**U. S. Department of Justice**
Federal Bureau of Investigation

**FINANCIAL CRIMES SECTION** **CRIMINAL INVESTIGATIVE DIVISION**

# FINANCIAL CRIMES REPORT TO THE PUBLIC

MAY 2005

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# FINANCIAL CRIMES

The Federal Bureau of Investigation (FBI) investigates matters relating to fraud, theft, or embezzlement occurring within or against the national or international financial community. These crimes are characterized by deceit, concealment, or violation of trust, and are not dependent upon the application or threat of physical force or violence. Such acts are committed by individuals and organizations to obtain personal or business advantage. The FBI focuses its financial crimes investigations on such criminal activities as corporate fraud, health care fraud, mortgage fraud, identity theft, insurance fraud, and money laundering. These are the identified priority crime problem areas of the Financial Crimes Section (FCS) of the FBI.

The mission of the FCS is to oversee the investigation of financial fraud and to facilitate the forfeiture of assets from those engaging in federal crimes. The FCS is divided into four units: the Economic Crimes Unit, Health Care Fraud Unit, Financial Institution Fraud Unit, and the Asset Forfeiture/Money Laundering Unit.

The Economic Crimes Unit is responsible for significant frauds targeted against individuals, businesses and industries to include: corporate fraud, insurance fraud (non-health care related), securities and commodities fraud, telemarketing fraud, Ponzi schemes, advance fees schemes, and pyramid schemes.

The Health Care Fraud Unit oversees investigations targeting individuals and/or organizations who are defrauding the public and private health care systems. Areas investigated under health care fraud include: billing for services not rendered, billing for a higher reimbursable service than performed (upcoding), performing unnecessary services, kickbacks, unbundling of tests and services to generate higher fees, durable medical equipment fraud, pharmaceutical drug diversion, outpatient surgery fraud, and internet pharmacy sales.

The mission of the Financial Institution Fraud Unit is to identify, target, disrupt, and dismantle criminal organizations and individuals engaged in fraud schemes which target our nation's financial institutions. Areas investigated in the financial institution fraud arena include: financial institution failures, insider fraud, identity theft, check fraud, counterfeit negotiable

instruments, check kiting, loan fraud, and mortgage fraud.

The Asset Forfeiture/Money Laundering Unit promotes the strategic use of asset forfeiture and ensures field offices employ the money laundering violation in all investigations, where appropriate, to disrupt and/or dismantle criminal enterprises. The term, "follow the money," leads to the identification of assets which can be forfeited and lead to the effective and efficient disruption and dismantling of illegal money laundering apparatuses.

This report addresses the various priorities of the FBI in financial crimes and the FBI's efforts to combat them. Each section provides an overview, statistical accomplishments, and successful investigations for the identified crime problem. Where appropriate, each section also provides ways in which the public can protect themselves from being victimized.

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# CORPORATE FRAUD

## I. General Overview

In July 2002, President Bush formed a task force comprised of senior executives from numerous federal agencies to address the barrage of corporate fraud cases that surfaced in the wake of the Enron scandal. As the lead agency investigating corporate fraud, the FBI has focused its efforts on cases which involve accounting schemes, self-dealing by corporate executives, and obstruction of justice to conceal illegal activities from criminal and regulatory authorities.

The majority of corporate fraud cases pursued by the FBI involve accounting schemes designed to deceive investors and Wall Street analysts about the true financial condition of a corporation. Through the manipulation of financial data, the share price of a corporation remains artificially inflated based on fictitious performance indicators provided to the investing public.

The FBI has not observed any major changes in criminal trends relating to Corporate Fraud. It is anticipated that the number of cases will continue to flourish. The FBI is committed to this problem. It remains the #1 priority within the Financial Crimes Section. There are presently 405 Corporate Fraud cases being pursued by FBI field offices throughout the United States. This represents a 100 percent increase over the number of Corporate Fraud cases pending at the end of Fiscal Year 2003. Eighteen of the current pending cases involve losses to public investors which individually exceed $1 billion. The volume of cases has yet to reach a plateau, with three to six new cases being initiated each month.

Corporate Fraud investigations involve the following activities:

(1) Falsification of financial information, including false accounting entries, bogus trades designed to inflate profit or hide losses, and false transactions designed to evade regulatory oversight;

(2) Self-dealing by corporate insiders, including:

(a) Insider Trading;
(b) Kickbacks;

(c) Misuse of corporate property for personal gain; and,
(d) Individual tax violations related to self-dealing;

(3) Fraud in connection with an otherwise legitimately-operated mutual or hedge fund (including, for example, late trading, certain market timing schemes, falsification of net asset values, and other fraudulent or abusive trading practices by, within, or involving a mutual or hedge fund); and,

(4) Obstruction of justice designed to conceal either of the above-noted types of criminal conduct, particularly when the obstruction impedes the inquiries of the Securities and Exchange Commission (SEC), other regulatory agencies, and/or law enforcement agencies.

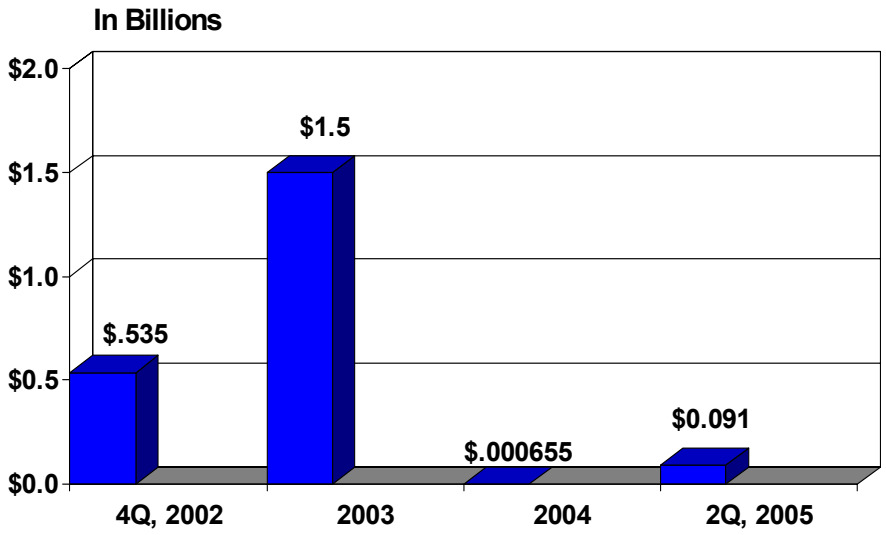
The FBI has formed partnerships with numerous agencies to capitalize on their expertise in specific areas such as Securities, Tax, Pensions, Energy and Commodities. The FBI has placed greater emphasis on investigating allegations of these frauds by working closely with the SEC, National Association of Securities Dealers Regulation, Internal Revenue Service, Department of Labor, Federal Energy Regulatory Commission, Commodity Futures Trading Commission, and United States Postal Inspection Service. These agencies contribute significant personnel, resources, and technical expertise to Corporate and Securities Fraud investigations.

The FBI has worked with numerous organizations in the private industry to increase public awareness about combating corporate fraud, to include: Public Company Accounting Oversight Board, American Institute of Certified Public Accountants and the North American Securities Administrator's Association, Inc. These organizations have been able to provide referrals for expert witnesses and other technical assistance regarding accounting and securities issues. In addition, the Financial Crimes Enforcement Network and Dunn & Bradstreet have been able to provide significant background information on subject individuals or subject companies in an investigation.

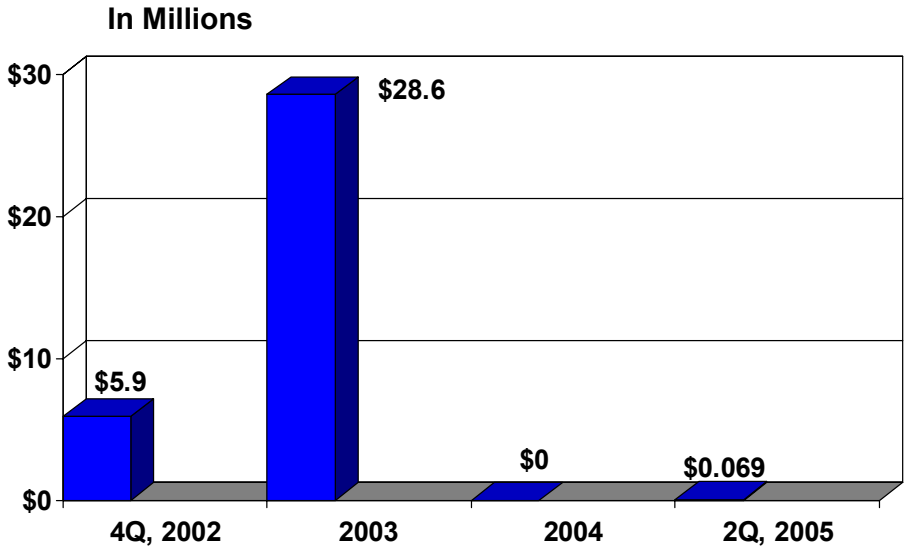
## II. Overall Accomplishments

Through Fiscal Year 2005, cases pursued by the FBI resulted in 497 indictments and 317 convictions of corporate criminals. Numerous cases are pending plea agreements and trials. From July 1, 2002 through March 31, 2005, accomplishments regarding Corporate Fraud cases were as follows: $2.2 billion in Restitutions, $34.6 million in Recoveries, $79.1 million in Fines, and $27.9 million in Seizures. As Corporate Fraud statistical accomplishments were not provided before July 1, 2002, the following statistical accomplishments are reflective of this time frame through Second Quarter, Fiscal Year 2005.

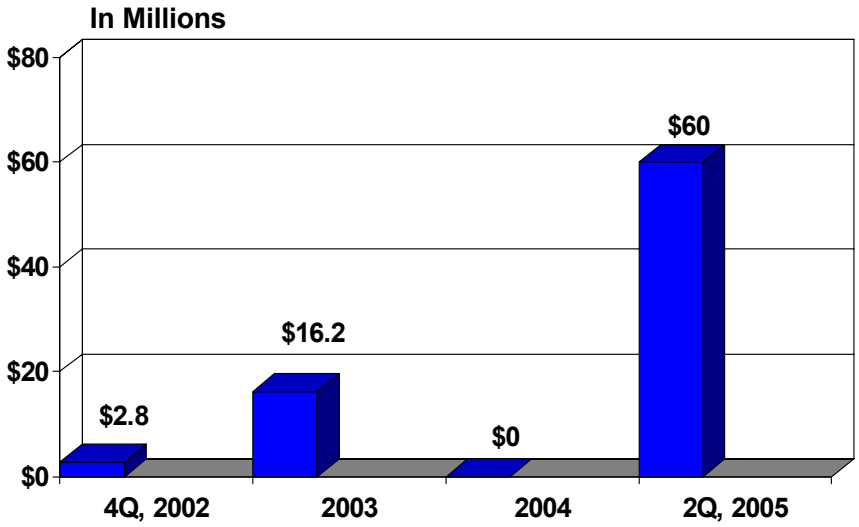
# CORPORATE FRAUD RESTITUTIONS



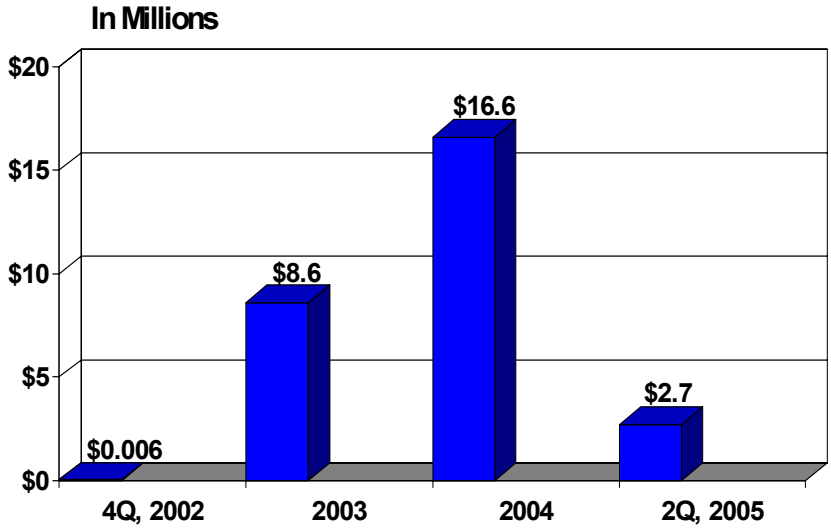

# CORPORATE FRAUD RECOVERIES



## CORPORATE FRAUD FINES




## CORPORATE FRAUD SEIZURES



Select corporate fraud investigations conducted by the FBI throughout Fiscal Year 2004 include Enron, HealthSouth, Cendant Corporation, Credit Suisse First Boston, Computer Associates International, Worldcom, Imclone, Royal Ahold, Peregrine Systems, and America On-Line. The above-highlighted ten investigations have resulted in 120 indictments/ informations and 79 convictions.

Currently the former Chief Executive Officer (CEO) of HealthSouth is on trial in Alabama. Several additional high-profile trials are anticipated, to include the trial of Enron's former CEOs and Chief Accounting Officer, anticipated to begin in January 2006.

**III. Significant Cases**

**WORLDCOM (NEW YORK) -** On March 15, 2005, a federal jury in the Southern District of New York (SDNY) found Bernard Ebbers, the former CEO of Worldcom, guilty on all counts, which included conspiracy, securities fraud, and false regulatory filings. These charges relate to Ebber's role in Worldcom's submission of fictitious financial statements to the SEC between October 2000 and June 2002, which resulted in a loss of $11 billion. In addition to the conviction of Ebbers, five additional Worldcom executives have been convicted: Scott Sullivan, Chief Financial Officer (CFO); David Myers, Controller; Buford Yates Jr., Director General Accounting; Troy Normand, Director Legal Entity Accounting; and Betty Lynn Vinson, Director Management Reporting. Worldcom is an international telecommunications company with corporate headquarters in Clinton, Mississippi.

**ROYAL AHOLD (NEW YORK) -** On July 23, 2004 and July 27, 2004, former CFO Michael Resnick and two former Executive Vice Presidents Mark Kaiser and Tim Lee of the U.S. Foodservice (USF), a subsidiary of Royal Ahold (Ahold), were indicted in the SDNY on charges of conspiracy, securities fraud, false filings with the SEC, and maintaining false books and records. These charges relate to their involvement in an accounting and vendor fraud scheme which caused Ahold to overstate its earnings in 2001 and 2002 by over $1 billion. The New York Office also has convicted nine executives who were vendors of USF for conspiracy to commit securities fraud.

**PEREGRINE SYSTEMS (SAN DIEGO) -** On October 5, 2004, a federal grand jury indicted 12 former executives of Peregrine Systems (Peregrine) on securities fraud charges in the Southern District of California, including Stephen P. Gardner, CEO, Gary L. Lenz, President and Chief Operations Officer, and outside parties such as Larry Rodda, Managing Director of KPMG and Daniel F. Stulac, Senior Accountant of Arthur Andersen. These charges relate to the former executives involvement in issuing fictitious financial statements, which resulted in the improper recognition of $250 million in revenue for Fiscal Years 2000 and 2001. To date, 17 subjects have been charged in this case. Six former Peregrine executives have pled guilty and are cooperating. The investigation was a joint effort between the FBI and the SEC.

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# HEALTH CARE FRAUD

## I. General Overview

The FBI's mission in the area of Health Care Fraud is to oversee the FBI's Health Care Fraud initiatives by providing national guidance and assistance to support health care fraud investigations targeting individuals and organizations who are defrauding the public and private health care systems. The FBI, along with its federal, state and local law enforcement partners, the Centers for Medicare and Medicaid Services (CMS), and other government and privately-sponsored program participants, work closely together to address vulnerabilities, fraud, and abuse.

All health care programs are subject to fraud, although Medicare and Medicaid programs are the most visible. Estimates of fraudulent billings to health care programs, both public and private, are estimated to be between 3 percent and 10 percent of total health care expenditures. The fraud schemes are not specific to any general area, but are found throughout the entire country. The schemes target large health care programs, public and private, as well as beneficiaries. Certain schemes tend to be worked more often in certain geographical areas, and certain ethnic or national groups tend to also employ the same fraud schemes. The fraud schemes have, over time, become more sophisticated and complex, and are now being perpetrated by more organized crime groups, to include traditional and non-traditional crime groups.

Health Care Fraud is expected to continue to rise as people live longer. This increase will produce a greater demand for Medicare benefits. As a result, it is expected that the utilization of long and short term care facilities such as skilled nursing, assisted living, and hospice services will expand substantially in the future. Additionally, fraudulent billings and medically unnecessary services billed to health care insurers are prevalent throughout the country. These schemes are becoming increasingly complex and can be perpetrated by corporate-driven schemes and systematic abuse by certain provider types.

In 2004, health care expenditures were estimated at $2.1 trillion which represents 15.5 percent of the Gross Domestic Product. By the year 2012, CMS estimates total health care spending to exceed $3.1 trillion. With health care expenditures rising at three times the rate of inflation, it is especially important to coordinate all investigative efforts to combat fraud within

the health care system. The FBI is the primary investigative agency in the fight against health care

fraud, and has jurisdiction over both the federal and private insurance programs. With more than $1 trillion being spent in the private sector on health care and its related services, the FBI's efforts are crucial to the success of the overall program. The FBI leverages its resources in both the private and public arenas through investigative partnerships with agencies such as the U. S. Department of Health and Human Services-Office of Inspector General (HHS-OIG), the Food and Drug Administration (FDA), Drug Enforcement Agency (DEA), Defense Criminal Investigative Service, Office of Personnel Management, Internal Revenue Service and various state and local agencies. On the private side, the FBI is actively involved with national groups, such as the National Health Care Anti-Fraud Association (NHCAA), the Blue Cross and Blue Shield Association (BCBSA), the American Association of Retired Persons and the Coalition Against Insurance Fraud, as well as many other professional and grass-roots efforts to expose and investigate fraud within the system.

