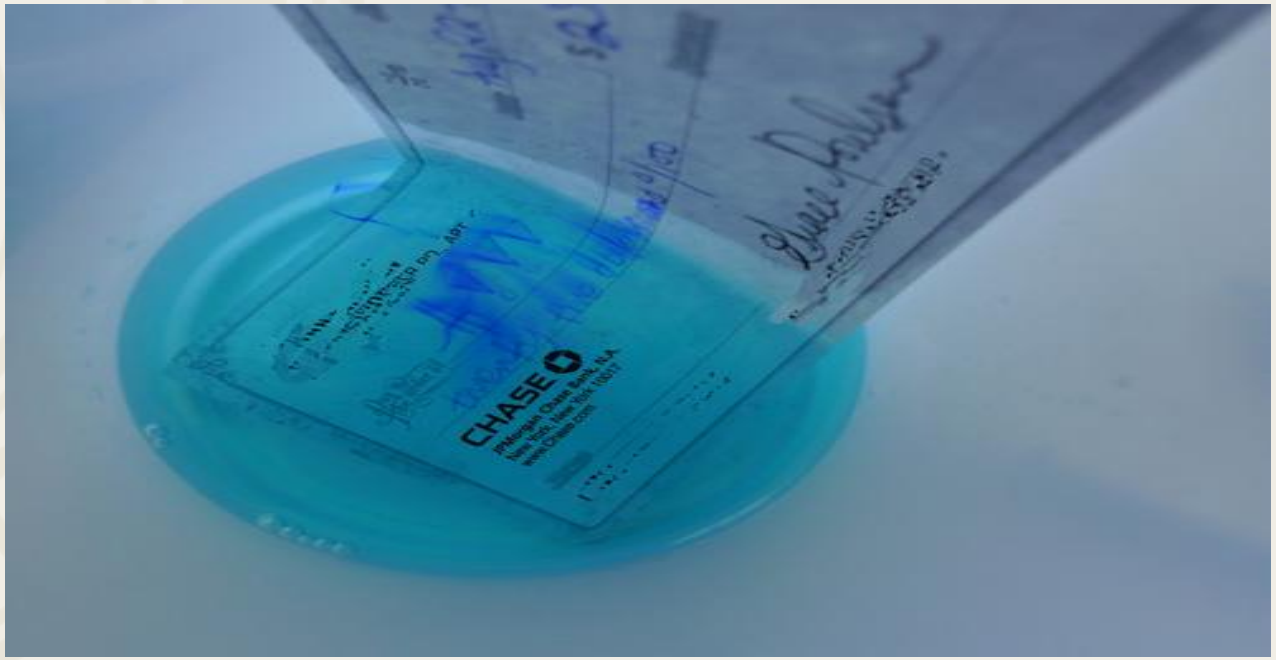

Check Fraud SAR Trends
600000
500000
400000
300000
200000
100000
0
96,826
112,162
152,602
145,274
166,512
228,476
216,963
249,812
501,477
2014
2015
2016
2017
2018
2019
2020
2021
2022

