INSIDER FRAUD

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Prohibition Action Trends

Operational Area	FDIC	FRB	OCC	Total
Fixed Assets	1	0	0	1
Compliance	3	0	0	3
HR	0	0	1	1
Trust	0	0	2	2
FX	0	0	2	2
Personal	2	6	1	9
Unknown	1	15	2	18
COVID-Related	8	4	7	19
Loans	19	3	4	26
Senior Management	17	4	8	29
Operations	58	41	75	174
Total	109	73	102	284

Source: Public notification of prohibition actions from FDIC, FRB, and OCC (2Q2023 – 1Q2026)

Financial Impact

Combined Losses of Prohibited Individuals

$96.8 million

Combined CMPs of Prohibited Individuals

$30.1 million

Prohibition Criteria

- Misconduct:
  - Violation of law, regulation, final cease and desist order, or written agreement.
  - Participate in acts or omissions that are contrary to generally accepted standards of prudent banking.
  - Breach of fiduciary duty.

- Effect of the Misconduct:
  - The institution has suffered or will likely suffer a financial loss.
  - Interests of the depositors have been or could be prejudiced.
  - The party received financial gain or other benefit.

- Culpability
  - The action was not merely accidental, but rather a willful or reckless disregard for safety and soundness or applicable laws or rules.

Credit Fraud

- **First Brands** – Auto Parts Maker ($10 billion)
  - UBS - $500 million exposure
  - Leucadia Asset Management - $715 million in receivables
  - Millenium Management - $100 million estimated loss
  - $2.3 billion in “vanished assets”
- **Tricolor** – Subprime Auto Lender ($2.3 billion)
  - Fifth Third Bancorp - $178 million loss
  - Barclays PLC - $110 million loss
  - JPMorgan Chase & Co. - $170 million loss
- **Cantor Group –** Real Estate Investor ($270 million)
  - Zions Bancorporation - $50 million loss
  - Western Alliance - $30 million provision
- **Market Financial Solutions** – Mortgage Lender
  - HSBC - $400 million writedown
  - Atlas SP – $400 million pound exposure

Why Do Insiders Commit Fraud?

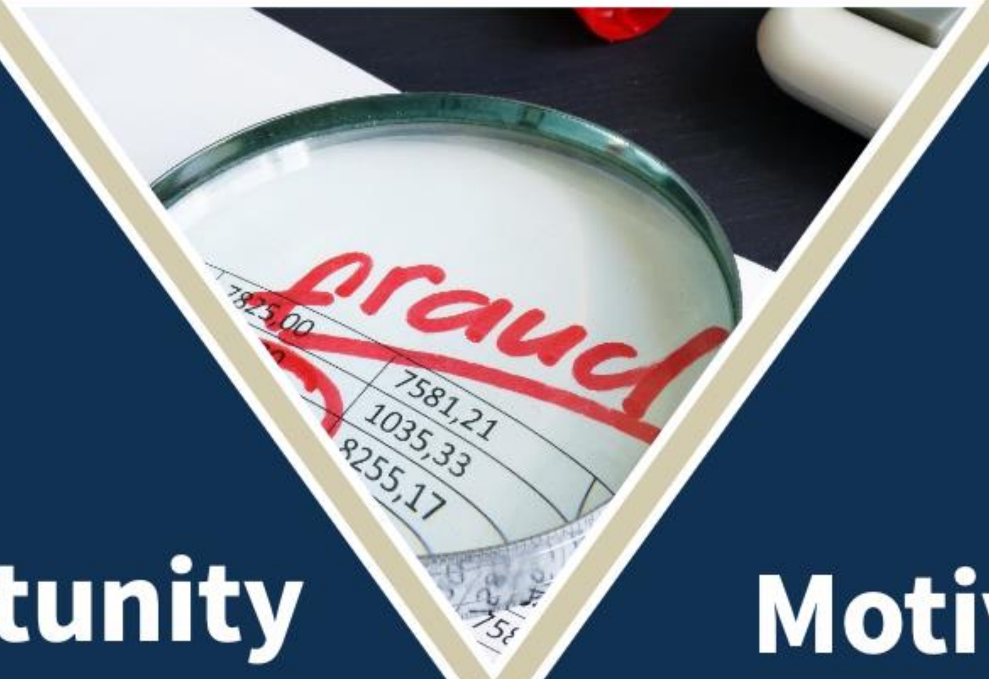
- Donald R. Cressey was a doctoral student in criminology at Indiana University in the 1940s

- Interviewed 200 imprisoned embezzlers for his thesis
  Key Question: "What led previously honest people to embezzle?"