In furtherance of the FBI's efforts to combat health care fraud in the U.S., the FBI participates in various initiatives with local, state and federal agencies. At the Headquarters level, the FBI is a member in Senior Level Working Groups which includes the CMS, U.S. Department of Justice (DOJ), HHS and other agencies to identify and assess health care industry vulnerabilities and make recommendation to protect the industry and the public through a coordinated effort. Throughout the country, FBI field offices participate in Health Care Fraud Working Groups which involve law enforcement agencies, prosecutors, regulatory agencies and health insurance industry professionals to identify the various crime problems involving health care fraud. The FBI develops national and local initiatives when large scale fraud is detected, which may involve participation by several FBI field offices and other law enforcement agencies.

Over the years, FBI national initiatives have addressed frauds involving Medical Transportation, Durable Medical Equipment, Hospital Cost Reporting, Outpatient Surgery Centers, Pharmaceutical Fraud, and a variety of other specialized investigations. FBI offices also establish local and state initiatives to meet the needs of the community. Throughout the country, various field offices have conducted their own initiatives targeting clinic, pharmacy, medical equipment, home health agency, cosmetic surgery center and other frauds which are of great concern within a community. The FBI participates in task forces whenever possible to address specific crime problems or groups of individuals. Every two years, the FBI conducts an extensive crime survey which includes a detailed analysis of the crime problems. The specific FBI office obtains information from various law enforcement and regulatory agencies, obtains and reviews intelligence information and conducts interviews of individuals in the private and public sector which enables the FBI to identify the most significant health care fraud crime problems affecting a particular community and geographic area. In order to meet the needs of the private insurance industry, the FBI works very closely with the NHCAA to identify crime trends and provide training to industry and law enforcement agency personnel. Most of the insurance companies utilize an internal Special Investigations Unit and work closely with the FBI and our law enforcement partners.

Health care fraud investigations are among the highest priority investigations

within the FBI and rank behind only Public Corruption and Corporate Fraud in the FBI's White Collar Crime Program Plan. National initiatives include the National Outpatient Surgery Initiative, the Medical Transportation Initiative, and the Pharmaceutical Fraud Initiative. Furthermore, numerous FBI field offices throughout the U.S. have pro-actively addressed significant crime problems through coordinated initiatives, task forces, and undercover operations to identify and pursue investigations against the most egregious offenders which may include organized criminal activity and criminal enterprises. Organized criminal activity has been identified in the operation of medical clinics, independent diagnostic testing facilities, durable medical equipment companies, and other health care facilities. The FBI is committed to addressing this criminal activity through disruption, dismantlement, and prosecution of these criminal organizations.

The most significant trends observed in recent health care fraud cases include the willingness of medical professionals to risk patient harm in their schemes. Current fraud schemes consist of traditional schemes that involve fraudulent billing, but also incorporate unnecessary surgeries, diluted cancer drugs, and fraudulent lab tests. Unscrupulous surgery centers often recruit individuals with quality insurance coverage to receive covered surgeries in exchange for kickbacks. The scheme involves patients willing to undergo unnecessary and unwarranted medical procedures to generate fraudulent claims and profits. These patients are recruited on a national level and are often confined within a variety of ethnic populations.

Cases initiated under the Pharmaceutical Fraud Initiative focus on manufacturers, Internet web sites, and individuals selling illegal prescription drugs and controlled substances. A continued increase in pharmaceutical sales, and the rising cost of fraud with a nexus to the pharmaceutical industry, compelled the FBI to establish a national initiative to pursue, investigate, and prosecute individuals/corporate entities perpetrating this fraud. The FBI has also developed cases on stolen, counterfeit, and diverted pharmaceuticals. The number of cases related to pharmaceutical fraud continues to increase. At the end of Fiscal Year 2004, the FBI had 150 pending investigations in this area.

The FBI works closely with the HHS-OIG to discuss joint cases, legislative/policy issues, and fraud trends. The FBI is involved in biweekly coordination meetings at the DOJ and participates in senior level meetings with DOJ, HHS-OIG, and CMS. In addition, the FBI works closely with the members of the NHCAA. National level liaison is maintained with the DEA, FDA, BCBSA, and other partners.

Industry trends were identified through input from the private and public health care program experts. Areas of concern include Critical Access Hospitals, Home Health Agencies Beneficiary-Sharing, Physical Therapists, Prescription Drugs, Multidisciplinary Fraud and Identity Theft which involve physician identifiers used to fraudulently bill government and private insurance programs.

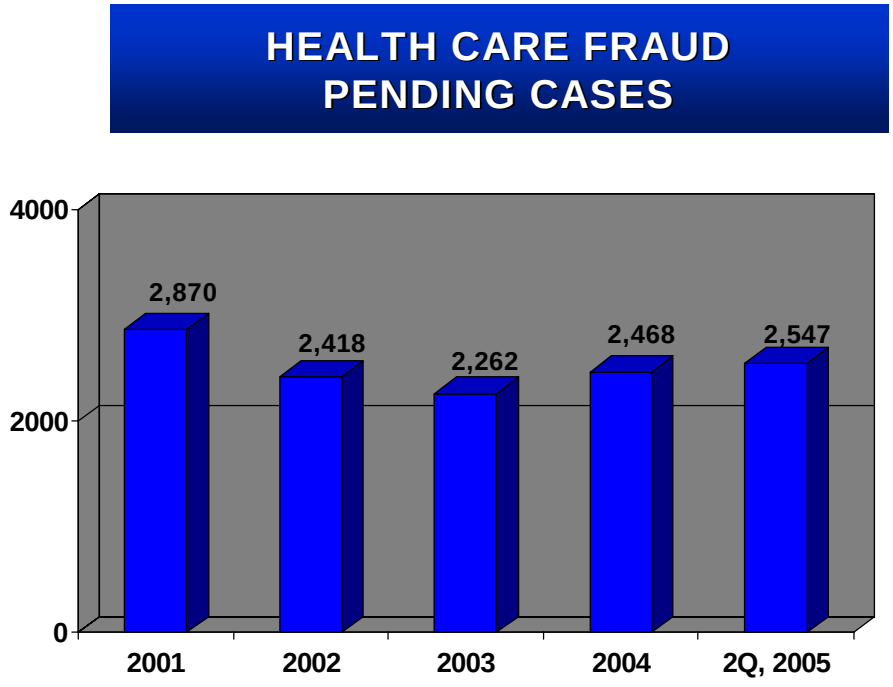
The FBI also addresses large scale medical providers, such as hospitals and

medical corporations, who engage in criminal activity and commit fraud against the Government which undermines the credibility of the health care system.

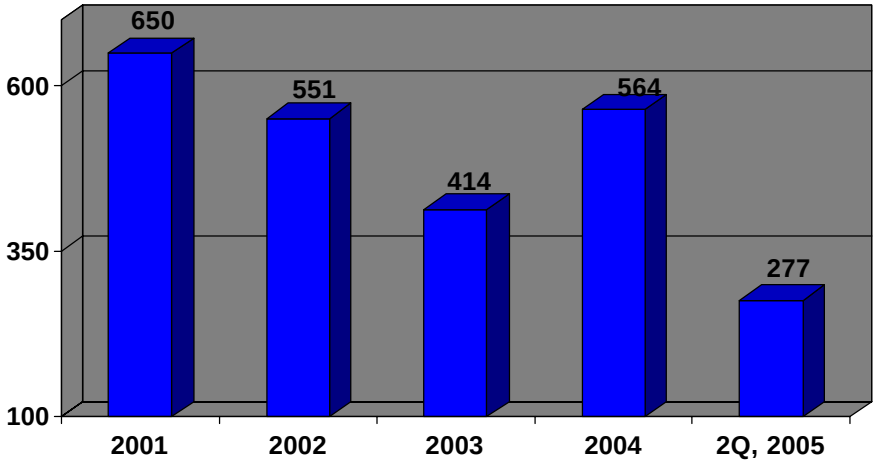
As part of our national strategy to address health care fraud, the FBI cooperates with the DOJ and the various U.S. Attorney's Offices throughout the country to pursue offenders through parallel criminal and civil remedies. As a result, a great deal of emphasis is placed on recovering the illegal proceeds through seizure and forfeiture proceedings. Upon the successful conviction of health care fraud offenders, the FBI provides assistance to various regulatory and state agencies who may seek exclusion of convicted medical providers from further participation in the Medicare and Medicaid health care system.

The FBI and health care industry continue to expand its technology and intelligence assessments through the use of sophisticated data mining techniques to identify patterns of fraud, any systemic weaknesses, and aberrant billing activity in furtherance of our efforts to address the most significant offenders.

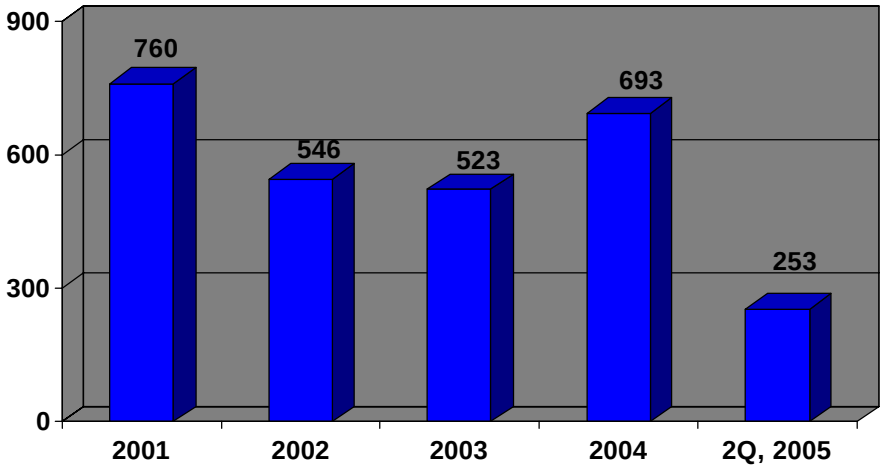
**II. Overall Accomplishments**



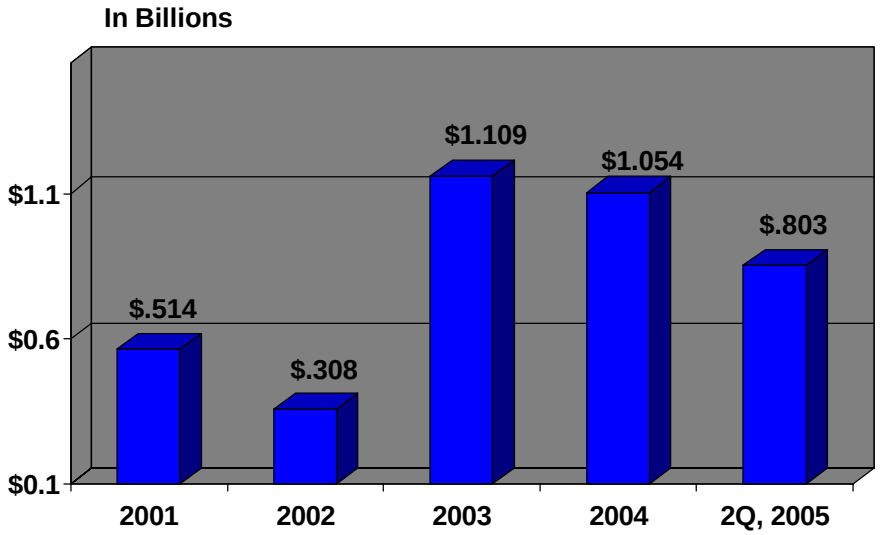
## HEALTH CARE FRAUD CONVICTIONS/PRETRIAL DIVERSIONS



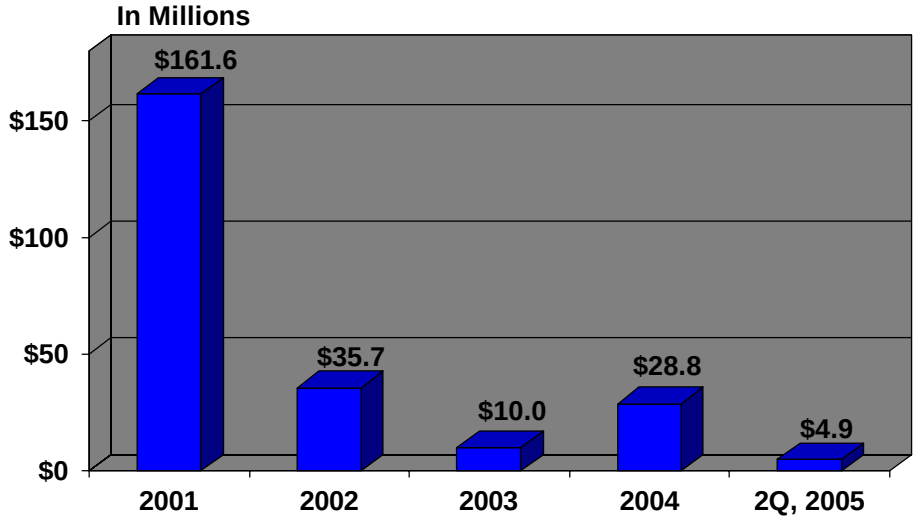

## HEALTH CARE FRAUD INFORMATIONS & INDICTMENTS



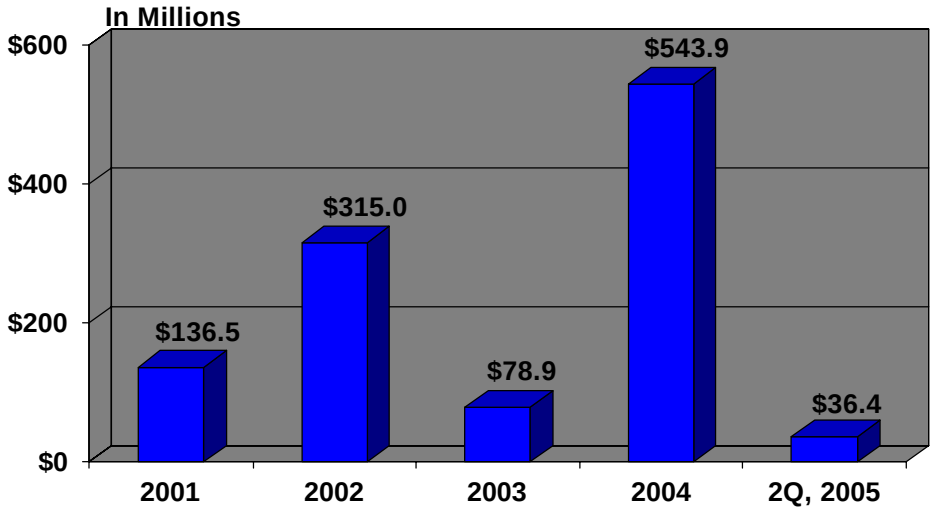
## HEALTH CARE FRAUD RESTITUTIONS



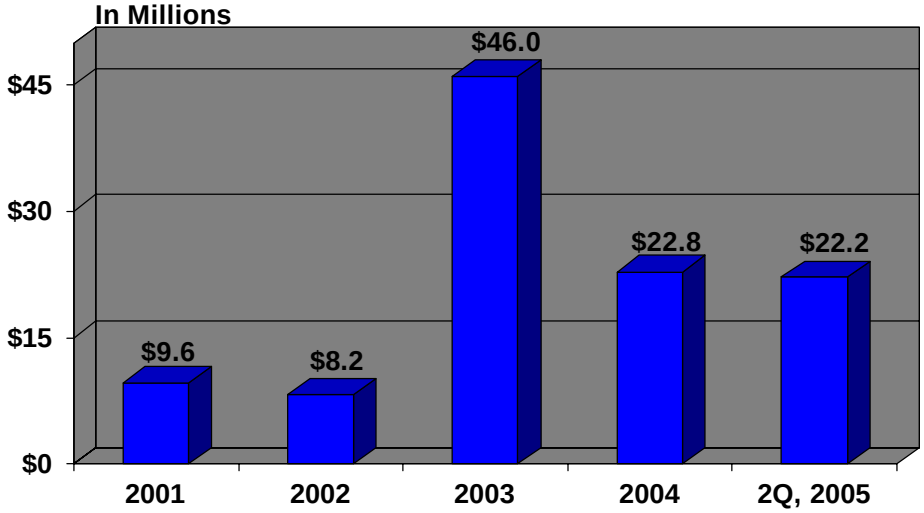

## HEALTH CARE FRAUD RECOVERIES



## HEALTH CARE FRAUD FINES




## HEALTH CARE FRAUD SEIZURES



**III. Significant Cases**

**HOSPITAL CORPORATION OF AMERICA (HCA); HCF (MIAMI)** - In Fiscal Year 2002, HCA Inc., the nation's largest for-profit hospital chain, pleaded guilty to defrauding government health care programs. Whistle-blowers had previously accused HCA of filing false claims for reimbursement from Medicare and Medicaid government health insurance programs, as well as paying kickbacks to doctors for referrals. After a final settlement announced in 2003, the combination of civil fines and criminal penalties resulted in a total of $1.7 billion that the corporation agreed to pay the Federal Government.

