

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of:)	
)	
TERESA M. FELLER, individually and as an)	
institution-affiliated party of)	
)	NOTICE OF INTENTION TO
WESTSOUND BANK (IN RECEIVERSHIP))	PROHIBIT FROM FURTHER
BREMERTON, WASHINGTON)	PARTICIPATION
)	
)	FDIC-10-867e
)	
(INSURED STATE NONMEMBER BANK))	
)	
)	
_____)	

The Federal Deposit Insurance Corporation ("FDIC"), has determined that Teresa M. Feller ("Respondent" or "Feller"), as an institution-affiliated party of Westsound Bank, Bremerton, Washington ("Bank"), has directly or indirectly participated or engaged in unsafe or unsound banking practices, and/or acts, omissions or practices which constitute breaches of her fiduciary duty as an officer of the Bank; that the Bank has suffered financial loss or other damage, that the interests of its depositors have been prejudiced or could be prejudiced and/or that the Respondent has received financial gain or other benefit by reason of such practices and/or breaches of fiduciary duty; and that such practices and/or breaches of fiduciary duty demonstrate the Respondent's personal dishonesty and/or her willful or continuing disregard for the safety or soundness of the Bank.

Further, the FDIC has determined that Respondent's unsafe or unsound practices and/or breaches of her fiduciary duty were part of a pattern of misconduct and/or caused or are likely to cause more than a minimal loss to the Bank and/or resulted in pecuniary gain or other benefit to the Respondent.

The FDIC, therefore, institutes this proceeding for the purpose of determining whether an appropriate order should be issued against the Respondent under the provisions of section 8(e) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(e), prohibiting the Respondent from further participation in the conduct of the affairs of the Bank, and any other insured depository institution or organization listed in section 8(e)(7)(A) of the Act, 12 U.S.C. § 1818(e)(7)(A), without the prior written approval of the FDIC and such other appropriate Federal financial institutions regulatory agency, as that term is defined in section 8(e)(7)(D) of the Act, 12 U.S.C. § 1818(e)(7)(D).

The FDIC hereby issues this NOTICE OF INTENTION TO PROHIBIT FROM FURTHER PARTICIPATION ("NOTICE TO PROHIBIT") pursuant to section 8(e) of the Act, 12 U.S.C. § 1818(e), and the FDIC's Rules of Practice and Procedure, 12 C.F.R. Part 308, and alleges as follows:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. Preliminary Allegations

1. At all times pertinent to this proceeding, the Bank was a corporation existing and doing business under the laws of the State of Washington, having its principal place of business at Bremerton, Washington.

2. The Bank was, at all times pertinent to this proceeding, an insured State nonmember bank, subject to the Act, 12 U.S.C. §§ 1811-1831aa, the Rules and Regulations of the FDIC, 12 C.F.R. Chapter III; and the laws of the State of Washington.

3. On or about May 8, 2009, the Bank was closed by the Washington Department of Financial Institutions, which appointed the FDIC as receiver.

4. On or about April of 2005, the Respondent became employed as a Mortgage Banker and Branch Manager of the Federal Way Mortgage Branch of the Bank and continued to serve in those capacities at all times pertinent to the charges herein.

5. Respondent was subsequently terminated on August 10, 2007.

6. At all times pertinent to the charges herein, the Respondent was an "institution-affiliated party" as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and for purposes of sections 8(e)(7), 8(i) and 8(j) of the Act, 12 U.S.C. §§ 1818(e)(7), 1818(i) and 1818(j).

7. The FDIC has jurisdiction over the Bank, the Respondent and the subject matter of this proceeding.

B. Mortgage Origination Practices

8. During her tenure at the Bank, Feller was the only loan officer at the Federal Way Branch.

9. Her job responsibilities included gathering all necessary documents and information to submit completed files to the loan processor/underwriter so that correct information could be inputted into the Bank's automated underwriting systems.

10. The majority of the loans originated by Feller were approved through an online automated underwriting system called CLUES ("CLUES").

11. Feller submitted to underwriters and/or caused to be entered into clues borrower information, including income, loan purpose and property value and CLUES recommended a decision based on certain parameters for said loans.

12. On a regular basis, Feller submitted loan applications that were processed through CLUES multiple times, adjusting borrower information until they resulted in approvals.

