

ENLOE STATE BANK: FIRE AND FRAUD

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On Friday, June 5, 2020, Anita Moody, the former bank president of Enloe State Bank, pleaded guilty to federal violations, including conspiracy to commit bank fraud and arson in Sherman, Texas. Court records indicate that Moody's banking fraud, which began in 2012, occurred over seven years and culminated in creating over 100 false nominee loans at Enloe State Bank in Cooper, Texas. As for the arson charge, Moody admitted in court to setting fire to documents in the bank's boardroom to conceal her role in creating the fraudulent loans. In her plea appearance, before the honorable U.S. Magistrate Judge Christine A. Nowak, the 57-year-old Moody agreed to a prison sentence of seven years and to pay restitution of \$11,136,241.82 (U.S. v Moody, 2020).

Anita Moody was highly regarded in Cooper. She served as a long-time member of the Cooper Independent School Board and was active in many community and civic affairs (Harvey & Roller, 2012). She began her banking career at Enloe State Bank at the age of sixteen and had worked there in various capacities for forty years. The only indications that something might be off in her personal life, were a couple of failed marriages and a DWI arrest in early 2017 (Farberov, 2020). The news of the fire and fraud shocked banking employees, residents of the close-knit community, and banking regulators. On Friday, May 31, 2019, less than three weeks after the arson occurred, the Enloe State Bank was closed by the Texas Department of Banking (FDIC, May 2019).

MAY 11, 2019

May 11, 2019, broke like an ordinary Saturday in the sleepy town of Cooper, Texas. Located about 80 miles northeast of Dallas, Cooper serves as the county seat of Delta County, one of the smaller counties in Texas with a total population of only 5,331. The high that day only reached 65 degrees in Cooper, a welcome respite from the normal for that time of year for Delta county residents. The local Dairy Queen, the only chain restaurant in town, enjoyed a brisk business, and students from Cooper High School were looking forward to summer break only weeks away.

On the radio, “Small Town Saturday Night” was playing, or at least it should have been. Everything in town was peaceful, calm, and relaxed, or so it seemed on the surface, but by 6:38 pm, things began to heat up when the Delta County 911 office received a distress call from the local Dairy Queen. A member of the Enloe State Bank’s cleaning crew, Brenda Miller, had arrived at work to find smoke issuing from the bank and dashed next door to the Dairy Queen to raise the alarm. Teresa Thompson, who works as a cook for Dairy Queen, quickly called 911, and within fifteen minutes, firefighters and the Delta County sheriff’s office arrived on the scene (McCaffery, 2019). What they found, a smoldering stack of papers on the bank’s board room’s table, shocked the town, piqued the interest of regulators, and ultimately led to the collapse of the bank and the arrest of its president (Larson, 2020).

1928 - 2008

The Enloe State Bank opened for business in 1928 in the small town of Enloe, Texas. Although this was on the eve of the Great Depression, the bank not only survived but also went on to serve the needs of Delta County residents for 91 years. In 1993, Enloe State Bank expanded its operations by adding its first branch just five miles away in Cooper, Texas. Today, the town of Enloe has a population of only 128 people. So, it is not surprising that in 2008 the bank relocated all of its operations to Cooper, Texas. Noel Bailey, a former president of Enloe State Bank, recalled that the owners of the bank, sons of the founder, were concerned about helping the community grow and prosper. “The people who hired me in 1975 were good men,” Bailey offered. They told me, “you do good for the people around here.” During Bailey’s tenure, the bank grew from 3 million in deposits to over 30 million, and by the time he left the bank in 1989, Enloe was “the leading bank in the whole area.” Explaining their success, Bailey offered that, “People like to be treated right, and we developed a reputation for our friendliness” (Noel S. Bailey, personal communication, 2020).