**AMBULANCE INITIATIVE**: The FBI launched the national initiative on Ambulance and Medical Transportation Fraud. After specialized training and coordination with HHS-OIG, 37 FBI field offices investigated 101 cases pertaining to ambulance or medical transportation fraud from Fiscal Year 2000 to Fiscal Year 2003. These cases resulted in 55 convictions, 34 plea agreements or settlements, and total restitution ordered of $65 million.

**OPERATION DILUTED TRUST; MC #183; HCF (KANSAS CITY)** - In Fiscal Year 2003, following an FBI investigation into allegations of dilution of chemo-therapy medications, pharmacist Robert Courtney entered a guilty plea, was sentenced to 30 years' imprisonment, and was ordered to pay restitution in the amount of $10.6 million. Subsequent findings in the case identified approximately 4,200 victims and 98,000 potentially adulterated prescriptions dating back as far as 1985. The investigation yielded six other convictions of individuals associated with Courtney's criminal activity.

**HEADWATERS; HCF (SPRINGFIELD)** - "Headwaters" was an investigation which began in Fiscal Year 2000 and targeted Durable Medical Equipment manufacturers across the U.S. in the area of internal feeding, diabetic footwear, and wound care products. To date, this investigation has resulted in three informations being filed, 13 indictments, 11 convictions, criminal fines in excess of $234 million, and civil restitution and fines of more than $390 million. Additional prosecutions are still pending.

## HEALTH CARE FRAUD PREVENTION MEASURES

Health Care Fraud is not a victimless crime. It increases healthcare costs for everyone. It is as dangerous as identity theft. Fraud has left many thousands of people injured. Participation in healthcare fraud is a crime.

Keeping America's health system free from fraud requires active participation from all of us. The large number of patients, treatments and complex billing practices attract criminals skilled in victimizing innocent people by committing fraud.

## What is Health Care Fraud?

- Altered or fabricated medical bills and other documents.
- Excessive or unnecessary treatments.
- Billing schemes, such as:
  --charging for a service more expensive than the one provided.
  --charging for services that were not provided.
  --duplicate charges.
- False or exaggerated medical disability.
- Collecting on multiple policies for the same illness or injury.

## Tips to protect yourself against health care fraud

- Protect your health insurance information card like a credit card.
- Beware of free services--is it too good to be true?
- Review your medical bills after receiving healthcare services--Check that the dates and services are correct to ensure you get what you paid for.
- If you suspect health care fraud, call 1-877-327-2583. For more information, visit the web site at **http://www.bcbs.com/antifraud.**

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# MORTGAGE FRAUD

## I. General Overview

The increased reliance by both financial institutions and non-financial institution lenders on third-party brokers has created opportunities for organized fraud groups, particularly where mortgage industry professionals are involved.

Combating significant fraud in this area is a priority, because mortgage lending and the housing market have a significant overall effect on the nation's economy. All mortgage fraud programs were recently consolidated within the Financial Institution Fraud Unit, even where the targeted lender is not a financial institution. This consolidation provides a more effective and efficient management over mortgage fraud investigations, the ability to identify and respond more rapidly to emerging mortgage fraud problems, and a better picture of the overall mortgage fraud problem.

Each mortgage fraud scheme contains some type of "material misstatement, misrepresentation, or omission relied upon by an underwriter or lender to fund, purchase or insure a loan." The Mortgage Bankers Association projects $2.5 trillion in mortgage loans will be made during 2005. The FBI compiles data on mortgage fraud through Suspicious Activity Reports (SARs) filed by federally-insured financial institutions, and Department of Housing and Urban Development Office of Inspector General (HUD-OIG) reports. The FBI also receives complaints from the mortgage industry at large.

A significant portion of the mortgage industry is void of any mandatory fraud reporting. In addition, mortgage fraud in the secondary market is often under reported. Therefore, the true level of mortgage fraud is largely unknown. The mortgage industry itself does not provide estimates on total industry fraud. Based on various industry reports and FBI analysis, mortgage fraud is pervasive and growing.

The FBI investigates mortgage fraud in two distinct areas: Fraud for Profit and Fraud for Housing. Fraud for Profit is sometimes referred to as "Industry Insider Fraud" and the motive is to revolve equity, falsely inflate the value of the property, or issue loans based on fictitious properties. Based on existing investigations and mortgage fraud reporting, 80 percent of all reported fraud losses involve collaboration or collusion by industry insiders. Fraud for

Housing represents illegal actions perpetrated solely by the borrower. The simple motive behind this fraud is to acquire and maintain ownership of a house under false pretenses. This type of fraud is typified by a borrower who makes misrepresentations regarding his income or employment history to qualify for a loan.

The defrauding of mortgage lenders should not be compared to predatory lending practices which primarily affect borrowers. Predatory lending typically effects senior citizens, lower income and challenged credit borrowers. Predatory lending forces borrowers to pay exorbitant loan origination/settlement fees, sub-prime or higher interest rates, and in some cases, unreasonable service fees. These practices often result in the borrower defaulting on his mortgage payment and undergoing foreclosure or forced refinancing.

Although there are many mortgage fraud schemes, the FBI is focusing its efforts on those perpetrated by industry insiders. The FBI is engaged with the mortgage industry in identifying fraud trends and educating the public. Some of the current rising mortgage fraud trends include: equity skimming, property flipping, and mortgage related identity theft. Equity skimming is a tried and true method of committing mortgage fraud. Today's common equity skimming schemes involve the use of corporate shell companies, corporate identity theft, and the use or threat of bankruptcy/foreclosure to dupe homeowners and investors. Property flipping is nothing new; however, once again law enforcement is faced with an educated criminal element that is using identity theft, straw borrowers and shell companies, along with industry insiders to conceal their methods and override lender controls.

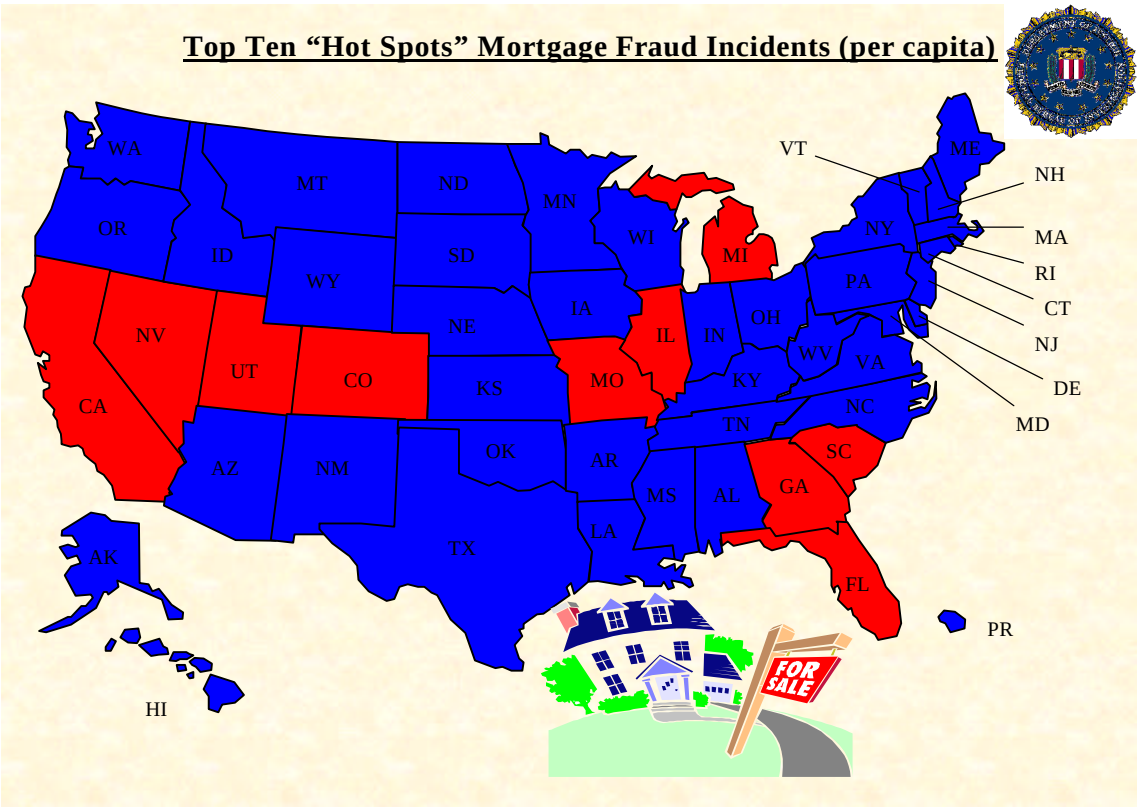
Property flipping is best described as purchasing properties and artificially inflating their value through false appraisals. The artificially valued properties are then repurchased several times for a higher price by associates of the "flipper." After three or four sham sales, the properties are foreclosed on by victim lenders. Often flipped properties are ultimately repurchased for 50 - 100 percent of their original value.

Since 1999, the FBI has been working to actively investigate mortgage fraud in various cities across the United States. The FBI also focuses on fostering relationships and partnerships with the mortgage industry to promote mortgage fraud awareness. To raise awareness of this issue and provide easy accessibility to investigative personnel, the FBI has provided points-of-contacts to relevant groups including the Mortgage Bankers Association (MBA), the Mortgage Asset Research Institute, the Mortgage Insurance Companies of America, Fannie Mae, Freddie Mac, and others.

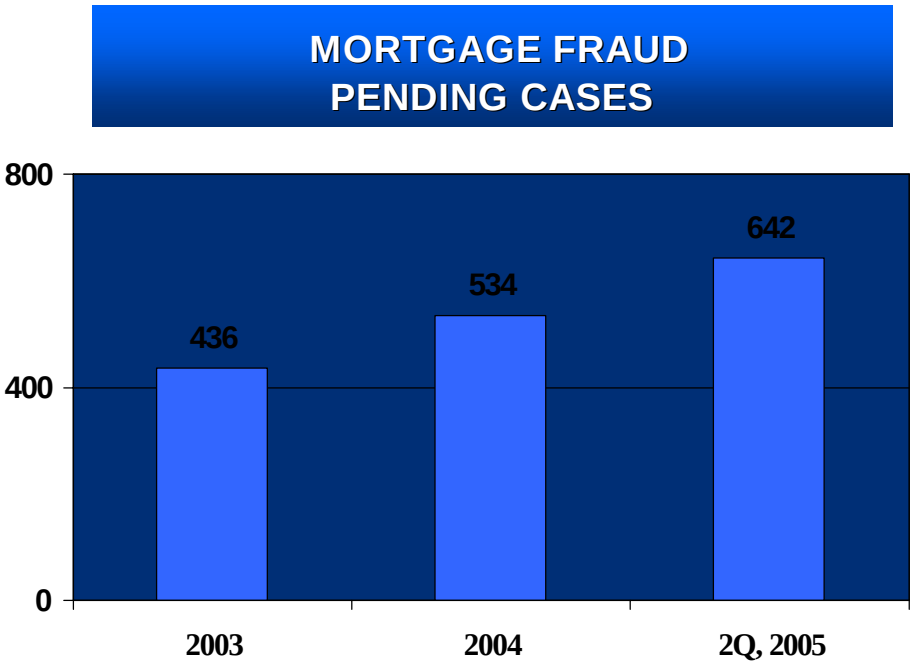
The FBI has also been working to establish broader SAR reporting requirements for mortgage lenders who do have adequate protection under the current safe harbor provisions. The FBI is collaborating with the mortgage industry and Financial Crimes Enforcement Network to create a more productive reporting requirement for mortgage fraud. The FBI has also been working with the mortgage industry through the MBA to promote a more efficient and effective method of identifying and reporting fraudulent mortgage activity, otherwise known as, the Suspicious Mortgage Activity Report (SMARt Form) concept.

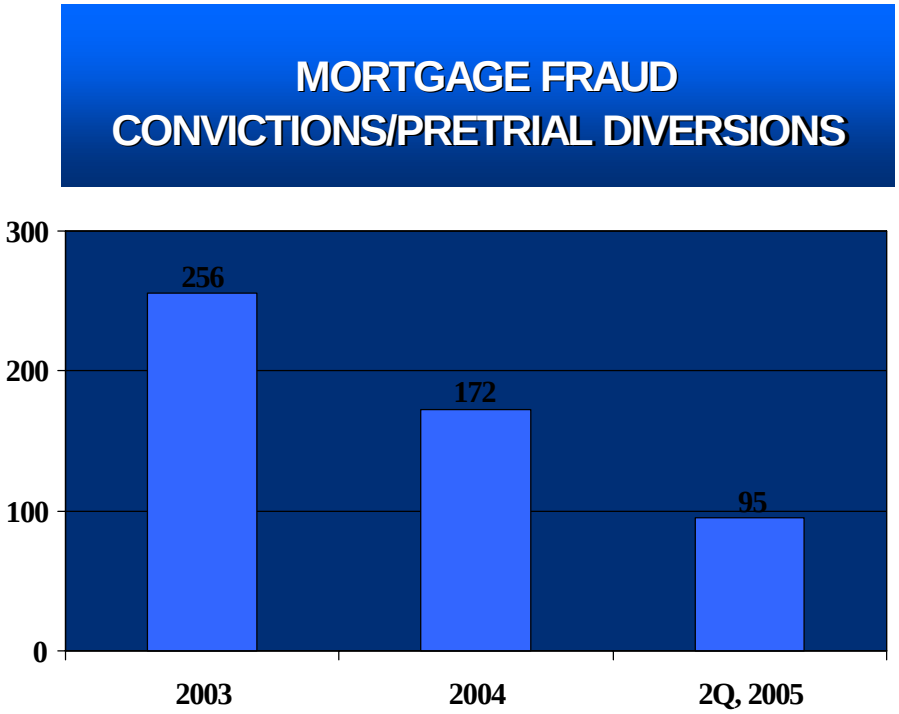
The FBI works closely with individual lenders, as well as national associations such as the MBA, the Appraisal Institute, the National Association of Mortgage Brokers, and the National Notary Association, to define and combat the mortgage fraud problem. In addition, on a case-by-case basis, the FBI receives close cooperation from lenders. An example of this is the usage of Real Estate Owned properties from lender inventories to facilitate mortgage fraud undercover operations (UCO). In December 2003, the FBI initiated an UCO to address the massive amount of mortgage fraud in the Jacksonville area. On September 16, 2004, as a result of this investigation, seven search warrants were executed and two arrests were made. Mortgage broker J.R. Parker and closing attorney Dale Beardsley, were arrested via complaint, charging them with bank fraud for their role in this alleged scheme. This UCO was made possible by the close cooperation of a local financial institution. This type of cooperation happens around the country and is a key component in the FBI's approach to this growing crime problem.

A recent analysis of mortgage industry fraud surveys identified 26 different states as having significant mortgage fraud problems. Although every survey identified Georgia and Florida as having significant mortgage fraud related investigations, the survey also identified nine other states in the South and Southwest, seven states in the West and five states in the Midwest as having mortgage fraud problems.

