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Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

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Sterling Bancorp, Inc. to Plead Guilty to \$69M Securities Fraud

A Southfield, Michigan-headquartered bank holding company has agreed to plead guilty to securities fraud for filing false securities statements relating to its 2017 initial public offering (IPO) and its 2018 and 2019 annual filings.

According to a signed plea agreement that will be publicly filed in court, Sterling Bancorp, Inc. (the Company) was the holding company for its wholly owned subsidiary, Sterling Bank and Trust F.S.B. (the Bank, or together with the Company, "Sterling"). Sterling – with branches located in San Francisco, Los Angeles, Seattle, New York, and Southfield – completed an IPO in 2017, and the Company's stock began trading on the NASDAQ exchange under the ticker symbol "SBT."

"For years, Sterling originated residential mortgages that were rife with fraud to pad its bottom line and then lied about these loans in its IPO and subsequent public filings, defrauding unwitting investors," said Assistant Attorney General Kenneth A. Polite, Jr. of the Justice Department's Criminal Division. "This proposed guilty plea reflects the nature and seriousness of the wrongdoing and demonstrates the Department of Justice's commitment to protecting the integrity of our public markets, holding corporations accountable for their criminal misconduct, and compensating victims for their losses."

The largest portion of the Bank's loan portfolio was composed of residential mortgage loans. In or around 2011, the Bank established a residential mortgage loan program known as the Advantage Loan Program (ALP). Between 2011 and 2019, the Bank's employees and agents originated at least \$5 billion in ALP loans. The Bank touted the ALP's flexible documentation requirements and fast underwriting and closing capabilities. The program required a minimum 35% down payment and charged higher rates and fees than generally were available elsewhere in the market, but it did not require submission of typical loan documentation, such as an applicant's tax returns or payroll records.

"The consequences of this type of financial fraud scheme are damaging and far-reaching," said Assistant Director Luis Quesada of the FBI's Criminal Investigative Division. "The FBI and our law enforcement partners remain committed to protecting good-faith investors and safeguarding the integrity of our markets from companies that commit securities fraud."

In the lead-up to its IPO, Sterling, through its founder and certain members of senior management, encouraged loan officers to increase the volume of ALP loan originations to increase the Bank's revenue through origination fees and interest payments. The Bank's Underwriting Department maintained internal underwriting guidelines that governed the loan approval process for the ALP. The underwriting guidelines required loan officers to obtain various documents from the borrower and the borrower's employer. In addition to collecting these documents, loan officers were supposed to calculate the borrower's debt-to-income ratio, which was a personal-finance measure that compared the amount of debt a borrower had to the borrower's overall income and was used to measure the borrower's ability to manage monthly mortgage payments. Taken together, the various documents obtained from the borrower and the borrower's employer, and related information, were critical to completing certain mortgage application forms and assessing the creditworthiness of a borrower's application.

In connection with loans originated through the ALP, and with the knowledge and encouragement of Sterling's founder and certain members of senior management, the Bank's loan officers falsified, caused to be falsified, and concealed various information from the Bank's Underwriting Department and Quality Control Department that the loan officers believed would delay or prevent the Bank from originating loans under the ALP.

The false information that the loan officers included and caused to be included in ALP applications was ultimately transmitted to, and relied upon by, the Bank's Underwriting Department and caused the Bank to originate ALP loans and extend credit to borrowers who otherwise would not have qualified for credit from the Bank based upon the underwriting guidelines. These fraudulent loans directly increased the Bank's revenue through fees and interest associated with the origination of the fraudulent loans.

In or around October 2017 – while Sterling was artificially inflating its revenue through the ALP – Sterling went public. In connection with its IPO, Sterling's 2017 SEC Form S-1 contained materially false and misleading statements that touted the soundness of the ALP loans. In truth, the ALP was rife with fraud.