- Research led to a theory now known as the "Fraud Triangle"

The Fraud Triangle

Rationalization



Opportunity

Motivation

The Fraud Triangle - Opportunity

Perceived Opportunity

- Low perception of detection.
- Weak internal controls.
- Poor oversight.
- No / weak code of conduct.
- Failure to discipline other perpetrators.
- Information about procedures / controls.
- Technical skill.
- Authority.
- Dysfunctional organizational culture.

The Fraud Triangle - Motivation

What are some of the most common behavioral red flags?

Motivation

The Fraud Triangle – Motivation

A. Financial difficulties.

B. Unusually close associations.

C. Living beyond means.

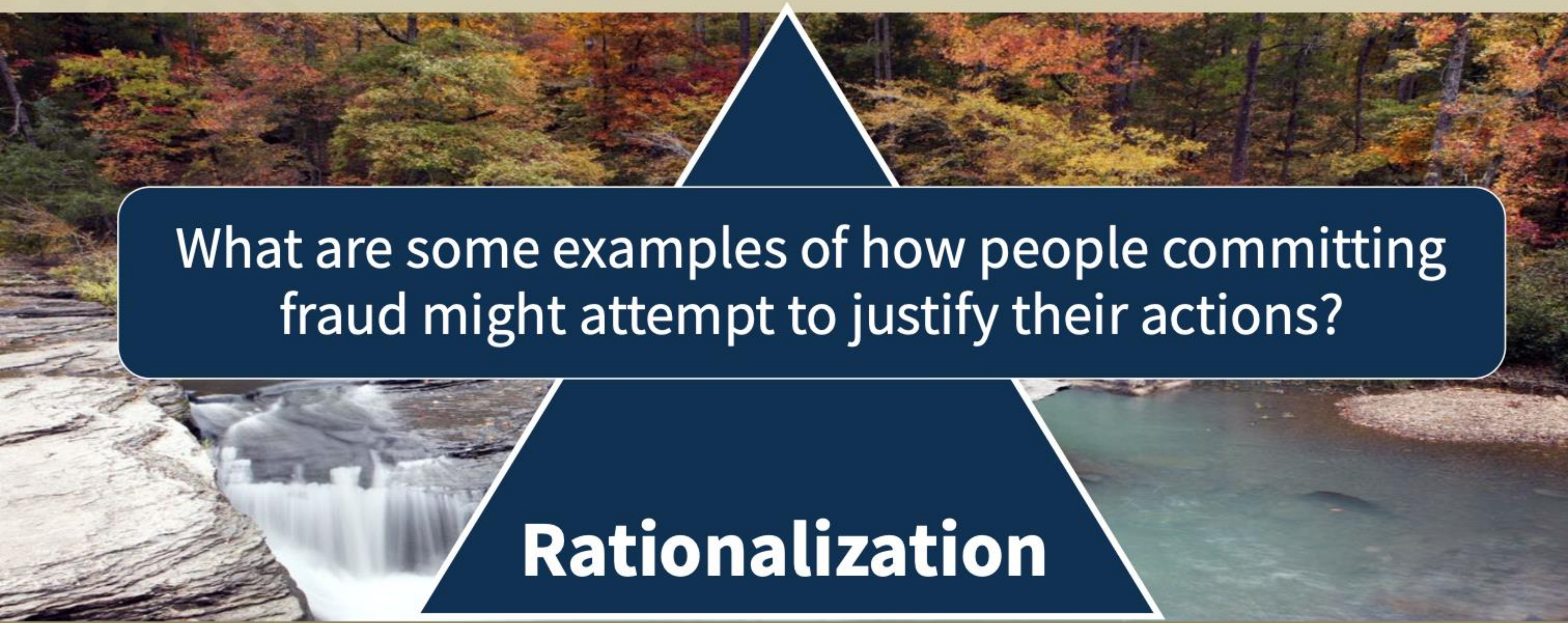
Poll

The Fraud Triangle - Motivation

What are some of the most common behavioral red flags?