APRIL 2018

Onsite bank examinations by the Federal Deposit Insurance Corporation (FDIC) and the Texas Department of Banking (TDB) serve the critical functions of maintaining public confidence in the banking system and protecting the Deposit Insurance Fund (DIF), which, in turn, exists to insure deposits. Examination results are communicated through a written report of examination (ROE) that highlights findings and conclusions. These findings identify undue risks and weak risk management practices. A significant output of this process is the assignment of a CAMELS rating to each financial institution. This composite rating is based on an evaluation of six operational and financial components of the financial institution. The components include capital adequacy, asset quality, management capabilities, earnings sufficiency, liquidity position, and market risk sensitivity. Composite

ratings are scaled from 1 to 5, with 1 indicating the strongest rating and least degree of supervisory concern and a 5 conveying the opposite extreme.

Management's ability to adapt to and adequately respond to changing circumstances and risks is an essential factor in determining an institution's risk profile and supervisory concern level. Therefore, the management capabilities component of "CAMELS" is considered when assigning a financial institution's rating (Miller et al., 2016). When issues occur that rise to the level of "Matters Requiring Board Attention" (MRBA), the examiner in charge of the onsite review meets with the Board of directors to address the issues and discuss the consequences of failing to take action. When prompt action is taken to address MRBAs, underlying problems can be mitigated before becoming more challenging to remedy (Herrboldt & Weber, 2016).

Historically, Enloe State Bank was viewed by regulators as a strong bank and received satisfactory ratings, but problems started to appear in the April 2018 examination. During this review, the FDIC downrated Enloe's overall CAMELS rating from a composite 1 to a 2 because of concerns with the management capabilities component. Specifically, the report of examination (ROE) included an MRBA to the effect that Enloe was not in compliance with established safety and soundness standards in the areas of internal controls, management information systems, and internal audit. To help alleviate the concerns raised by the MRBA, the Enloe Board was obliged to schedule a full financial statement audit for 2018 that included an attestation of their internal routines and controls (FDIC, September 2019).

MARCH 2019 – MAY 8, 2019

Following this April 2018 examination, the FDIC frequently checked in with the Enloe State Bank to ensure that the Board addressed the concerns raised in the MRBA. However, in March 2019, the Enloe State Bank surprised the FDIC by not providing them with the external audit report that was required under the MRBA. The TDB forwarded a draft of the bank's audit to the FDIC on May 8, 2019. Unfortunately, the draft fell far below a full audit and only provided an independent review of specific internal controls and a reconciliation of select general ledger accounts. Due to this lack of compliance, the TDB scheduled an examination of Enloe State Bank to begin on May 13, 2019 (FDIC, September, 2019).

FIRE, FRAUD, AND THE FEDS

On May 11, at 6:38 pm, the Cooper Volunteer Fire Department and Delta County deputies responded to a 911 call from the local Dairy Queen about a fire at the Enloe State Bank next door. When they arrived at the bank, they found papers on fire on the conference room table. In reports to the local press, Delta County Sheriff

Ricky Smith deemed the blaze suspicious. When the Texas Department of Banking learned of the May 11th fire at Enloe State Bank just two days before their scheduled visit, it arose more than just their suspicions. The FDIC informed the TDB that they would also like to participate in this examination. However, they were not the only agencies to show up in Cooper. The Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) and the Texas State Fire Marshal's Office quickly began an investigation into the blaze at the bank, with the ATF tanking the lead. Banks are classified as federal assets, which was the prime reason for ATF's interest. Fire investigators revealed that a lack of oxygen kept the fire from spreading beyond the board room, although the rest of the structure suffered smoke damage. By May 16, the FDIC, the TDB, and the ATF were all on the ground in Cooper, Texas, examining the strange events surrounding the Enloe State Bank.

