

*Joint News Release*

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**Federal Deposit Insurance Corporation**

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**Office of Thrift Supervision**

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**Resolution Trust Corporation**

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FOR RELEASE AT END OF  
PRESS CONFERENCE  
Monday, November 23, 1992

PR-161-92

ERNST & YOUNG PAYS \$400 MILLION  
IN SETTLEMENT WITH GOVERNMENT

WASHINGTON, D.C., Nov. 23, 1992 -- Ernst & Young, one of the nation's Big Six accounting firms, today settled multiple claims by three banking agencies arising from the firm's accounting services for federally-insured savings and loan institutions and banks by paying \$400 million and agreeing to a consent decree requiring certain changes in its practices.

The \$400 million was paid today to the Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC).

In addition, under orders issued by the Office of Thrift Supervision (OTS), three present and former Ernst & Young partners consented to prohibition from working for insured financial institutions. Seven other present and former partners consented to cease and desist orders stipulating additional training and the manner of conducting audits of financial institutions.

In a joint statement, FDIC General Counsel Alfred J.T. Byrne, OTS Chief Counsel Harris Weinstein, and RTC General Counsel Richard

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Aboussie noted, "This settlement is a tremendous achievement for the American taxpayer. It secures just recovery of losses attributable to audit failures, avoids huge litigation costs, and assures that future audits of insured institutions will be conducted according to the highest professional standards.

"This settlement represents a landmark accomplishment that should send very clear messages to the American people. One is that the banking agencies are determined to work together to pursue claims against accounting firms, law firms and others we believe played a role in the downfall of federally insured banks and S&Ls. But perhaps most importantly, this settlement shows that the government is ready, willing and able to resolve disputes through alternatives to costly litigation, provided that the results are fair and enforceable."

The three agencies claimed that Ernst & Young failed to meet professional standards and violated federal regulations that caused losses in excess of \$400 million suffered by failed banks and savings and loan institutions and the federal deposit insurance fund. Some of the S&Ls the firm audited are among the most notable failures, such as Vernon Savings & Loan Association, Dallas; Silverado Banking Savings and Loan Association, Denver; and Lincoln Savings and Loan Association, Irvine, Calif.

Today's settlement came after eight months of negotiation between Ernst & Young and the agencies, which followed a request by the firm to work out a global settlement. The three agencies and Ernst & Young signed a settlement agreement resolving the agencies' monetary claims. In addition, the firm consented to a cease and

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desist order by OTS concerning its future accounting practices. In the consent order, Ernst & Young neither admitted nor denied the OTS allegations of improper auditing practices.

Individuals who signed consent orders prohibiting them from working for insured financial institutions are: George Derr, a current partner, and Jack Atchison and Edward F. Flaherty, both former partners.

Current partners who signed consent cease and desist orders are Frank O'Brien, James Junkin, Thomas Richter, Roy Benignus, Albert Boos and Kenneth Kroese. Former partner Eugene Marfin also consented to a cease and desist order. They are required to take additional professional training, perform audits according to accepted standards and based on competent evidential matter; and are responsible for personal review, approval and signing of audits.

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