Living Beyond Means	39%
Financial Difficulties	29%
Unusually Close Associations	17%

The Fraud Triangle - Rationalization



Rationalization

- The first person a potential fraudster must deceive is themselves!

- Cognitive dissonance is commonly relieved by:
  - Blaming the victim.
  - Dehumanizing the victim.
  - Denying the existence of injury.
  - Posturing as a victim of circumstance.
  - Normalizing deviance.

Fraud Schemes

Most Common Schemes

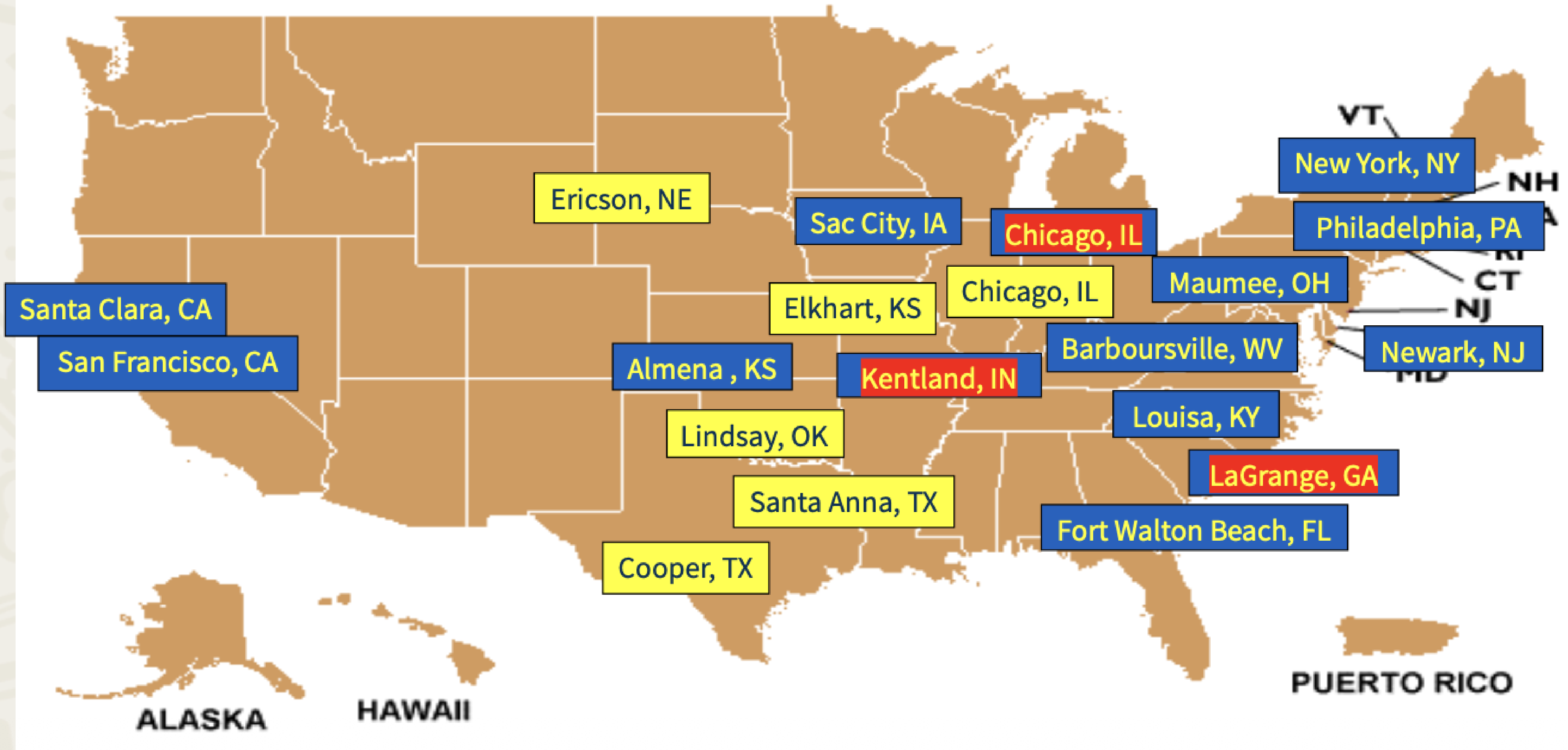
Asset Misappropriation

- Frequency - 53 percent
- Median Loss - $100,000

Financial Statement Fraud

- Frequency - 1 percent
- Median Loss - $1,000,000

2018–2026



Ericson, NE
Sac City, IA
Chicago, IL
New York, NY
Philadelphia, PA
Santa Clara, CA
San Francisco, CA
Elkhart, KS
Chicago, IL
Maumee, OH
Almena , KS
Kentland, IN
Barboursville, WV
Newark, NJ
Lindsay, OK
Louisa, KY
LaGrange, GA
Santa Anna, TX
Fort Walton Beach, FL
Cooper, TX
VT
NH
CT
NJ
ALASKA
HAWAII
PUERTO RICO

Frauds Leading to Bank Failures

The Enloe State Bank
Cooper, Texas

The Enloe State Bank

Failure: May 31, 2019

Total Assets: $36.7 million

Estimated Cost: $18.3 million

- President Anita Gail Moody originated and concealed many fraudulent loans over several years.

- Estimated amount of the fraudulent loans was $11 million.

- Vice President Jeannie Swaim also created fake loans totaling $411,000.

The Enloe State Bank

Frauds Leading to Bank Failures

Ericson State Bank
Ericson, Nebraska

Ericson State Bank

Failure: February 14, 2020

Total Assets: $100.9 million

Estimated Cost: $23.3 million

- Poor loan underwriting and a severely underfunded ALLL.
- Liberal use of payment extensions without collection of interest and understated past-due and nonaccrual loans.
- Follow-up visitation identified additional identified losses.
- President was personally responsible for legal lending limit violations, covering up of overdrafts, advancing due dates, and loan charge offs.

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: $43.7 million

- Started with a $5,000 cryptocurrency investment as part of a romance scam.