After Sterling's IPO, the ALP fraud continued. In its 2018 and 2019 SEC Form 10-K filings, Sterling reiterated a series of materially false and misleading statements about the ALP. As a result of Sterling's fraud, the total loss to Sterling's non-insider victim-shareholders was nearly \$70 million.

"Bank holding companies that engage in fraud to deceive the public and regulators must be brought to justice for their actions," said Inspector General Mark Bialek of the Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau. "I commend our agents and their federal law enforcement partners for their hard work and persistence, which ultimately led to today's announcement."

"This proposed guilty plea holds Sterling accountable for its role in defrauding non-insider victim-shareholders of millions of dollars by originating fraudulent loans through its Advantage Loan Program and filing false securities statements about the Program in its IPO and subsequent annual filings," said Acting Inspector General Tyler Smith of the Federal Deposit Insurance Corporation Office of Inspector General (FDIC-OIG). "The FDIC-OIG is committed to working with our law enforcement partners to investigate financial crimes that harm innocent investors and consumers and undermine the integrity of the banking sector."

"This case is another example of Postal Inspectors relentlessly pursuing any individual or entity committing securities fraud," said Inspector in Charge Eric Shen of the U.S. Postal Inspection Service (USPIS) Criminal Investigations. "I'm proud of the work done by all the investigators involved in this case and look forward to the continued collaborative efforts between Postal Inspectors and our law enforcement partners."

Under the terms of the plea agreement, which must be accepted by the court, the Company will plead guilty to one count of securities fraud. The Company will also be required to serve a term of probation through 2026, submit to enhanced reporting obligations to the department, and pay more than \$27.2 million in restitution to its non-insider victim-shareholders. The department considered a range of factors outlined in the department's Inability to Pay Guidance and determined that any payment exceeding approximately \$27.2 million is reasonably likely to threaten the continued viability of the Company, which may expose the Company's shareholders to a further risk of loss. Accordingly, to ensure that the maximum amount of the Company's funds is paid to restitution, the department has agreed not to seek a criminal fine in this case.

A number of relevant considerations contributed to the department's criminal resolution with Sterling, including the nature and seriousness of the offense and the pervasiveness of the misconduct at the most senior levels of the Company. Sterling received credit for its cooperation with the department's investigation and engaged in extensive remedial measures, including terminating employees involved in the ALP fraud, such that through terminations and resignations, more than 100 officers and employees left the bank; completely overhauling the Bank's senior management, including terminations of former senior management; overhauling the Bank's residential lending department, internal audit function, compliance function, and Bank Secrecy Act/Anti-Money Laundering function, and creating an enterprise risk management function; permanently ending the ALP; hiring a new chairman, chief executive officer, and president; increasing the number of independent directors on the Company's board of directors; and implementing a new business model to reduce its risk profile.

As part of Sterling's plea agreement, Sterling agreed to cooperate fully with the United States in all matters relating to the conduct covered by the plea agreement and other conduct under investigation by the United States, to self-report violations of U.S. federal criminal law, and to continue to implement a compliance and ethics program designed to effectively detect and deter violations of U.S. securities laws throughout its operations.

The FBI Los Angeles Field Office, Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau Office of Inspector General, FDIC-OIG San Francisco, and USPIS investigated the case.

Assistant Chief Cory E. Jacobs and Trial Attorney Amanda Fretto Lingwood of the Criminal Division's Fraud Section are prosecuting the case.

If you believe you are a victim in this case, please contact the Fraud Section's Victim Witness Unit toll-free at (888) 549-3945 or by email at victimassistance.fraud@usdoj.gov. You are also encouraged to visit our webpage for this case at <https://www.justice.gov/criminal-vns/case/united-states-v-sterling-bancorp-inc>.

Attachment(s):

[Download Plea Agreement](#)

Topic(s):

Financial Fraud

Securities, Commodities, & Investment Fraud

Component(s):

[Criminal Division](#)

[Criminal - Criminal Fraud Section](#)

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