13. Feller was incentivized to have loan applications result in approvals.

14. For each loan approved, Feller received a commission based on a percentage of the loan amount.

15. Feller's commissions averaged \$7,000 per loan and totaled \$78,057 for the nine loans described in paragraph 25.

16. Feller received no commission or other similar extraordinary compensation for loans which were not approved.

C. Russian Immigrant Loans

17. In concert with a non-bank employee, a Russian national, Feller manipulated financial and personal information as well as appraisal and loan documentation in order to gain approval for construction loans to Russian immigrant borrowers.

18. Upon information and belief, the Russian national solicited Russian immigrant applicants to apply for residential construction loans from the Bank and assisted the applicants in the application process.

19. Upon information and belief, the Russian national's company received development fees, and his wife received realtor commissions, in connection with the construction loans to the Russian immigrant borrowers.

20. These development fees and commissions were paid out of the proceeds of the loans that Feller processed and submitted for approval.

21. During her two-year tenure at the Bank, Feller originated 124 construction loans to unqualified Russian immigrant borrowers referred by the Russian national.

22. As part of the October 1, 2007 Report of Examination (“ROE”), examiners reviewed these 124 construction loans, which had a combined outstanding balance of approximately \$72.7 million and an unfunded portion totaling nearly \$46 million.

23. All 124 construction loans were classified as problem assets in the ROE and accounted for 83% of the dollar volume of the Bank’s adversely classified loans.

24. The ROE cited numerous irregularities in the 124 loans, including:

- (a) Concerns over the reasonableness of the transactions;
- (b) Doubts over income levels;
- (c) Questions over property valuations; and
- (d) Doubts over the ultimate repayment source.

25. From the portfolio of 124 construction loans a sample of nine loans was taken to illustrate Feller’s unsafe and unsound lending practices. The sample of nine loans are as follows:

- (a) *****
- (b) *****
- (c) *****
- (d) *****
- (e) *****
- (f) *****
- (g) *****

(h) *****

(i) *****

26. As shown in the nine loans listed in paragraph 25, Feller engaged and/or participated in unsafe or unsound banking practices in connection with the Bank and breached her fiduciary duty to the Bank by engaging in reckless lending practices as hereinafter described:

(a) Feller accepted loan referrals from the Russian national despite the presence of one or more of the following characteristics and/or deficiencies:

(i) 1-year interest-only residential construction loans with large balloon payments upon maturity;

(ii) Borrowers were young, self-employed Russian immigrants in the construction trade; and

(iii) Borrowers' total monthly housing expenses prior to applying for loans at the Bank averaged \$2,588; their total monthly housing expenses, averaging \$10,160, increased by 392% as a direct result of the Bank loan.

(b) Feller prepared multiple applications for each loan.

(c) Applications contained widely varying information about the borrowers' income. Feller submitted to underwriters and/or caused to be entered into CLUES the highest income to obtain approval.

(d) The borrowers' stated annual income ranged from \$144,000 to \$420,000.

These income levels were unverified and unreasonably high, given the borrowers' stated professions. Borrowers included a painting contractor, a tile and flooring contractor, and a stucco contractor. Debt to income ratios also appear to have been incorrectly calculated by Feller.

(e) Tax returns later provided in connection with loan extension requests showed that the borrowers had significantly lower annual incomes that ranged from \$20,000 to \$60,000.

(f) When tax returns were provided as part of the loan application, Feller submitted to underwriters and/or caused to be entered into CLUES income stated in unsigned tax returns, rather than the significantly lower income reported in signed tax returns, to obtain approval.

(g) Feller submitted to underwriters and/or caused to be entered loan applications into CLUES as owner-occupied and either “refinance” or “purchase” loans to obtain approval even though the loans were construction loans meant for resale.

(h) To obtain approval, Feller submitted to underwriters and/or caused to be entered loan applications into CLUES with property values obtained from inaccurate or inappropriate property appraisal reports with one or more of the following deficiencies:

(i) Certain appraisals reflected “as is” values despite the fact that the property had not yet been built.

(ii) Floor plans described in the appraisals do not match the floor plans in appraisals completed upon default or in connection with loan extension requests.

(iii) Borrowers often did not submit any building plans to the appraiser.

(i) Loans were approved based on the information submitted by Feller, including borrowers’ income, occupancy intent, loan purpose and property value.

(j) Of the nine loans listed in paragraph 25, Feller originated two \$1 million construction loans to the same borrower in less than 1 year, receiving a commission for each loan.