- Accelerated with stolen funds from a church, investment club, and children's college savings accounts.
- Ended with multiple wire transfers totaling $47.1 million from the institution.
- "Pig Butchering" scheme.
- Recovery!!
- CEO Shan Haines found guilty and sentenced to 24 years in prison.

Frauds Leading to Bank Failures

The First National Bank of Lindsay
Lindsay, Oklahoma

The First National Bank of Lindsay

Failure: October 18, 2024

Total Assets: $107.8 million

Estimated Cost: $47.3 million

- Unexpected failure with no prior public enforcement actions.

- OIG Report – March 27, 2025:
  - Critical breakdown in internal controls that affected a substantial portion of the loan portfolio and liquid assets.
  - Deficiencies in board oversight and internal controls allowed one or more employees to alter bank records and hide weaknesses from examiners.

The First National Bank of Lindsay

Danny Seibel, President, CEO, CFO, and BSA Officer

Indicted on December 4, 2025:

- Issuing loans to personal friends and neighbors that were never repaid.
- Allegedly manipulating bank records and falsifying bank reports to overstate loan performance.
- Frequently modifying bank records to conceal activity from examiners and the Board of Directors.
- Failing to implement an anti-money laundering program and failing to file SARs on his own fraudulent scheme.
- **On May 7, 2026, pled guilty to one count of bank fraud and faces 30 years in prison and a fine of $1 million.**

The First National Bank of Lindsay

Shaun Christian, Former Customer

Indicted on April 7, 2026:

- Obtained loans for cash withdrawals and gambling at casinos.
- Seibel manipulated bank records to conceal overdrawn accounts and past due loans near month and quarter-end.
- Seibel omitted loans and accounts from the past due and overdraft reports.
- Seibel credited accounts to cover overdrafts without recording a loan or receiving an actual deposit.
- Christian texted Seibel asking for funds or credit despite having insufficient funds available.