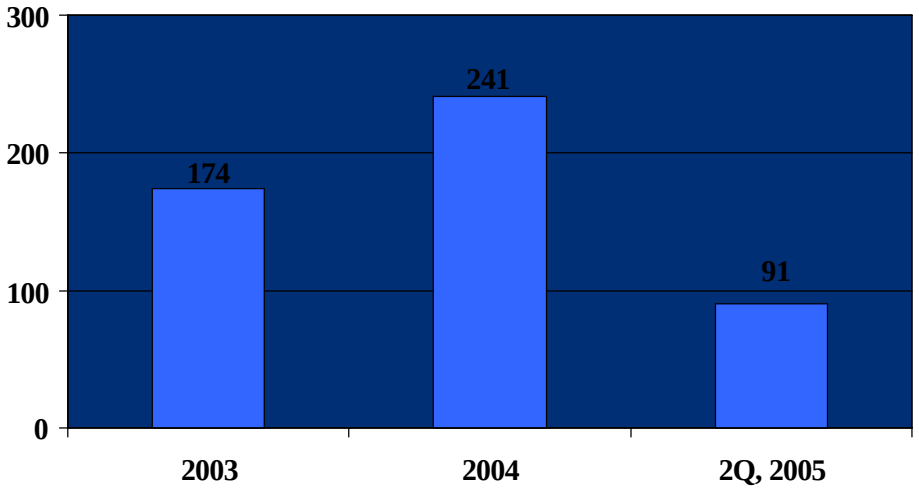


## II. Overall Accomplishments

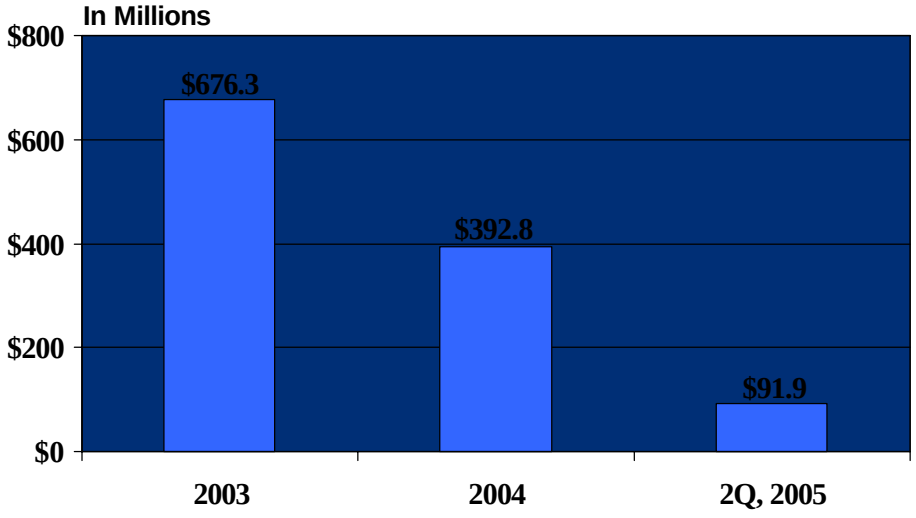


## MORTGAGE FRAUD INFORMATIONS/INDICTMENTS




## MORTGAGE FRAUD RESTITUTIONS



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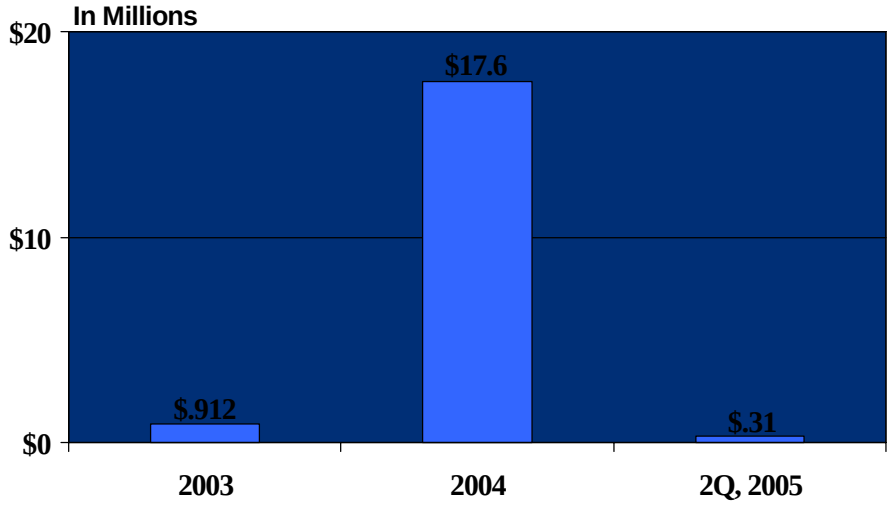


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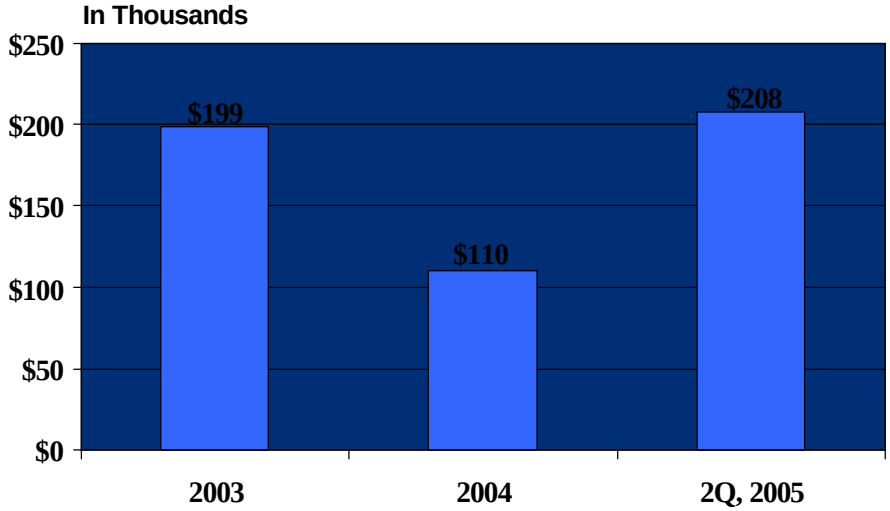
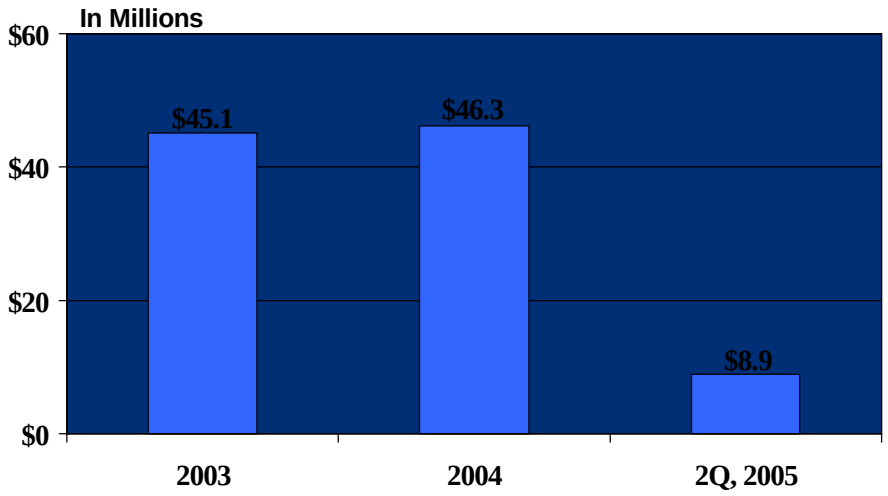
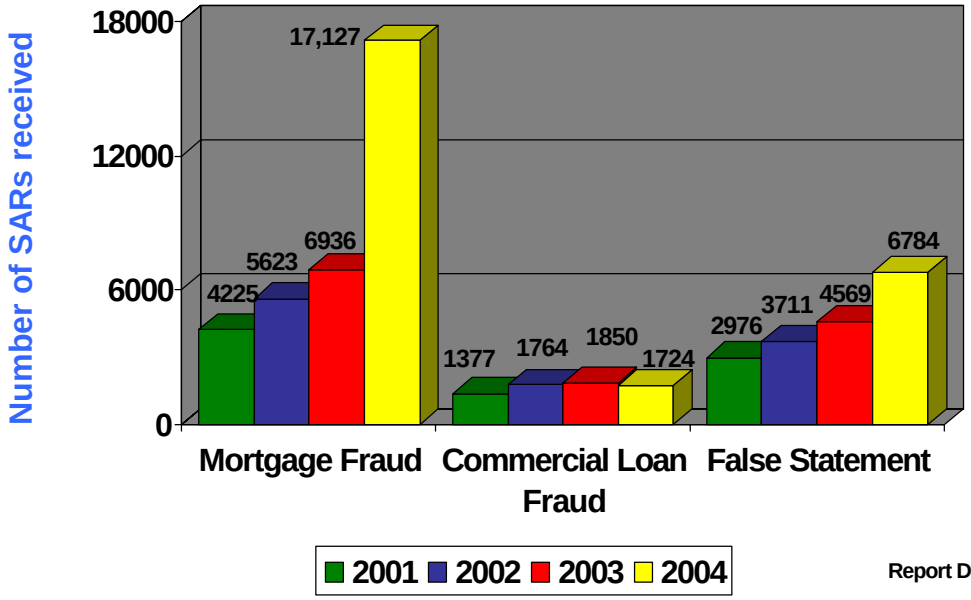


## MORTGAGE FRAUD SEIZURES




## NUMBER OF VIOLATIONS OF MORTGAGE RELATED FRAUD SARS

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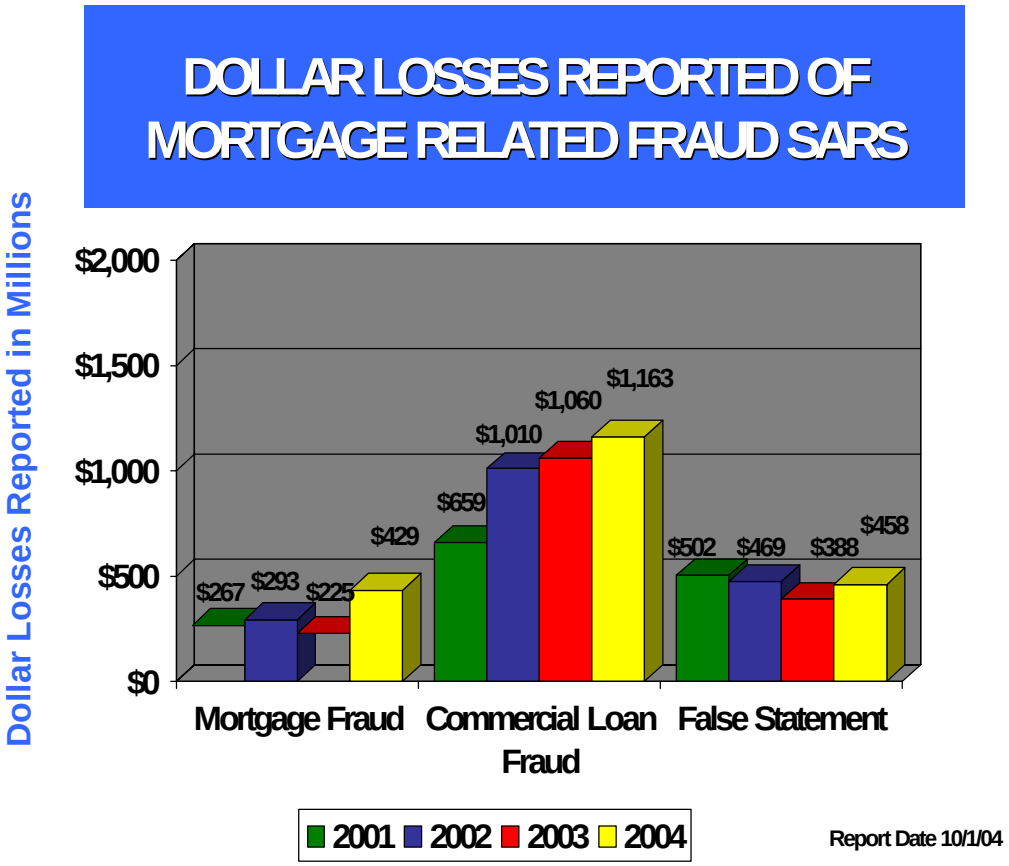



## II. Significant Cases

**REO FLIPWAGON (JACKSONVILLE)**: In December 2003, the FBI initiated an UCO to address the massive amount of mortgage fraud in the Jacksonville area. On September 16, 2004, as a result of this investigation, seven search warrants were executed and two arrests were made. Mortgage broker J. R. Parker and closing attorney Dale Beardsley, were arrested via complaint, charging them with bank fraud for their role in this alleged scheme.

**OPERATION CLEAN DEED (CHARLOTTE)**: In November 2002, an FBI UCO was initiated utilizing a cooperating witness to introduce undercover FBI Agents into seven organizations involved in a multimillion-dollar mortgage fraud ring. Investigation led to the identification of fraudulent loans which exposed financial institutions and mortgage companies to potential losses of $130 million. On September 16, 2004, informations were filed in U.S. District Court, Western District of North Carolina, charging six individuals with bank fraud for their roles in a multimillion-dollar mortgage fraud.

**JAMES MCLEAN; PRESIDENT; ET AL; FIRST BENEFICIAL MORTGAGE COMPANY - VICTIM (CHARLOTTE)**: A two-year joint investigation by the FBI, the Internal Revenue Service, and HUD-OIG revealed a fraud for profit scheme committed by several insiders of First Beneficial Mortgage Corporation. This two-year fraud was perpetrated against Fannie Mae and Ginnie Mae home loan programs resulting in losses exceeding $30 million. Recently, the president of First Beneficial Mortgage Corporation and six others were convicted on conspiracy, bank fraud, wire fraud, and money laundering charges. The president was sentenced to 21 years in prison, order to pay $23 million in restitution and forfeited about $8 million in property.

**MAGGIE CUEVAS; FAG-HUD; FIF (LOS ANGELES)**: A joint investigation conducted by the Los Angeles FBI Office and HUD-OIG illustrated an extensive scheme in which fraudulent identification and employment documents were used to perpetrate mortgage frauds. The scheme was largely assisted by an individual who regularly manufactured false identity and income documents for a profit. This document forger created W-2s, pay stubs, credit letters and social security printouts over an eight-year period. These documents were used by real estate professionals who knowingly submitted the falsified information to lending institutions. The loans were then insured by HUD and caused a loss to that agency of more than $18 million. A search warrant executed during the investigation revealed more than 100 real estate professionals had ordered false documents in the past. To date, the document forger and six associates have been convicted in the scheme, as well as 14 real estate professionals.

**BRENT BARBER dba MIDTOWNE RESTORATION, L.L.C (KANSAS CITY)**: A two-year joint investigation conducted by the Kansas City FBI Office, IRS, and HUD-OIG culminated on August 13, 2004 with the arrest of Brent Barber, real estate investor. Barber, along with his three business associates were charged in U.S. District Court for their alleged roles in purchasing run-down properties, securing fraudulent appraisals, and obtaining mortgages in the names of straw purchasers. It is alleged that the straw purchasers were paid $2,000 for their role in the scheme whereby they placed properties in foreclosure**,** leaving Barber and his associates with the mortgage proceeds. This scenario was repeated approximately 300 times, resulting in losses to lending and financial institutions in excess of $15 million.

## MORTGAGE FRAUD INDICATORS

Inflated Appraisals

- Exclusive use of one appraiser

Increased Commissions/Bonuses - Brokers and Appraisers

- Bonuses paid (outside or at settlement) for fee-based services
- Higher than customary fees

Falsifications on Loan Applications

- Buyers told/explained how to falsify the mortgage application
- Requested to sign blank application

Fake Supporting Loan Documentation

- Requested to sign blank employee or bank forms
- Requested to sign other types of blank forms

Purchase Loans Disguised as Refinance

- Purchase loans that are disguised as refinances requires less documentation/lender scrutiny

Investors-Short Term Investments with Guaranteed Re-Purchase

- Investors used to flip property prices for fixed percentage
- Multiple "Holding Companies" utilized to increase property values

## COMMON MORTGAGE FRAUD SCHEMES

**Property Flipping** - Property is purchased, falsely appraised at a higher value, and then quickly sold. What makes property illegal is that the appraisal information is fraudulent. The schemes typically involve one or more of the following: fraudulent appraisals, doctored loan documentation, inflating buyer income, etc. Kickbacks to buyers, investors, property/loan brokers, appraisers, title company employees are common in this scheme. A home worth $20,000 may be appraised for $80,000 or higher in this type of scheme.

**Silent Second** - The buyer of a property borrows the down payment from the seller through the issuance of a non-disclosed second mortgage. The primary lender believes the borrower has invested his own money in the down payment, when in fact, it is borrowed. The second mortgage may not be recorded to further conceal its status from the primary lender.

**Nominee Loans/Straw Buyers** - The identity of the borrower is concealed through the use of a nominee who allows the borrower to use the nominee's name and credit history to apply for a loan.

**Fictitious/Stolen Identity** - A fictitious/stolen identity may be used on the loan application. The applicant may be involved in an identity theft scheme: the applicant's name, personal identifying information and credit history are used without the true person's knowledge.

**Inflated Appraisals** - An appraiser acts in collusion with a borrower and provides a misleading appraisal report to the lender. The report inaccurately states an inflated property value.

**Foreclosure Schemes** - The perpetrator identifies homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure. Perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of the deed and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner.

**Equity Skimming** - An investor may use a straw buyer, false income documents, and false credit reports, to obtain a mortgage loan in the straw buyer's name. Subsequent to closing, the straw buyer signs the property over to the investor in a quit claim deed which relinquishes all rights to the property and provides no guaranty to title. The investor does not make any mortgage payments and rents the property until foreclosure takes place several months later.

**Air Loans -** This is a non-existent property loan where there is usually no collateral. An example of an air loan would be where a broker invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

## Mortgage Fraud Prevention Measures

### General Fraud Tips

Mortgage Fraud is a growing problem throughout the United States. People want to believe their homes are worth more than they are, and with housing booms going on throughout the U.S., there are people who try to capitalize on the situation and make an easy profit.

**Tips to protect you from becoming a victim of Mortgage Fraud**

- Get referral for real estate and mortgage professionals. Check the licenses of the industry professionals with state, county, or city regulatory agencies.
- If it sounds too good to be true, it probably is. An outrageous promise of extraordinary profit in a short period of time signals a problem.
- Be wary of strangers and unsolicited contacts, as well as high-pressure sales techniques.
- Look at written information to include recent comparable sales in the area, and other documents such as tax assessments to verify the value of the property.
- Understand what you are signing and agreeing to--If you do not understand, re-read the documents, or seek assistance from an attorney.
- Make sure the name on your application matches the name on your identification.
- Review the title history to determine if the property has been sold multiple times within a short period--It could mean that this property has been "flipped" and the value falsely inflated.
- Know and understand the terms of your mortgage--Check your information against the information in the loan documents to ensure they are accurate and complete.
- Never sign any loan documents that contain blanks--This leaves you vulnerable to fraud.
- Check out the tips on the Mortgage Bankers Association's (MBA) website at **http://www.StopMortgageFraud.com** for additional advice on avoiding mortgage fraud.

## Mortgage Debt Elimination Schemes

- Be aware of e-mails or web-based advertisements that promote the elimination of mortgage loans, credit card and other debts while requesting an up-front fee to prepare documents to satisfy the debt. The documents are typically entitled Declaration of Voidance, Bond for Discharge of Debt, Bill of Exchange, Due Bill, Redemption Certificate, or other similar variations. These documents do not achieve what they purport.
- There is no magic cure-all to relieve you of debts you incurred.
- Borrowers may end up paying thousands of dollars in fees without the elimination or reduction of any debt.

