FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-9-90 (1-23-90)

FDIC WINS MAJOR COURT CASE IN EFFORT TO STOP THRIFT INDUSTRY FRAUD

The Federal Deposit Insurance Corporation today praised a Seattle federal court decision ordering an individual convicted of defrauding a failed savings and loan association to pay $12.8 million in restitution to the FDIC.

The restitution amount is believed to be among the highest ever ordered by a court in connection with a financial services industry fraud case.

U.S. District Court Judge John C. Coughenour on January 17 ordered Jerry D. Smith to pay the $12.8 million to cover losses at Queen City Savings and Loan Association, Seattle. Smith and co-conspirators arranged for and benefited from $15.6 million in fraudulent loans to their interests in Texas and other states. Smith, who was not an officer or director of Queen City Savings but who had a controlling influence on aspects of its business, was sentenced in July 1988 to 10 years in prison without probation for his role in the criminal conspiracy.

Losses on the loans were major factors in the demise of the Queen City Savings, which was closed by federal regulators in July 1984. The thrift institution's assets were sold by the former Federal Savings and Loan Insurance Corporation to Gibraltar Savings and Loan Association, Bellevue, Washington.

Jack D. Smith, a Deputy General Counsel at the FDIC, said: "Judge Coughenour's decision represents a major victory for the FDIC and for the American public. These kinds of criminals need to know that they will be trading in their world of sun and fun for a world where the sunlight is striped and the meals are served on tin trays."

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Judge Coughenour ordered the restitution to be paid within five years from the end of Jerry D. Smith's imprisonment. The Judge's order stated that while Smith "may not currently possess significant assets, he has demonstrated the ability to accumulate assets in the amount of this restitution order within five years from his release from custody." The Judge's decision also will help the FDIC in its search for any hidden assets that might be owned by Smith, according to agency officials.

Congress last August gave deposit insurance authority and limited supervision over S&Ls to the FDIC in response to the recent thrift industry crisis. Among the actions taken by the FDIC Board of Directors to prosecute S&L industry fraud and abuse was the creation of the Conflicts and Criminal Restitution Section within the Legal Division.

Howard Feinstein, an FDIC Assistant General Counsel and chief of the new Section, said today: "We need tough prison sentences and painful financial penalties like those imposed in the Queen City Savings case to help the FDIC deter others from engaging in similar crimes. While it is too soon to know just how much of the $12.8 million eventually will be recovered from Jerry Smith, we want him and everyone else to know that the FDIC will pursue these matters aggressively."

In a similar matter, U.S. District Court Judge Robert Peckham in San Francisco is scheduled on January 29 to impose prison sentences on Leif and Jay Soderling, former directors and shareholders of Golden Pacific Savings and Loan Association of Santa Rosa, California. The sentencing follows the Judge's decision in December that the two brothers were guilty of a $500,000 "spending spree" at the same time they claimed an inability to make $1.5 million in restitution payments for a previous bank fraud conviction.

The Smith and Soderling cases were initiated by the Federal Home Loan Bank Board (FHLBB), now the Office of Thrift Supervision.

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