At this time, the FDIC reached out to Noel Bailey, not about the bank fraud, or Anita Moody, the young teenager he had hired years ago while at Enloe, but because they needed a place for their examiners to work. The smoke damage was so severe that investigators couldn't work in the bank due to health concerns (McCaffery, 2019). As chance would have it, Mr. Bailey was now serving as the preacher of a local church that just happened to be located next door to the bank. Mr. Bailey and the congregation quickly consented to allow the bank examiners use of their facilities, provided they would be out in time for church services. With around fifty examiners working over the next six weeks, the investigation's facts quickly emerged from the ashes (Noel S. Bailey, personal communication, 2020). On May 24, 2019, Enloe was downgraded to a 5 "a troubled institution" on their CAMELS rating due to significant losses from over 100 fraudulent loans. Mr. Bailey recounted that they were "making loans to folks who were dead and former bank customers." Unsurprisingly, this left Enloe critically undercapitalized.

MAY 31, 2019

By May 31, the Texas Department of Banking had seen enough and closed the bank citing evidence of "insider abuse and fraud by former officers" (FDIC, September 2019). The Deposit Insurance Fund's loss was estimated to be \$27.6 million, or approximately three-fourths of Enloe's \$37 million in total assets. The TDB appointed the FDIC as receiver. Key FDIC documents confirmed that Enloe's Board of directors failed to establish adequate corporate governance to monitor and control management's activities, including those of a dominant bank president. Inadequate governance led to the origination of a large number of irregular loans (fraudulent and fictitious). Due to the losses associated with these loans, Enloe's capital was severely diminished, and Enloe's Board of directors could not address this shortfall. Left with little recourse, Enloe's Board voluntarily moved to close the bank and place it with the TDB for liquidation.

JUNE 3, 2019

On the same day the FDIC announced Enloe's closure, Legend Bank, based out of Bowie, Texas, announced that it had acquired Enloe State Bank. Legend Bank entered into a purchase and assumption agreement with the FDIC as receiver to assume Enloe State Bank's insured deposits (FDIC, May 2019). On Monday, June 3, Legend Bank reopened the former bank as a new Legend branch. Mickey Faulconer, the President and CEO of Legend Bank, welcomed Enloe State Bank's customers and assured them that "their FDIC insured deposits are safe, secure, and accessible" (Legend Bank, 2019). Legend agreed to acquire only \$5.2 million of Enloe State Bank's \$36.7 million in assets.

JUNE 5, 2020

On Friday, June 5, 2020, Anita Moody, the former bank president of Enloe State Bank, pleaded guilty to federal violations, including conspiracy to commit bank fraud and arson in Sherman, Texas. In 1977, Moody began her banking career at Enloe State. During her tenure at the bank, she served in various roles, including loan officer, board member, information technology officer, and loan committee member (Larson, 2021). In 2002, Moody was promoted to Enloe's top position (U.S. v Moody – Sentencing Memo, 2020). Court records indicate that Moody's banking fraud, which began in 2012, occurred over seven years and culminated in creating over 100 false nominee loans at Enloe State Bank in Cooper, Texas. As for the arson charge, Moody admitted in court to setting fire to documents in the bank's boardroom to conceal her role in creating the fraudulent loans (Krause, 2020). On February 23, 2021, U.S. District Judge Amos L. Mazzant, III, sentenced the 57-year-old Moody to 96 months in federal prison and ordered the defendant to pay restitution of \$11,136,241.82 (United States Department of Justice, 2021). Anita Moody testified at an earlier court appearance that she had spent the \$11 million on "lifestyle."

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APPENDIX A

Internal Control Framework

The COSO framework is the most widely used framework for assessing internal control effectiveness in the U.S. (Lawrence et al., 2018). According to COSO (2013), internal control is a process effected by an entity's Board of Directors (BOD); it places responsibility for internal control oversight on the BOD and identifies the following BOD responsibilities:

- Establish integrity and ethical expectations.
- Maintain a working knowledge of the organization's activities and environment.
- Invest an adequate amount of time fulfilling their governance responsibilities.
- Investigate issues.
- Maintain communication channels with internal auditors, independent auditors, and legal counsel (COSO, 2013).