## Foreclosure Fraud Schemes

Perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of the deed, usually in the form of a Quit-Claim Deed, and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner without preventing the foreclosure. The victim suffers the loss of the property as well as the up-front fees.

- Be aware of offers to "save" homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure.
- Seek a qualified Credit Counselor or attorney to assist.

## Predatory Lending Schemes

- Before purchasing a home, research information about prices of homes in the neighborhood.
- Shop for a lender and compare costs. Beware of lenders who tell you that they are your only chance of getting a loan or owning your own home.
- Beware of "No Money Down" loans--This is a gimmick used to entice consumers to purchase property that they likely cannot afford or are not qualified to purchase. Be wary of mortgage professional who falsely alter information to qualify the consumer for the loan.
- Do not let anyone convince you to borrow more money than you can afford to repay.
- Do not let anyone persuade you into making a false statement such as overstating your income, the source of your down payment, or the nature and length of your employment.
- Never sign a blank document or a document containing blanks.
- Read and carefully review all loan documents signed at closing or prior to closing for accuracy, completeness and omissions.
- Be aware of cost or loan terms at closing that are not what you have agreed to.
- Do not sign anything you do not understand.
- Be suspicious if the cost of a home improvement goes up if you accept the contractor's financing.
- If it sounds too good to be true--it <u>probably</u> is!

**U. S. Department of Justice**
Federal Bureau of Investigation

**FINANCIAL CRIMES SECTION** **CRIMINAL INVESTIGATIVE DIVISION**

# IDENTITY THEFT

## I. General Overview

An identity theft is generally perpetrated to facilitate other crimes, such as credit card fraud, check fraud or mortgage fraud. Armed with a person's identifying information, an identity thief can open new accounts in the name of a victim, borrow funds in the victim's name or take over and withdraw funds from existing accounts of the victim, such as their checking account or their home equity line of credit. Although by far the most prevalent, these financial crimes are not the only criminal uses of identity theft information, which can even include evading detection by law enforcement in the commission of violent crimes. Identity theft takes many forms, but generally includes the acquiring of an individual's personal information such as Social Security number, date of birth, mother's maiden name, account numbers, address, etc., for use in criminal activities such as obtaining unauthorized credit and/or bank accounts for fraudulent means.

Identity theft has emerged as one of the dominant white collar crime problems of the 21st Century. Estimates vary regarding the true impact of the problem, but agreement exists that it is pervasive and growing. In addition to the significant harm caused to the monetary victims of the frauds, often providers of financial, governmental or other services, the individual victim of the identity theft may experience a severe loss in their ability to utilize their credit and their financial identity. This loss can be short in duration, or may extend for years. It may result in the inability to cash checks, obtain credit, purchase a home or, in the most insidious cases, the arrest of the individual for crimes committed by the identity thief.

A recent survey commissioned by the Federal Trade Commission (FTC) estimated the number of consumer victims of identity theft over the year prior to the survey (which was completed in May 2003) at 4.6 percent of the population of U.S. consumers over the age of 18 (9.91 million individuals) with losses totaling $52.6 billion (47.6 billion to businesses and $5 billion to individual victims). However, over half of these victims experienced only the take-over of existing credit cards (5.17 million consumers) which is generally not considered identity theft. New account frauds, more generally considered to be identity theft, were estimated to have victimized 3.23 million consumers and to have resulted in losses of $36.7 billion ($32.9 billion to businesses and financial institutions and $3.8 billion to individuals). Recent research replicating this study for a subsequent twelve-month period obtained similar numbers.

The FBI is developing cooperative efforts to address the identity theft crime

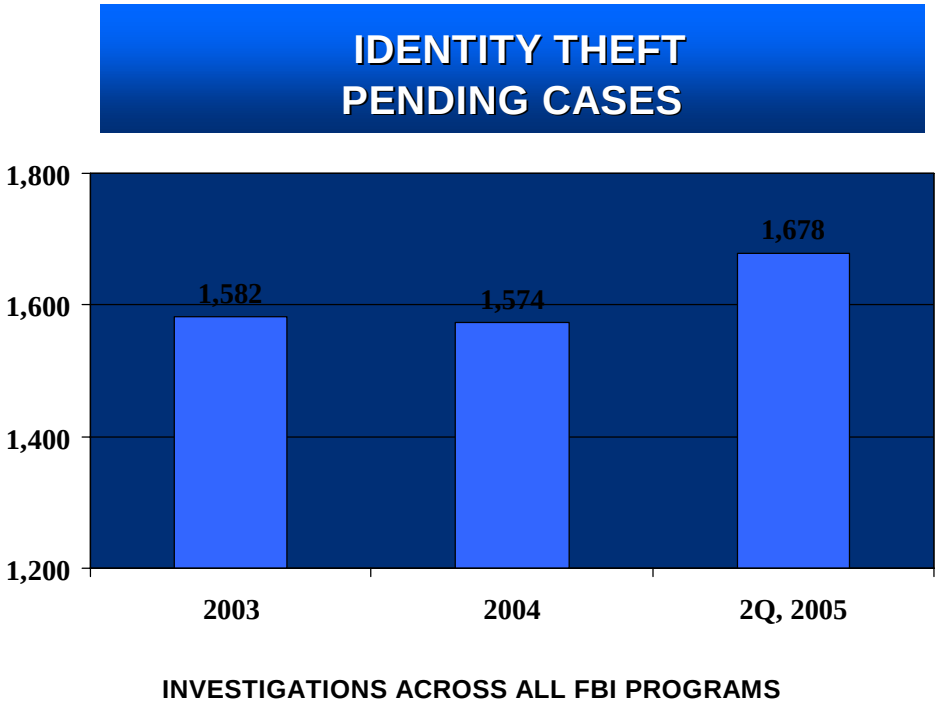
problem. In cities such as Detroit, Chicago, Memphis and Mobile, task forces are currently operating in conjunction with other federal, state and local authorities as well as with affected merchants. In cities such as Tampa, San Diego and Philadelphia, efforts are underway to create or expand identity theft working groups and task forces. In addition, the FBI is focusing analytical resources on identity theft, working with other agencies, such as the FTC, to obtain identity theft data and utilize it to proactively identify and target organized criminal groups and enterprises.

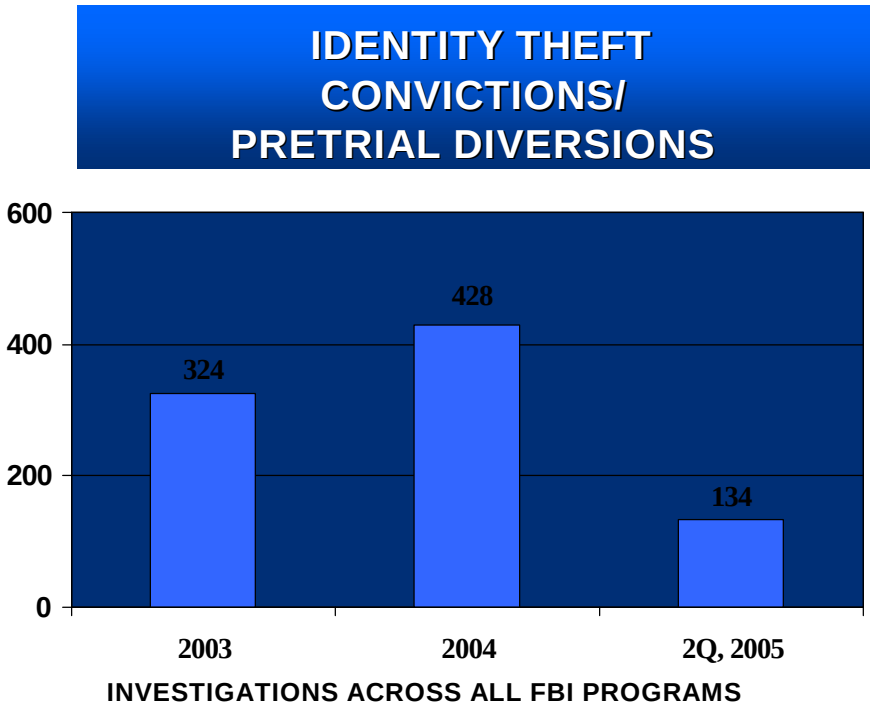
In the area of identity theft, task forces, such as those currently operating in the Detroit and Chicago areas, partner with large local retailers to address the identity theft crime problem. Those retailers have analysts and/or security officers who are active members of the task forces. Since 2003, the Chicago Metro Identity Fraud Task Force has executed 18 search warrants, made 13 controlled deliveries, served four arrest warrants, made 39 arrests, and obtained 11 indictments and 37 prosecutions. During the same period, the Detroit Metro Identity Theft Task Force has executed 45 search warrants, served 54 arrest warrants, made 81 arrests, and obtained 36 indictments and 19 prosecutions. In addition, the FBI sponsors a national Identity Theft Working Group, where participants from law enforcement, federal regulatory bodies and the financial services industry, meet on a regular basis to discuss topics related to identity theft and to work on fostering cooperation and developing long term solutions to the problem.

The success that can be achieved by this cooperation is demonstrated by the investigation of Philip A. Cummings, who was a computer help-desk employee at a company which provided customers with computerized access to the three commercial credit history bureaus. As part of his employment, Cummings had access to confidential passwords and subscriber codes for customers who utilized the company's software to download consumer credit histories. Cummings, along with a co-conspirator, downloaded more than 30,000 consumer credit histories from early 2000 through October 2002 and sold them to other conspirators who utilized them to commit identity theft. The close cooperation with the FBI of one of those major credit history bureaus was instrumental in the successful investigation of what is believed to be the largest identity theft scheme ever prosecuted and in dealing with the resulting effect on the large number of victims. Losses to financial institutions in this case exceeded $11 million. Cummings plead guilty and was sentenced to 14 years' imprisonment.

## II. Overall Accomplishments

As Identity Theft case data was not provided prior to June 2003, statistical accomplishments will reflect Fiscal Year 2003 through Second Quarter, Fiscal Year 2005. At the close of Fiscal Year 2004, the FBI had 1,574 pending investigations involving identity theft activity. These cases covered a broad range of investigative classifications.



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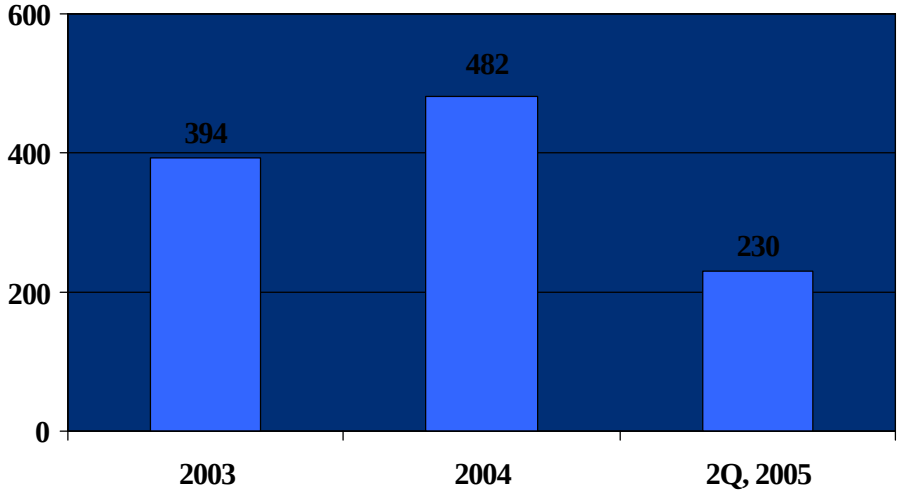
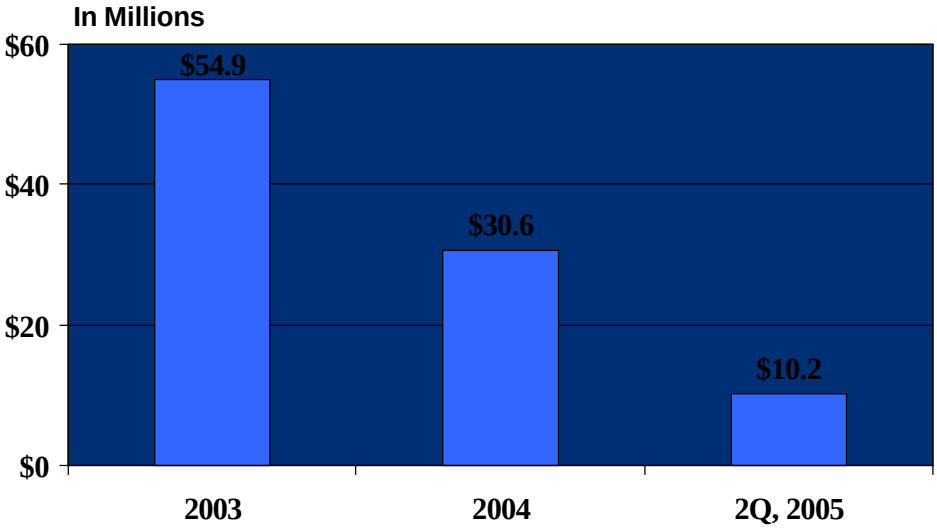



INVESTIGATIONS ACROSS ALL FBI PROGRAMS

## IDENTITY THEFT RESTITUTIONS

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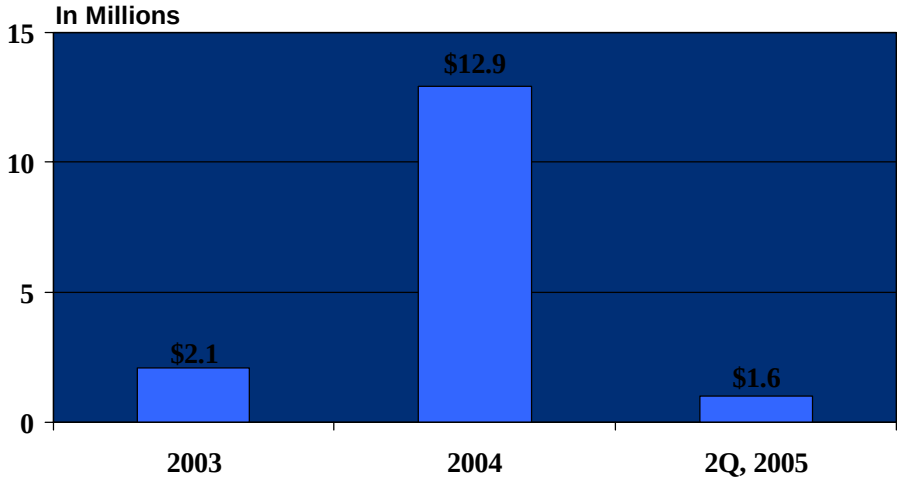


INVESTIGATIONS ACROSS ALL FBI PROGRAMS

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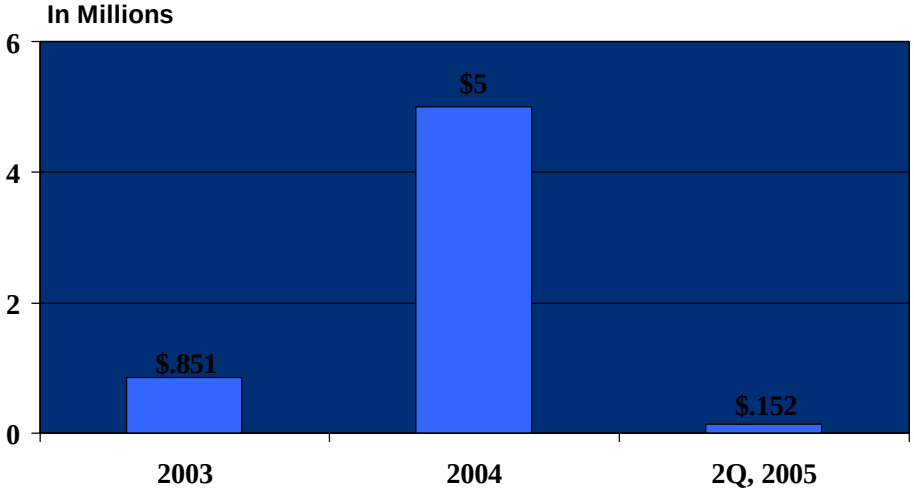


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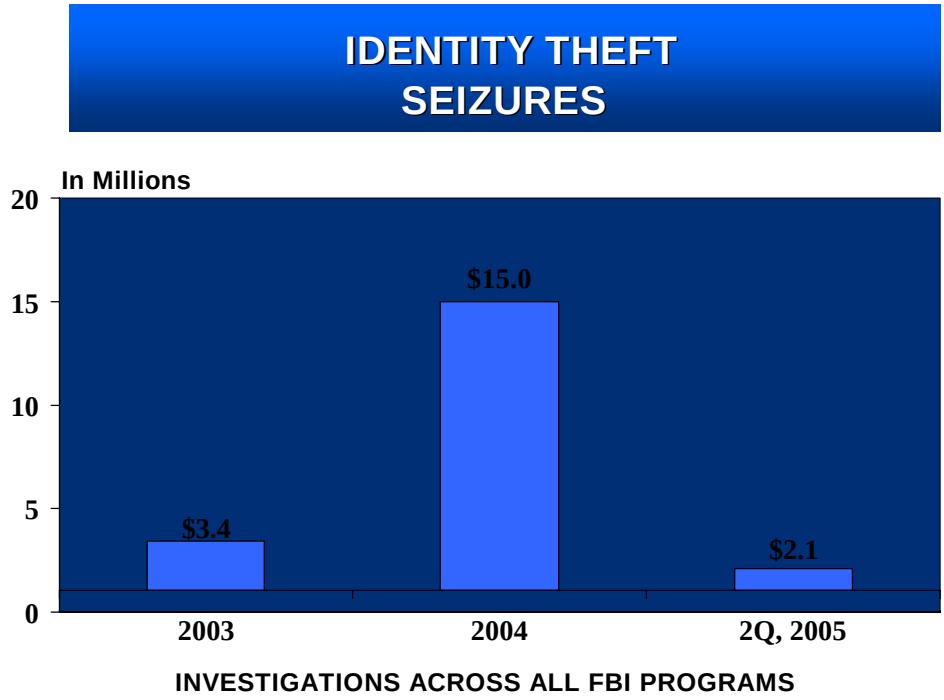



## III. Significant Cases

**PHILIP J. CUMMINGS (NEW YORK)**: On September 14, 2004, Philip J. Cummings, former Telecommunications Data, Inc., technical support representative, pled guilty in U.S. District Court, Southern District of New York, to one count of Title (T) 18, U.S. Code (USC), Section 1343, Wire Fraud, one count of T18, USC, Section 1028, Fraud Related to Identification Documents and Information and one count of T18, USC, Section 371, Conspiracy, for his participation in a massive scheme to steal the identities of individuals which defrauded financial institutions of more than $11 million. It was alleged that Cummings stole the passwords and access codes of Ford Motor Credit and other financial companies to access Equifax, Trans Union, and Experian credit report records and downloaded credit report information on 30,000 individuals. These credit reports were allegedly sold to a group of co-conspirators.