Frauds Leading to Bank Failures

Pulaski Savings Bank
Chicago, Illinois

Pulaski Savings Bank

Failure: January 17, 2025

Total Assets: $49.5 million

Estimated Cost: $30.3 million

- At least $20.7 million in deposit liabilities not accounted for in the core system.
- During the December 9, 2024 examination, examiners confirmed the observations of a contractor engaged to update the bank's general ledger.
- The bank had not posted some certificates of deposit to the core banking system.
- Significant unresolved and unexplained discrepancies within suspense accounts as well as large deposits maintained off the bank's core system.
- No indictments to date.

Frauds Leading to Bank Failures

The Santa Anna National Bank
Santa Anna, Texas

The Santa Anna National Bank

Failure: June 27, 2025

Total Assets: $63.8 million

Estimated Cost: $23.5 million

- Established in 1933.
- Suspected fraud contributed to the failure of the bank and estimated cost to the DIF
- No indictments to date.

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.

Tips for Risk of Insider Abuse

Reporting Systems

How is fraud detected?

- Employees – 52%
- Customers – 21%
- Anonymous – 14%
- Vendors – 11%
- Other – 3%
- Bank – 3%

Synergy in Having a Hotline + Training

Fraud Awareness Training

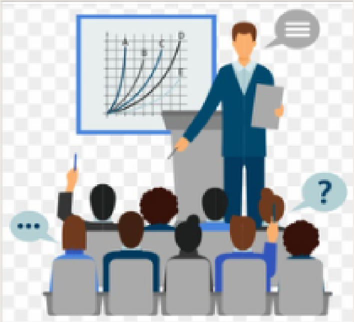
Increases employee awareness of red flags around them.

Increases perception of detection.

Minimal resources to be effective.

Tips are twice as likely to come from employees who received fraud awareness training.

Organizations that did not provide fraud awareness training had median losses nearly double that of trained organizations.



Dominant Insiders

- Bypassing internal controls
- Manipulating or limiting board information
- Lack of multiple perspectives in strategic decision making
- Unchecked risk appetite
- Poor employee morale / higher turnover

Employee Assistance Programs

Such programs decrease pressure by helping the at-risk person with their “perceived unshareable” need.

May also help to reduce rationalization.

Don’t just think about the direct needs of employees, but circumstances in their family situation.

Employee Recognition

- Employees who feel appreciated are less inclined to rationalize acts against their employer.
- It doesn't need to be monetary.
- It can be lighthearted.

Know Who You Are Hiring!

- ➢FBI name and fingerprint checks are available to banks
- ➢FDIC / FRB / OCC / NCUA / SEC enforcement action searches
- ➢Prior employer
- ➢Reference checks
- ➢Background checks
- ➢Education verification
- ➢Credit checks
- ➢Drug screening
- ➢Internet search

"Vacation" Policies

A misnomer, really "absence from duties" policies.

Not a regulatory requirement, but a recommendation.

Some types of frauds require the regular presence of the perpetrator to prevent discovery.

To be effective, someone else needs to be performing their duties, and their normal system access needs to be blocked.

“Vacation” Policy Example: Burnice Geiger

- 58-year-old bookkeeper, daughter of bank president, 40-year bank employee.
- Embezzled from 400 dormant accounts over 37 years.
- Largest bank fraud in US history when discovered in 1961 - $2.1 million.
  - Would be $22.6 million adjusted for inflation.
- Gave lavish gifts to random people in the town.

“Vacation” Policy Example: Burnice Geiger

- Fraud was discovered when a director of the bank called the OCC to report suspicions regarding the red flag of living beyond her means.
- Was sentenced to 15 years but served only five.
- After her release she is reported to have worked for a regulatory agency looking for fraud; she focused on employees who didn’t take vacation.

Employee Account Reviews

Review insider deposit account activities.

Ensure reviewer is trained in what to look for and have a fraud awareness mindset; confirmation bias can be a stumbling block.

Reviewer needs to know what is normal and expected activity for the insider under review.

Code of Conduct / Ethics Policies

Did the employee really read it? Or did they just sign the acknowledgement to be done with paperwork?

Is training only done at onboarding?

Discuss at staff meetings to both increase perception of detection and make red flags redder to coworkers

Is the policy vague or specific?