# Check Fraud

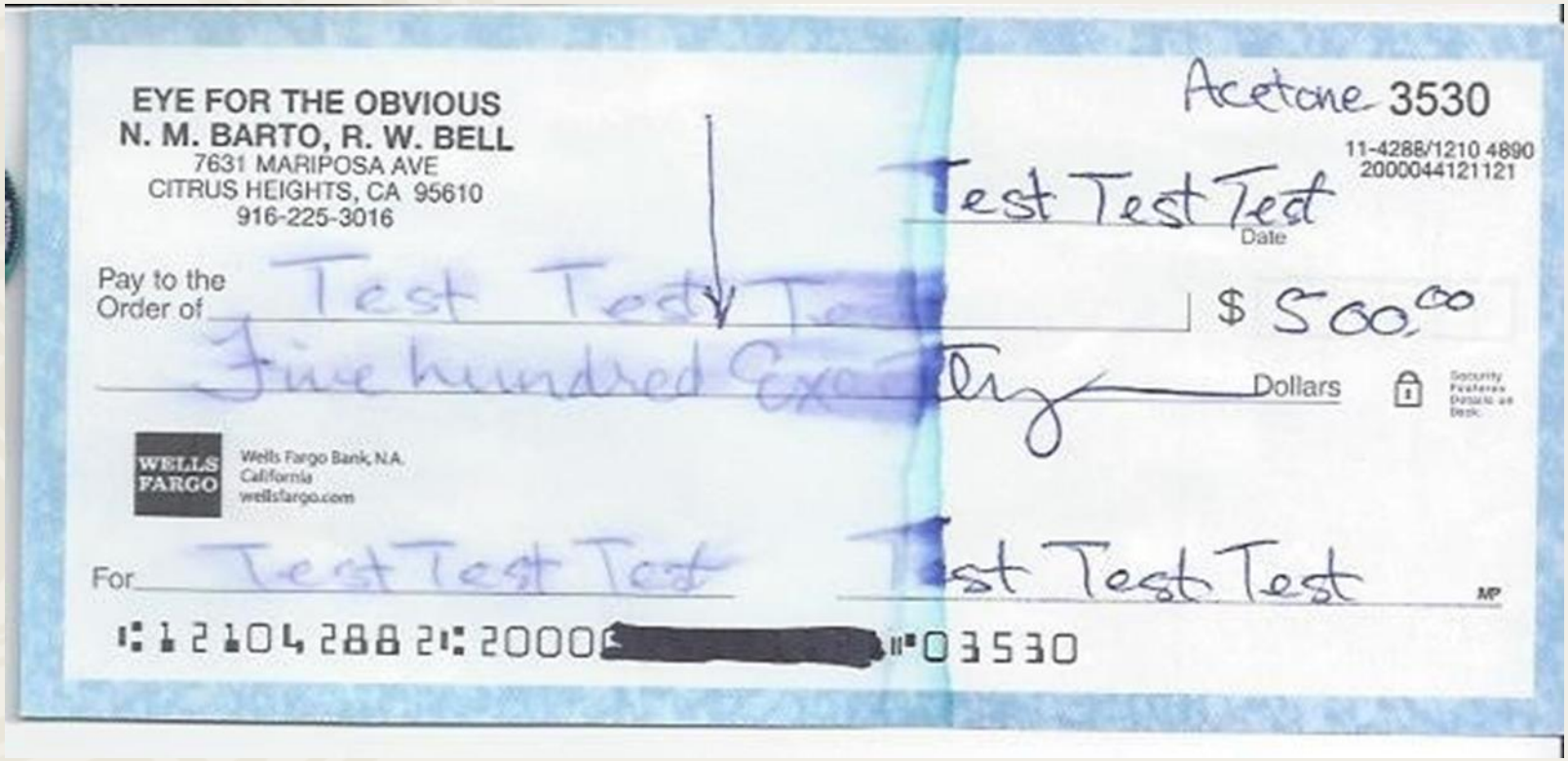
- Mail Theft – Criminals obtain real checks by stealing from U.S. postal boxes or other mail facilities.
- Counterfeits – Fraudsters take information from real accounts and input onto a check template.

# Check Washing

*Check washing* is a process where information is chemically or electronically erased from a legitimate check and items such as the amount and payee are replaced.



# Check Washing



# Check Fraud Example

- In May 2022, $93,000 was stolen from an elderly man's account.
- The original check was written for the amount of $150 to pay a utility bill.
- Once stolen, the recipient name and check amount was changed to $32,000.
- Unfortunately, the thieves were able to obtain more of the elderly man's PII and print more checks for thousands of dollars.

# Check Fraud Mitigation

- Corporate Governance – More FDIC-supervised institutions are elevating this issue in their risk management assessments.
- Behavioral-Based Fraud Detection – Artificial intelligence and machine learning technologies can analyze the physical aspects of a check.
- ATM and Mobile Banking Deposit Limits – Lowering limits can reduce losses associated with one fraud event.

# Check Fraud Mitigation

- Dark Web Monitoring – Provides information regarding the potential exposure of check images, account holder information and personal information that is being sold.
- Training and Resources – Staff training is a critical component.
- Positive Pay – Bank matches a file provided by a commercial customer with check number and amount, and some expand to the name (payee positive pay).