**RICHARD BURLEY; TIMOTHY CLARK; ET AL (DETROIT)**: On September 1, 2004, captioned subjects were charged in U.S. District Court, Eastern District of Michigan, on bank fraud and conspiracy charges for their alleged roles in an identity theft ring which derived profits of more than $2 million. This indictment was the result of the investigative efforts of the Detroit Metro Identity Fraud Task Force (DMIFTF). The DMIFTF comprises agents from the FBI, U.S. Postal Inspection Service, United States Secret Service, the Michigan State Police, and several local police departments. Since its inception in 1999, the DMIFTF has accounted for more than 100 convictions for identity theft- related crimes.

# IDENTITY THEFT TIPS

## Indications of Identity Theft

The following occurrences are some of the indications of identity theft:

- Charges occurring on your accounts that you did not authorize.
- If your credit is denied due to poor credit ratings, despite good credit history.
- If you are contacted by creditors regarding amounts owed for goods or services that you never obtained or authorized.
- If your credit card and bank statements are not received in the mail as expected.
- If a new or renewed credit card is not received.

## Identity Theft/Fraud Prevention Measures

U.S. citizens need to be aware of measures that can be taken to either prevent or minimize their chances of becoming a victim of fraud. Some of these measures are as follows:

- Never give personal information via telephone, mail or Internet, unless you initiated the contact.
- Store personal information in a safe place.
- Shred credit card receipts and/or old statements before discarding in a garbage can--If you do not have a shredder, then use scissors.
- Protect PINs and passwords.
- Carry only the minimum amount of identifying information.
- Remove your name from mailing lists for pre-approved credit lines and tele-marketers.
- Order and closely review biannual copies of your credit report from each national credit reporting agency (Equifax, Experian, and Trans Union).
- Request DMV to assign an alternate driver's license number if it currently features your Social Security Account Number.
- Ensure that your PIN numbers cannot be observed by anyone while utilizing an ATM or public telephone.
- Close all unused credit card or bank accounts.
- Contact your creditor or service provider if expected bills do not arrive.
- Check account statements carefully.
- Guard your mail from theft.
- BE AWARE!

## **If You are a Victim of Identity Theft**

These steps are among those that should be completed by persons who believe they have been the victim of an identity theft:

- Contact the fraud departments for the three major credit bureaus to place fraud alerts on your credit file in order to reduce your risk of further victimization.
- Obtain and review a current copy of your credit report to determine whether any unknown fraud has occurred--(You will need to more closely monitor your credit going forward as some identity thefts can continue for extended periods of time).
- Contact the account issuer(s) where fraudulent accounts have been opened or where your accounts have been taken over--Ask for the fraud/security department and notify them both via telephone and in writing.
- Close all tampered or fraudulent accounts.
- Ask about the existence of secondary cards.
- Contact your local police department and file a police report.
- Notify the police department in the community where the identity theft occurred, if it is different from your own.
- Obtain copies of any police reports filed.
- Keep a detailed log of who you talked to and when, including their title, phone number, and other contact information.
- Contact the Federal Trade Commission's Identity Theft Clearinghouse and file an identity theft complaint at **www.consumer.gov.** Those complaints are utilized by law enforcement agencies, including the FBI, that investigate identity theft. You can also obtain additional information at that website regarding your rights as a victim.
- Online identity thefts can also be reported at **www.IC3.gov.**

# INSURANCE FRAUD

## I. General Overview

Insurance fraud continues to maintain a top investigative priority due in large part to the insurance industry's significant status as one of the largest U.S. industries (more than doubling the Gross Domestic Product contributions of the securities industry). The insurance industry consists of more than 7,000 companies with over $1 trillion in premiums each year. This is coupled with the direct link to rising insurance costs. Insurance fraud (non-health insurance) costs the average family between $400 - $700 per year, with a total cost exceeding $40 billion. The insurance industry is in the midst of technological and regulatory change which will result in foreign insurance entities playing a larger role. The FBI, in concert with the National Association of Insurance Commissioners (NAIC), is attempting to identify the top echelon fraudsters defrauding the insurance industry and most prevalent schemes within the insurance industry. The FBI has also recently joined the International Association of Insurance Fraud Agencies (IAIFA), an international non-profit organization, whose mission is to maintain an international presence to address insurance and insurance-related financial crimes on a global basis. Currently, the FBI is focusing a majority of its resources relating to insurance fraud on the specific schemes mentioned herein.

**Insurance-Related Corporate Fraud -** Although Corporate Fraud is not unique to any particular industry, there has been a recent trend involving insurance companies caught in the web of these schemes. The temptations for fraud within the corporate industry can be greater during periods of financial downturns. By their nature, insurance companies hold customer premiums which are forbidden from operational use by the company. However, when funding is needed, unscrupulous executives invade the premium accounts in order to pay corporate expenses. This, in turn, leads to financial statement fraud because the company is required to "cover its tracks" to conceal the improper utilization of customer premium funds.

**Premium Diversion/Unauthorized Entities -** The most common type of fraud involves insurance agents and brokers diverting policyholder premiums for their own benefit. Additionally, there is a growing number of unauthorized and unregistered entities engaged in the sale of insurance-related products. As the insurance industry becomes open to foreign players, regulation becomes more difficult. Additionally, exponentially rising insurance costs in certain

areas (i.e., terrorism insurance, directors'/officers' insurance, and corporations), increases the possibility for this type of fraud. The schemes typically involve entities which utilize a myriad of sophisticated schemes for verification of submitted fraudulent financial statements to the state insurance regulatory body in order to hide the true nature of the fictitious assets listed in the statements. This generates large insurance premiums solely to be diverted.

**Worker's Compensation Fraud** - The Professional Employer Organization (PEO) industry operates chiefly to provide worker's compensation insurance coverage to small businesses by pooling businesses together to obtain reasonable rates. Worker's compensation insurance accounts for as much as 46 percent of a small business owner's general operating expenses. Due to this, small business owners have incentive to shop worker's compensation insurance on a regular basis. This has made it ripe for entities who purport to provide worker's compensation insurance to enter the marketplace, offer reduced premium rates, and misappropriate funds without providing insurance. The focus of these investigations is on allegations that numerous entities within the PEO industry are selling unauthorized and non-admitted worker's compensation coverage to businesses across the United States. This insurance fraud scheme has left injured and deceased victims without worker's compensation coverage to pay their medical bills.

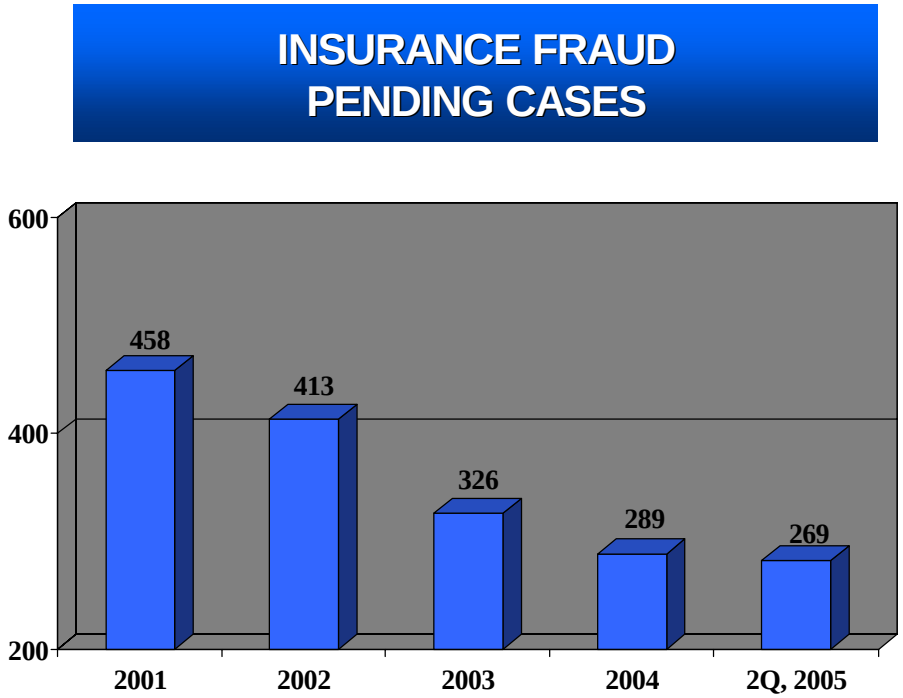
With the cooperation of the insurance industry, through referrals from industry liaison and other law enforcement agencies, the FBI will continue to target individuals and/or organizations committing insurance fraud. The FBI will continue to initiate and conduct traditional investigations as well as utilize sophisticated techniques, to include covert undercover investigations, to apprehend the fraudsters. Through joint efforts with the NAIC, IAIFA, state fraud bureaus, and state insurance regulators, the FBI will address the insurance crime problem through national initiatives and proper resource allocation.

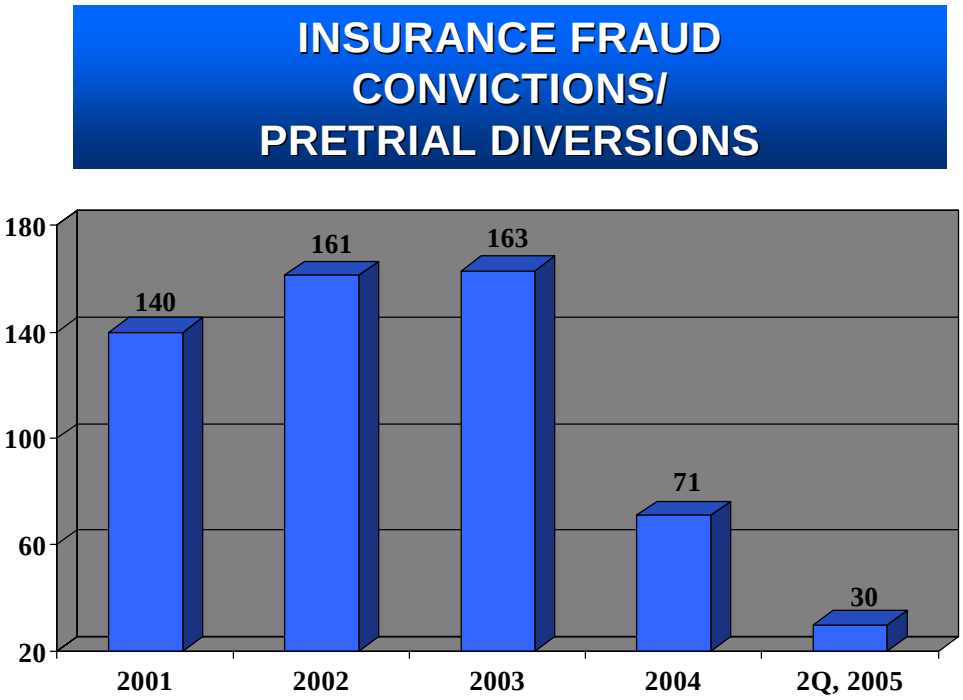
Domestically, the FBI continues to maintain a presence with the NAIC. The NAIC is the nation’s oldest non-profit association of state officials. As states primarily regulate the business of insurance, the mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving fundamental insurance regulatory goals. A quarterly NAIC conference is held to discuss insurance fraud trends and significant cases. Through the FBI's connection with the NAIC - Anti-Fraud Working Group, the FBI is attempting to work closer with our state regulators and Special Investigation Units (SIUs).

The FBI is a member of the International Association of Insurance Fraud Agencies, an international non-profit organization, whose mission is to maintain an international presence to address insurance and insurance related financial crimes on a global basis.

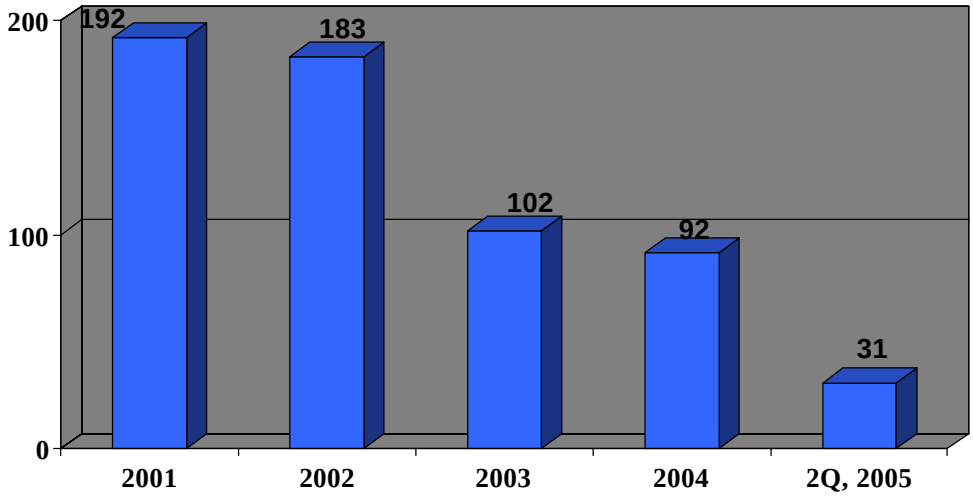
The FBI has worked insurance fraud investigations along with the U.S. Postal Inspection Service, Department of Labor, Department of Health and Human Services, Department of Agriculture, Federal Emergency Management Agency, and individual state insurance investigators.