(i) Both loan applications indicated that the associated property was the borrowers primary residence.

(ii) Debt to income calculations for the second loan did not include the debt associated with the first loan.

(k) Feller facilitated the loan extension of one of the nine loans listed in paragraph 25, receiving an additional commission for the loan extension.

27. Given the volume of loans and the repeated discrepancies they presented, Feller knew or should have known that the loans described above were suspect in nature when she submitted to underwriters and/or caused to be entered the loan applications in CLUES for approval.

28. Feller knew or should have known that the presence of one or more of the deficiencies described above subjected the Bank to an abnormal risk of loss.

29. By reason of the foregoing, Feller has engaged in multiple reckless lending practices over a two-year period despite the presence of factors which put her on notice, or should have put her on notice, of the resulting risk of loss to the Bank.

D. Grounds for Section 8(e) Prohibition Order

30. As a result of the Respondent's foregoing acts, omissions and/or practices, the Respondent has engaged and/or participated in unsafe or unsound banking practices in connection with the Bank.

31. As a result of the Respondent's foregoing acts, omissions and/or practices, the Respondent breached her fiduciary duty as an officer of the Bank.

32. By reason of the practices or breaches as specified in paragraphs 8 through 29, the Bank and the FDIC as Receiver for the Bank have suffered or will probably

suffer financial loss or other damage as follows:

(a) As of March 4, 2011, the Bank and the FDIC as Receiver for the Bank has incurred losses of \$4,567,107 in connection with the nine loans listed above; and

(b) As of March 4, 2011, additional losses in the amount of \$719,514 are estimated in connection with the nine loans listed above.

33. By reason of the violations, practices or breaches as specified in paragraphs 8 through 29, Respondent has received financial gain or other benefit in the form of commissions for each loan that she originated at the Bank. She received a total of \$ 78,057 in connection with the nine loans listed above.

34. The acts, omissions and/or practices of the Respondent as set forth in paragraphs 8 through 29 demonstrate a willful or continuing disregard for the safety or soundness of the Bank and/or evidence the Respondent's personal dishonesty.

NOTICE OF HEARING

IT IS FURTHER ORDERED, that, if Respondent requests a hearing with respect to the charges alleged in this NOTICE TO PROHIBIT, the hearing shall commence sixty (60) days from the date of receipt of this NOTICE TO PROHIBIT at Seattle, Washington, or at such other date or place upon which the parties to this proceeding and the Administrative Law Judge may agree. The purpose of the hearing will be for the taking of evidence on the charges, findings and conclusions stated herein in order to determine whether a permanent order should be issued to prohibit the Respondent from further participation in the conduct of the affairs of the Bank and any insured depository institution or organization enumerated in section 8(e)(7)(A) of the Act, 12 U.S.C. § 1818(e)(7)(A), without the prior permission of the FDIC and the appropriate Federal

financial institutions regulatory agency, as that term is defined in section 8(e)(7)(D) of the Act, 12 U.S.C. § 1818(e)(7)(D).

The hearing will be public, and in all respects conducted in accordance with the provisions of the Act, 12 U.S.C. §§ 1811-1834a, the Administrative Procedure Act, 5 U.S.C. §§ 551-559, and the FDIC Rules of Practice and Procedure, 12 C.F.R. Part 308. The hearing will be held before an Administrative Law Judge to be appointed by the Office of Financial Institution Adjudication pursuant to 5 U.S.C. § 3105. The exact time and precise location of the hearing will be determined by the Administrative Law Judge.

In the event Respondent requests a hearing, Respondent is hereby directed to file an answer to this NOTICE TO PROHIBIT within 20 days from the date of service as provided by section 308.19 of the FDIC Rules of Practice and Procedure, 12 C.F.R. § 308.19.

An original and one copy of the answer, any such request for a hearing, and all other documents in this proceeding must be filed in writing with the Office of Financial Institution Adjudication, 3501 N. Fairfax Drive, Suite VS-D8116, Arlington, Virginia, 22226-3500, pursuant to section 308.10 of the FDIC Rules of Practice and Procedure, 12 C.F.R. § 308.10. Also, copies of all papers filed in this proceeding shall be served upon the Office of the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429; A. T. Dill, III, Assistant General Counsel, Legal Division, Enforcement Section, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429; and upon Joseph J. Sano, Regional Counsel, San Francisco Regional Office, Federal Deposit