# Check Fraud Mitigation

Information Sharing:

- Agency communications involving fraudulently altered items
- NACHA – ACH Contact Registry
- American Bankers Association – Check Fraud Claim Directory

# Synthetic Identity Fraud

- Using a combination of PII to create a person or entity to commit fraud.
- It can be a completely fake name with other real (but stolen) PII.
    - Fake Name
    - Random date of birth
    - Stolen social security number (belonging to deceased individuals or young children)
    - Fake social media account created with photos from someone else's account

# Synthetic Identity Fraud

- Non-residential address
- Altered identity documents (ID or Driver's License)
- Newly created email address

# Synthetic Identity Fraud

- In 2022, the Federal Reserve developed the synthetic fraud mitigation toolkit.
- Includes information on how synthetic identity is created and how it is used.
- Discusses how to detect synthetic identity, best practices for validating identifies, and how technology can help with mitigation efforts.

https://fedpaymentsimprovement.org/synthetic-identity-fraud-mitigation-toolkit/

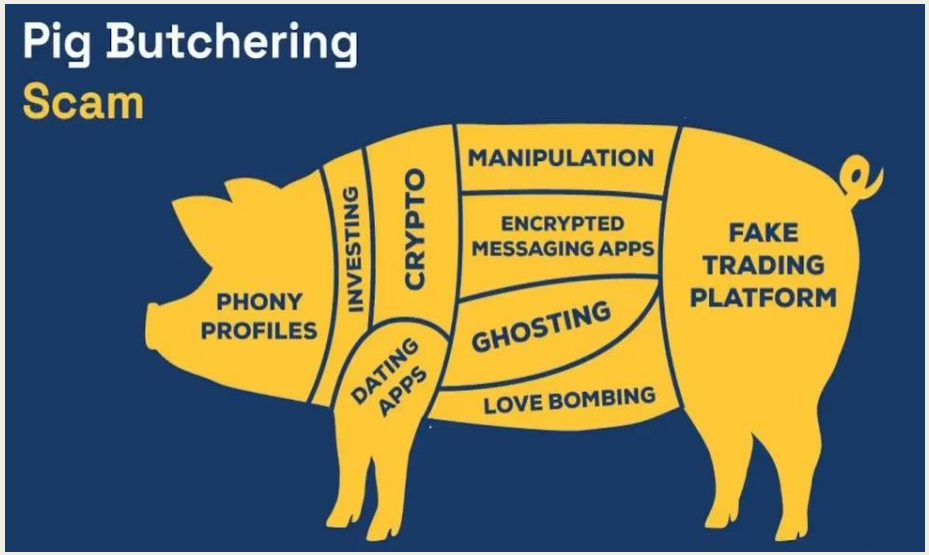
# Pig Butchering Scams

"Using the methods of traditional con artists, high-tech fraudsters have taken advantage of the publicity and hype surrounding cryptocurrency to encourage an untold number of Americans to invest in get-rich-quick schemes."

*~United States Attorney Martin Estrada, U.S. Attorney's Office, Central District of California*

# Pig Butchering Scams

- Multiple U.S. law enforcement sources estimate that victims in the U.S. have lost billions of dollars.
- Has been around for several years but became even more prevalent in 2021.




- Crime is likely under-reported.

# Pig Butchering Scams

- Make initial contact with potential victims through text messages or other communication platforms and tools.
- Once trust has been established, the scammer will introduce the victim to a supposedly lucrative investment opportunity in crypto assets.
- After the victims acquire crypto assets, the scammer directs them to “invest” the funds through specific investment websites or applications.

# Pig Butchering Scams

- In reality, the funds are funneled to crypto asset addresses and accounts controlled by scammers and their co-conspirators.
- When victims can no longer or are unwilling to contribute more funds, the scammer ceases contact and the funds are stolen.

# Fake Bank Websites

- Consumers report banks not in BankFind.
- Offers that are too good to be true.
- Red flags:
  - Broken links (i.e., to social media)
  - Circular links
  - Spoofed content (text and pictures)
- Used to facilitate other types of payment scams.

# *Thank you!*

# *Questions?*