## II. Overall Accomplishments

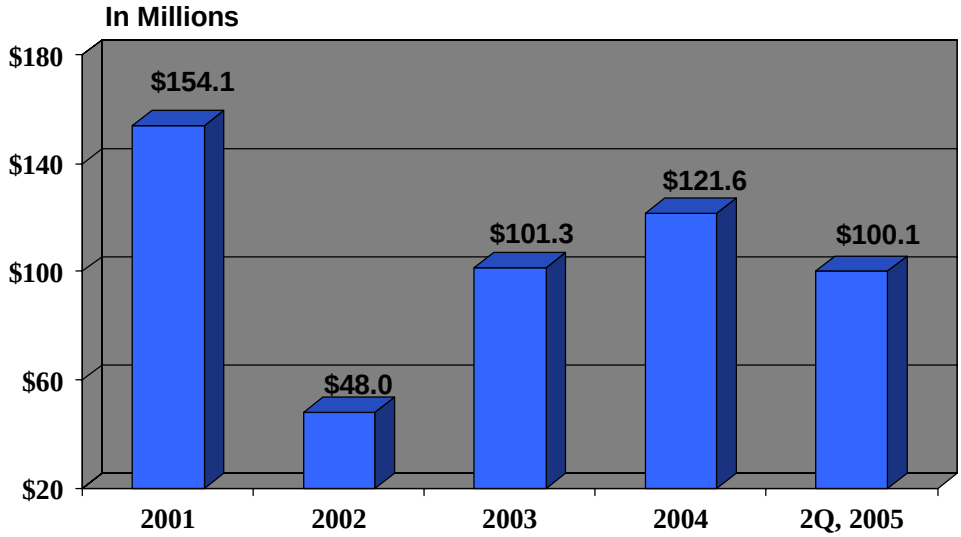


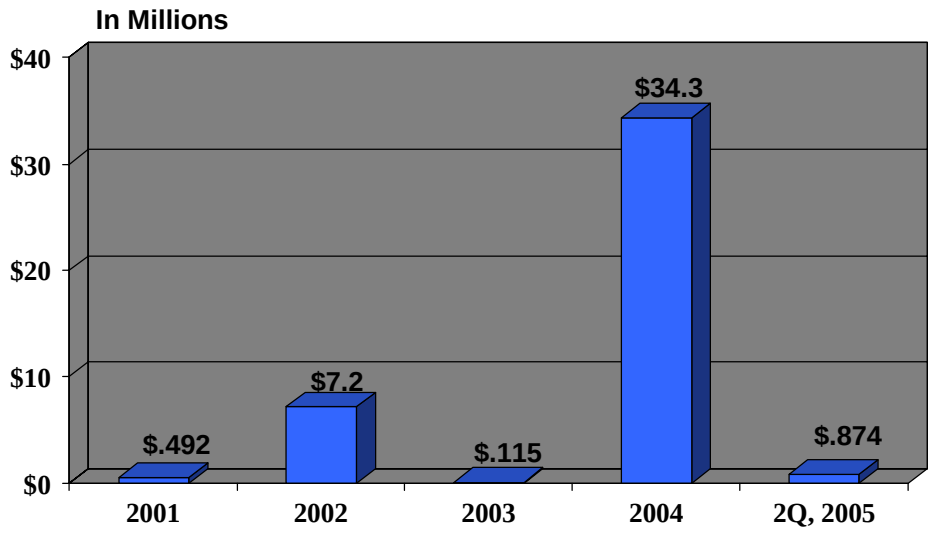
## INSURANCE FRAUD INFORMATIONS/INDICTMENTS



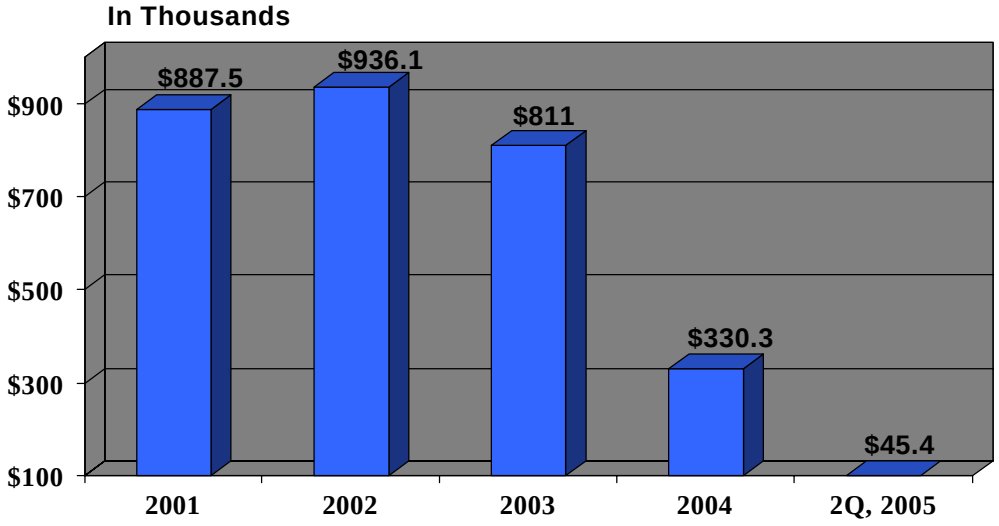

## INSURANCE FRAUD RESTITUTIONS

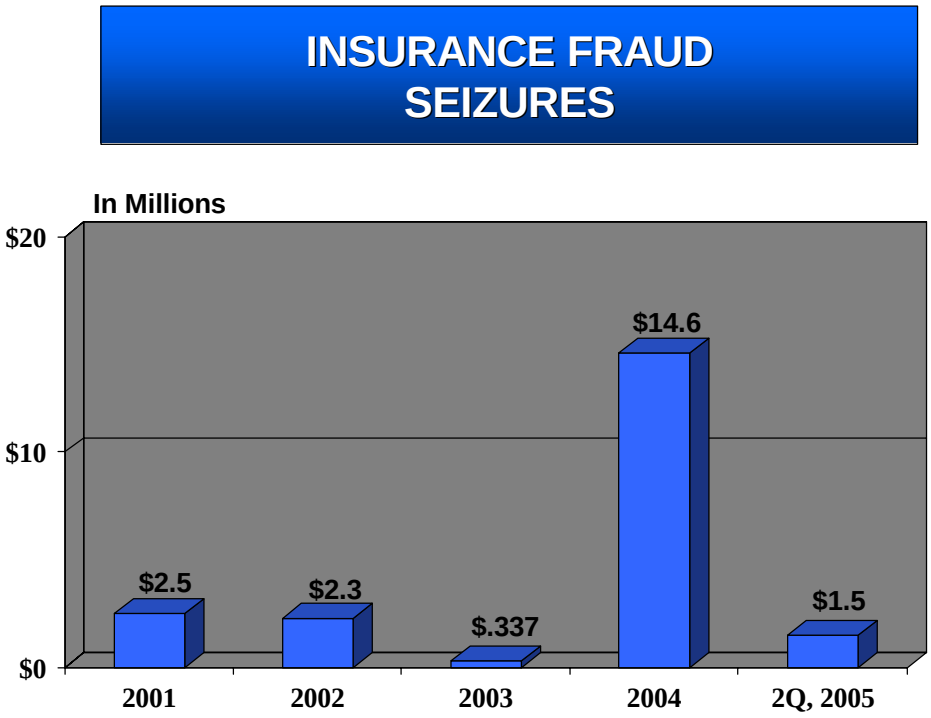


## INSURANCE FRAUD RECOVERIES




## INSURANCE FRAUD FINES






## III. Significant Cases

**KELCO, INC. (LOUISVILLE)-** Multiple subjects engaged in a viatical life insurance conspiracy to defraud investors and insurance companies by purchasing, reselling, or processing life insurance policies which had been fraudulently obtained by persons who were HIV positive or sick with AIDS. On March 14, 2003, Stephen Keller, Robert Sutherlin, and Sterling Drach, as well as Kelco, Inc., and an affiliate, Genesis, Incorporated, were convicted of related offenses following a jury trial.

**MARTIN FRANKEL (NEW HAVEN) -** Frankel, doing business as Sundew International Ltd., had engaged in an extensive scheme to defraud insurance companies of approximately $400 million. Frankel was able to divert insurance funds to be invested by the companies and avoid state regulators through a myriad of money laundering mechanisms. One of these included a purported Roman Catholic charitable institution, claiming to be associated with the Vatican. Frankel used the goodwill and prestige of the Vatican throughout the world as a cover for his illegal activity while misleading investors about his intentions and operations.

### Insurance Fraud Prevention Measures

Customers should always practice due diligence in shopping for an insurance policy from a reputable company.

**U. S. Department of Justice**
Federal Bureau of Investigation

**FINANCIAL CRIMES SECTION** **CRIMINAL INVESTIGATIVE DIVISION**

# TELEMARKETING FRAUD

## I. General Overview

Generally, telemarketing and mass marketing fraud schemes involve subjects enticing their victims, predominately the elderly, by promising them large lottery or prize winnings in exchange for a relatively smaller service fee or tax, and once the fee is received, the promised funds are never delivered.

Telemarketing fraud, predominately emanating from Canada, is a flourishing crime problem with estimated losses to U.S. elderly citizens exceeding $500 million per year. In the past it has been difficult to prosecute Canadian telemarketers due to a variety of factors. However, substantial strides have been made to address these issues through the cross-border initiative, Canadian Eagle.

The FBI has established three separate task forces with the Royal Canadian Mounted Police (RCMP) in the Canadian cities of Montreal, Toronto and Vancouver for the purpose of investigating the cross-border telemarketing fraud problem. This initiative, known as Canadian Eagle, also includes investigators from the respective Canadian city police departments. FBI Special Agents, and other federal entities, have been detailed to these three Canadian cities for up to 180 days to assist in identifying and prosecuting subjects both in the U.S. and Canada.

The Department of Justice (DOJ), FBI, RCMP, U.S. Customs, U.S. Postal Inspection Service (USPIS), and Immigration and Customs Enforcement (ICE), developed an International Mass Marketing Fraud Initiative that covered March 1, 2004 through September 15, 2004. The initiative targeted a variety of mass marketing fraud problems operating from the U.S., Canada, Spain and Great Britain as well as the Netherlands, Jamaica and Costa Rica. In October 2004, the Roaming Charge Initiative resulted in over 100 individuals arrested throughout various countries with major press coverage worldwide.

The initiative has been extremely successful in all facets concerning its goals of prosecutions, interdiction, restitution, seizure of assets, educating the elderly and so forth. It has also been cost-effective in using limited funding for substantial benefit. The program is currently funded by the DOJ, Office of Victims of Crime.

The USPIS is also a member of the Canadian Eagle task forces in Canada,

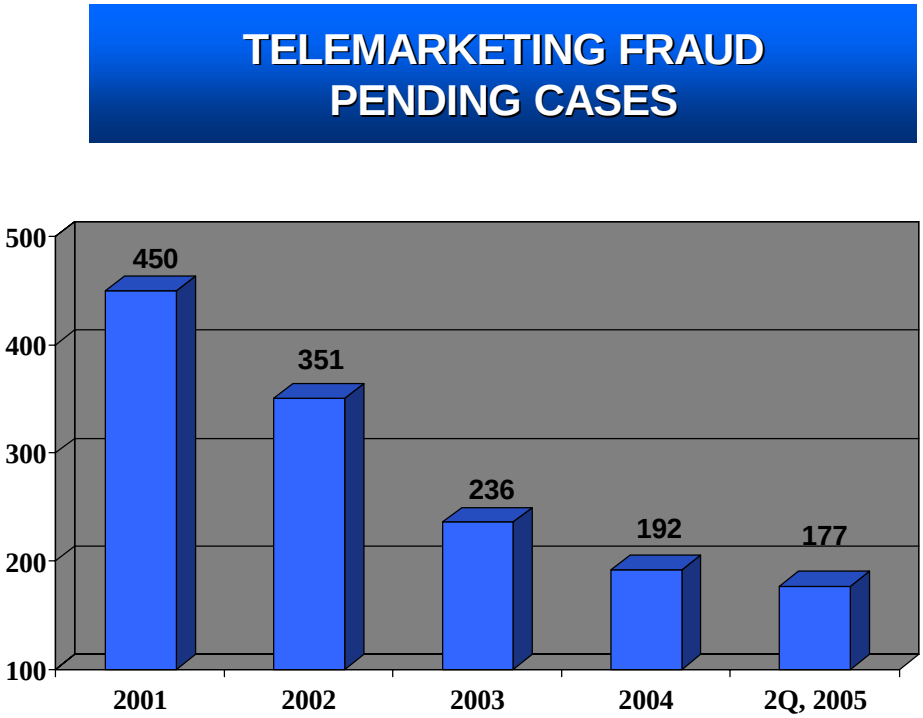
continues to work closely with the FBI investigating telemarketing matters throughout the U.S. and Canada. USPIS also sponsors the National Tape Library where copies of recorded fraudulent sales pitches are stored for future prosecution.

ICE is also an important member of the Canadian Eagle task forces in Canada working closely with the FBI by providing the necessary liaison with Canadian Customs for the purpose of facilitating the examination and seizure of evidence from post office boxes and courier companies under the authority of the British Columbia Trade Practices Act.

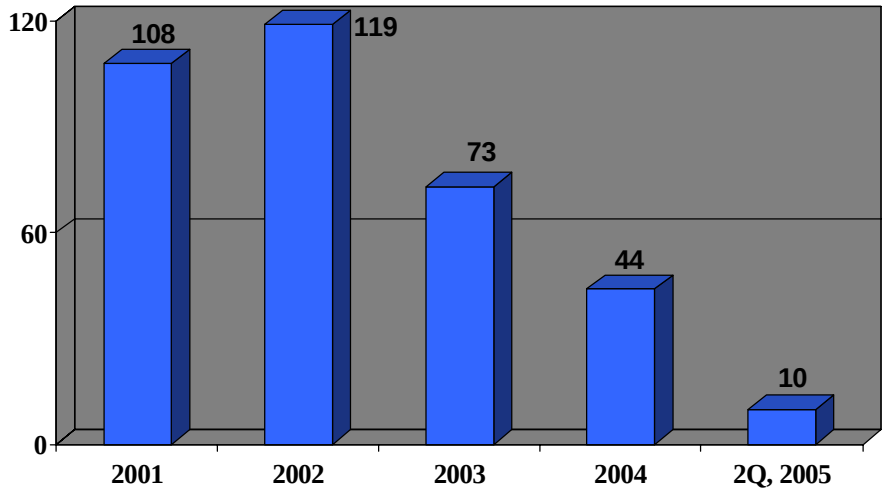
The Federal Trade Commission (FTC) is a partner in the Canadian Eagle initiative by filing civil actions against telemarketing subjects in conjunction with criminal prosecutions and by overseeing the victim data base known as FTC Consumer Sentinel.

The FBI has also partnered with the American Association of Retired Persons who has provided assistance to the FBI in the effort against telemarketing fraud by providing members to be used in FBI investigations as volunteer "victims" and by providing educational awareness presentations regarding fraud matters to the elderly.