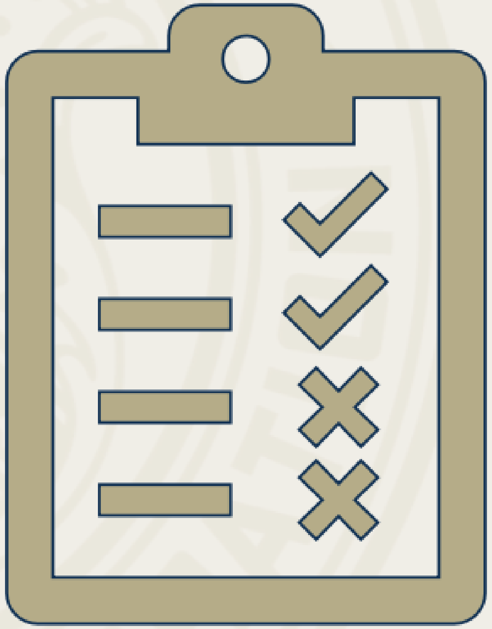
Disclosure of Related Interests

FRB Regulation O requires annual disclosure of related interests to the bank by those subject to the regulation.

Although not required by any regulation, a board of directors could consider asking all insiders, including those not covered by Reg O, to periodically disclose their related interests.

This could aid the bank in monitoring compliance with its Code of Conduct or Ethics Policy and be valuable in monitoring for conflicts of interest that warrant recusal from decisions regarding interests of insiders.

Fraud Risk Assessment



- Identifies potential inherent vulnerabilities to internal fraud.
- Assesses the likelihood and significance of occurrence of the identified risks.
- Identifies gaps between the current control system and the risks.
- Evaluates whether existing controls are operating effectively and efficiently.
- Provides the board of directors with the opportunity to mitigate residual risk.

Access Reviews

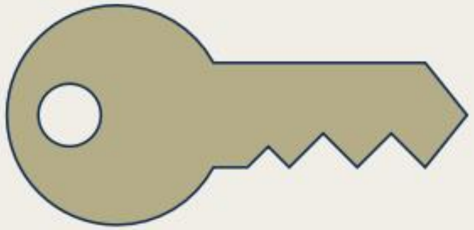
“Privilege Creep”

Promotions, transfers, or changes in duties

Enforce the principle of “Least Privilege”

Review access list to identify and remove departed employees

Who should have remote access?



File Maintenance Reviews

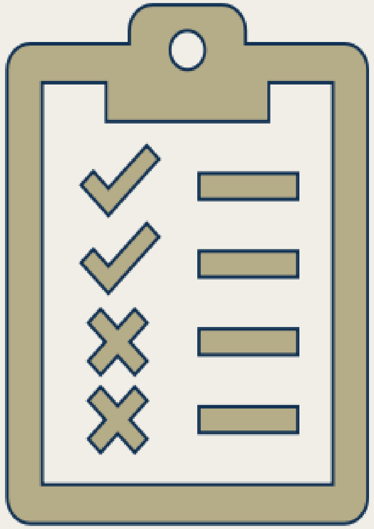
- File maintenance entries are changes on the bank's core system that impact customer accounts.
- Reviews of file maintenance entries can be regularly performed by a knowledgeable person who does not have the ability to make file maintenance changes.
- Periodically review the list of employees who have file maintenance access and consider whether the job duties or function require access.
- Consider certain file maintenance change restrictions for:
  - Employees on their own accounts or those of family members.
  - Loan officers and underwriting staff.
  - Senior management.

Account Reconciliation

- All general ledger accounts reconciled regularly.
- An effective account reconciler is:
  - Knowledgeable regarding what normal and abnormal transactions look like
  - Independent of the activity that runs through the account.
  - Curious and willing to speak up if they identify something unusual.
- Be aware that an account with a low balance can have large items flowing through.

Audit Program

- Audits are a director's "eyes and ears" to verify the effectiveness of policies and controls.
- The Board is responsible for designing the audit program. Design considerations include:
  - Who will conduct the audit?
  - What areas will be covered?
  - How frequently will audits be performed?
  - Internal and external components of the program.
  - Ensuring that reporting by the auditor to the board is independent and not filtered by management.



Questions?