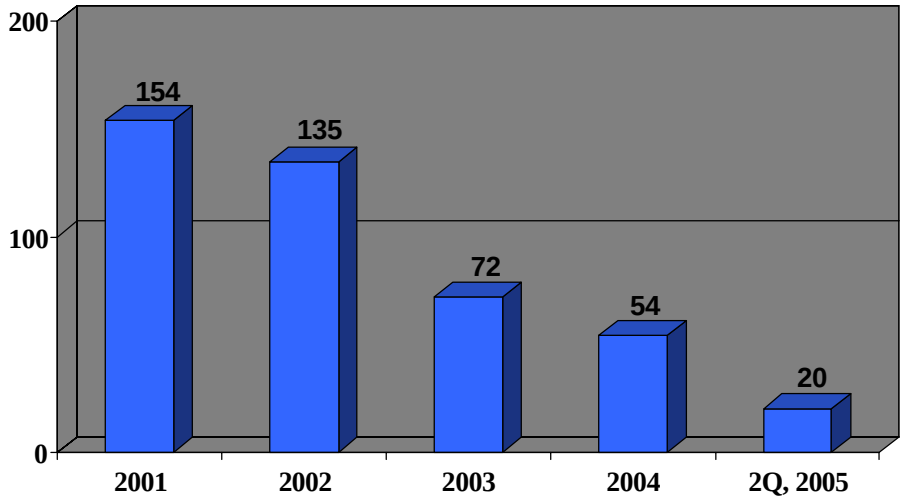
**II. Overall Accomplishments**



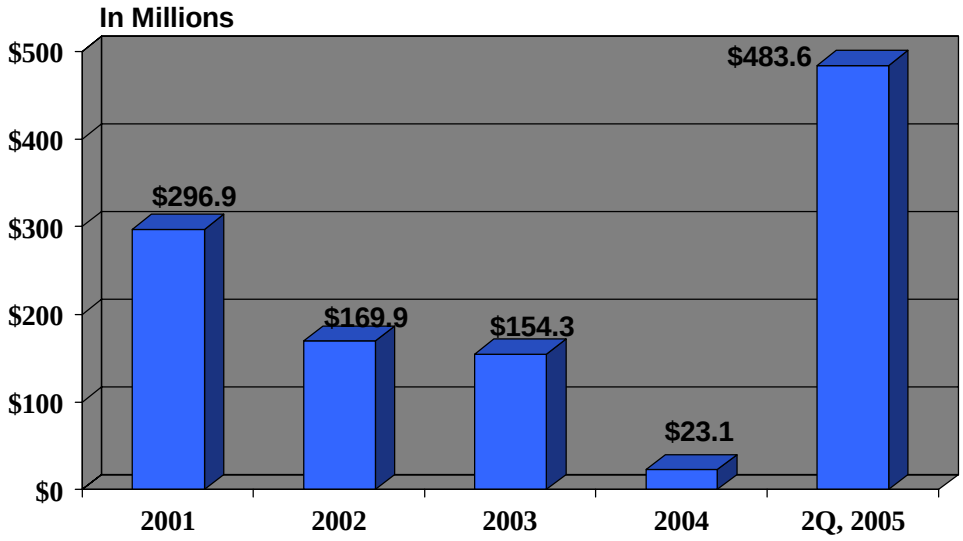
## TELEMARKETING FRAUD CONVICTIONS/ PRETRIAL DIVERSIONS



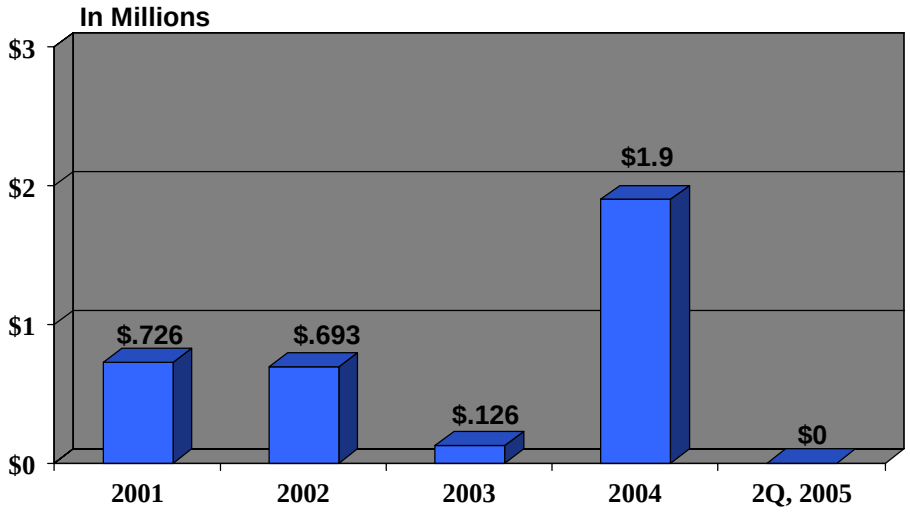

## TELEMARKETING FRAUD INFORMATIONS/INDICTMENTS



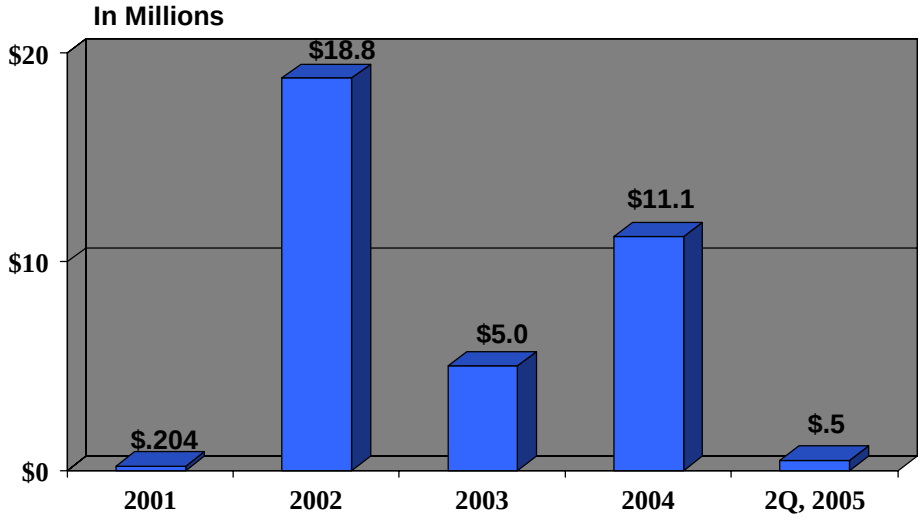
## TELEMARKETING FRAUD RESTITUTIONS



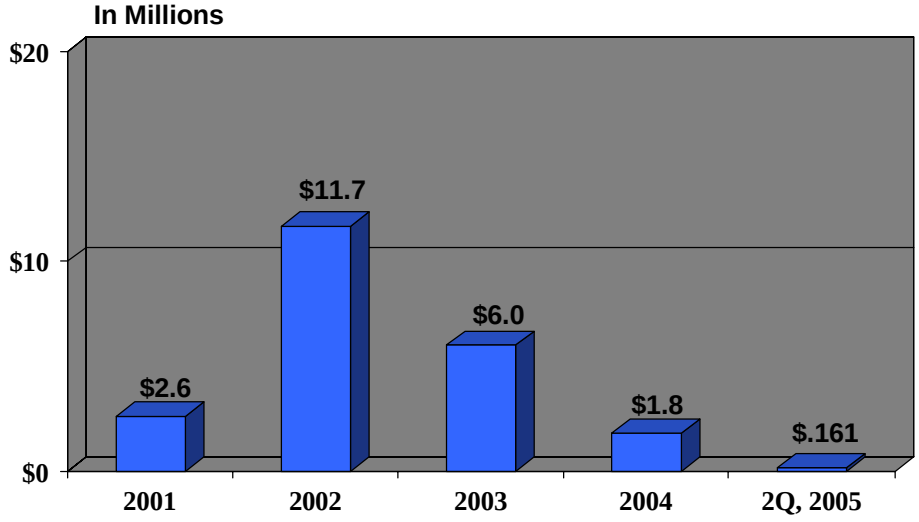

## TELEMARKETING FRAUD RECOVERIES



## TELEMARKETING FRAUD FINES




## TELEMARKETING FRAUD SEIZURES



## III. Significant Cases

**BRUCE & STEPHEN IRONSIDE (LOS ANGELES) -** The Ironside brothers conducted a fraudulent lottery business from Vancouver, British Columbia that victimized elderly U.S. citizens. The total monetary loss exceeded $2 million. Bruce and Stephen Ironside were arrested in October 2003 on federal charges of Title 18, United States Code (USC), Sections 1302, Mailing Materials Related to Lotteries; 1343, Wire Fraud; and 2326, Telemarketing Fraud Against the Elderly. The telemarketing operation was simultaneously searched and assets were seized by the RCMP Telemarketing Task Force (Project Colt), pursuant to the British Columbia Business Practices & Consumer Protection Act. The Ironsides were subsequently indicted for the aforementioned federal violations in April 2004, in the Central District of California.

**CHARLES DIKE (LOS ANGELES) -** Charles Dike worked as a telemarketer for North Klassen Services (NKS), Vancouver, British Columbia. NKS was a fraudulent lottery business that defrauded 1,700 victims, primarily elderly U.S. citizens, out of $3 million. Dike was arrested in May 2003, in Lagos, Nigeria, when he applied for a Visa at the American Embassy. Dike was subsequently extradited to the U.S. in February 2004, and was held in custody until he pled guilty in December 2004, to violations of Title 18, USC, Sections 1343, Wire Fraud, and 2326, Telemarketing Fraud Against the Elderly. Three additional subjects previously pled guilty, including the owner Wilson Okike, who is currently serving a seven-year sentence. In October 2004, Attorney General John Ashcroft featured the extradition of Dike in his press conference related to the DOJ initiative Roaming Charge.

## WAYS TO PROTECT YOURSELF FROM TELEMARKETING FRAUD

**Things you should do:**

- Ask telemarketers for the name and address of their company, and a clear explanation of the offer they are making.
- Ask the caller to send you material in writing to study, including the money back guarantee, before you make a purchase.
- Ask about the company's refund policies.
- Call the Better Business Bureau, your state Attorney General's Office, or the local Consumer Protection Service in the state or city where the company is located, and ask if any complaints have been made against the firm.
- Talk to family and friends, or call your lawyer, accountant, or banker, and get their advice before you make any large purchase or investment.

- Request that your telephone number be removed from the telemarketing

list if you do not want to be called.

- Report suspicious telemarketing calls, junk mail solicitations, or advertisements to the National Fraud Information Center at 1-800-876-7060.

**Things you should NOT do**:

- Do not pay for any prize or send money to improve your chances of winning--it is illegal for someone to ask that you pay to enter a contest.
- Do not allow any caller to intimidate or bully you into buying something "right now"--If the caller says, "You have to make up your mind right now," or "We must have your money today," then it's probably a scam.
- Do not give any caller your bank account number--They can use it to withdraw money from your account at any time without your knowledge and/or permission.
- Do not give your credit card number to anyone over the telephone unless you initiated the call.
- Never wire money or send money by an overnight delivery service unless you initiated the transaction.

**U. S. Department of Justice**
Federal Bureau of Investigation

**FINANCIAL CRIMES SECTION** **CRIMINAL INVESTIGATIVE DIVISION**

## ASSET FORFEITURE/MONEY LAUNDERING

### I. General Overview

The mission of the Asset Forfeiture/Money Laundering Unit, is to promote the strategic use of asset forfeiture and to ensure that field offices employ the money laundering violation in all investigations, where appropriate, to disrupt and/or dismantle criminal enterprises. Following the money and then properly utilizing the asset forfeiture statutes will effectively and efficiently disrupt and dismantle criminal and/or terrorist organizations.

Since the priorities of the FBI have shifted from criminal to terrorism, the Asset Forfeiture/Money Laundering Unit has successfully coordinated with the Counterterrorism Division in a variety of training programs to instruct agents and task force officers how to incorporate asset forfeiture and money laundering into terrorism investigations.

The Criminal Investigative Division serves as the program manager for both the Asset Forfeiture and Money Laundering programs, thus providing support to all FBI investigative programs to include international and domestic terrorism.

## MONEY LAUNDERING

What is Money Laundering?

The Department of Justice defines Money Laundering in the following manner:

"Money laundering is the process by which criminals conceal or disguise the proceeds of their crimes or convert those proceeds into goods and services. It allows criminals to infuse their illegal money into the stream of commerce, thus corrupting financial institutions and the money supply and giving criminals unwarranted economic power."

It can be further described in the following manner:

- A process...(a series of actions) through which income of illegal origin is concealed, disguised, or made to appear legitimate (Main objective); and to evade detection, prosecution, seizure, and taxation.

Here are a couple of more definitions:

- "Laundering money is to switch the black money or dirty money, to clean money." - Michael Sindona (Infamous con man)
- "The handling of money in such a fashion as to conceal its true source or origin."
- "The process by which income of illegal origin is transformed into money which appears to have been legitimately earned or obtained."

Anyway you look at it, money laundering is the process by which criminal proceeds are made to appear to come from a legitimate source. The FBI maintains a proactive approach when investigating money laundering. It is two-pronged in nature:

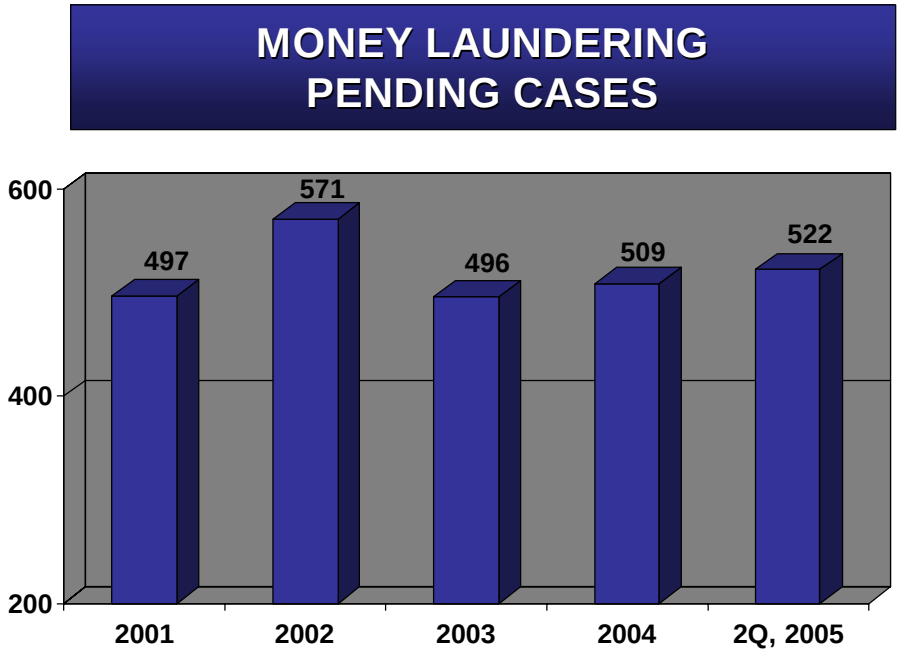
Prong One - The investigation of the underlying criminal activity, in simple terms, if there is no criminal activity, or Specified Unlawful Activity that generates illicit proceeds, then there can be no money laundering; and

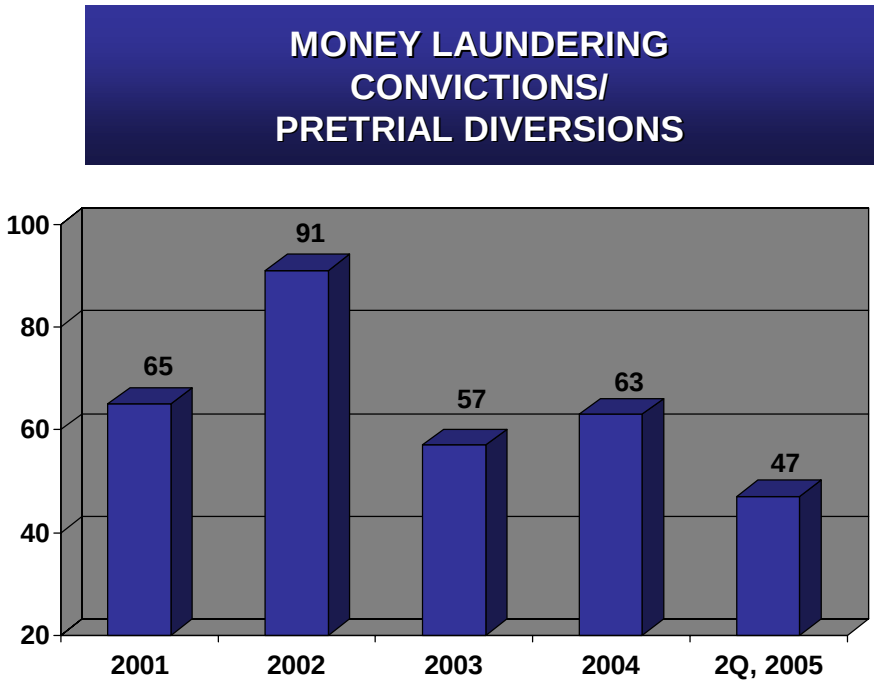
Prong Two - A parallel financial investigation to uncover the financial infrastructure of the criminal organization. Following the money and discerning how the money flows in an organization in order to conceal, disguise, or hide the proceeds.

## Asset Forfeiture

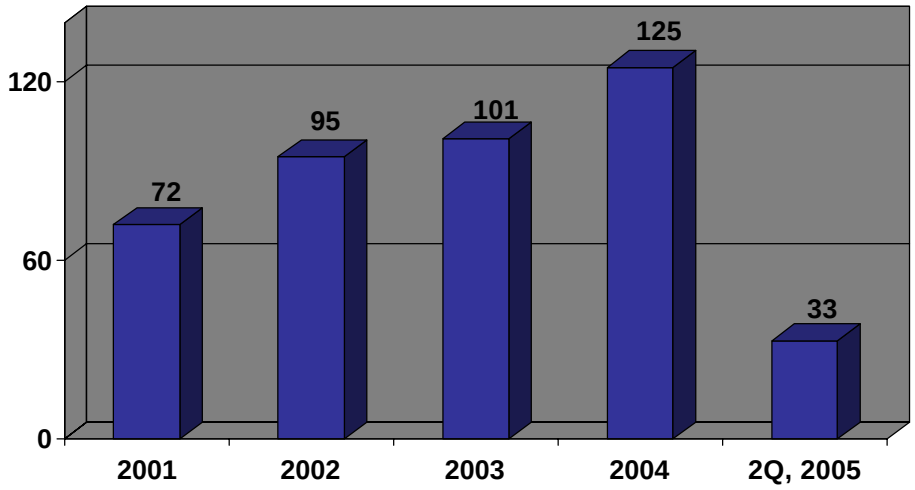
The FBI's Asset Forfeiture Program is one of the most successful in all of law enforcement. In the White Collar Crime Program (WCCP), the bulk of the monies seized are returned to victims of the frauds that generated them. This is unique to the FBI and some other agencies. Most people associate the seizure and forfeiture of assets with narcotics trafficking. Although the FBI does seize assets from drug dealers and other criminals, the WCCP is the largest contributor to the FBI's forfeiture program.

**II. Overall Accomplishments:** The following Money Laundering accomplishments were achieved for the White Collar Crime Program.

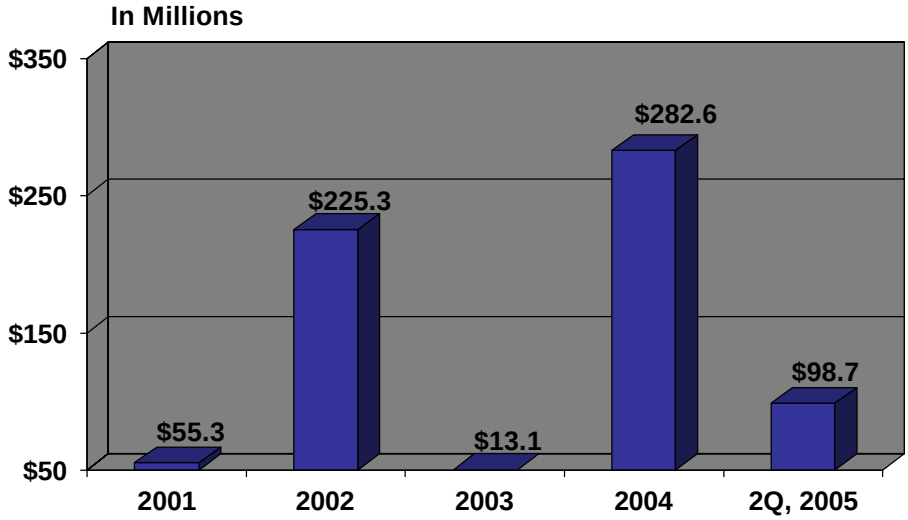


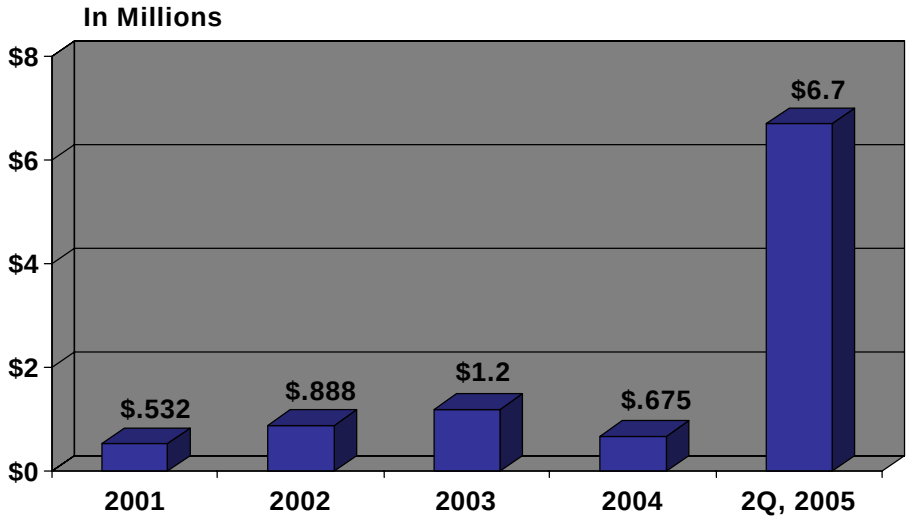
## MONEY LAUNDERING INFORMATIONS/INDICTMENTS



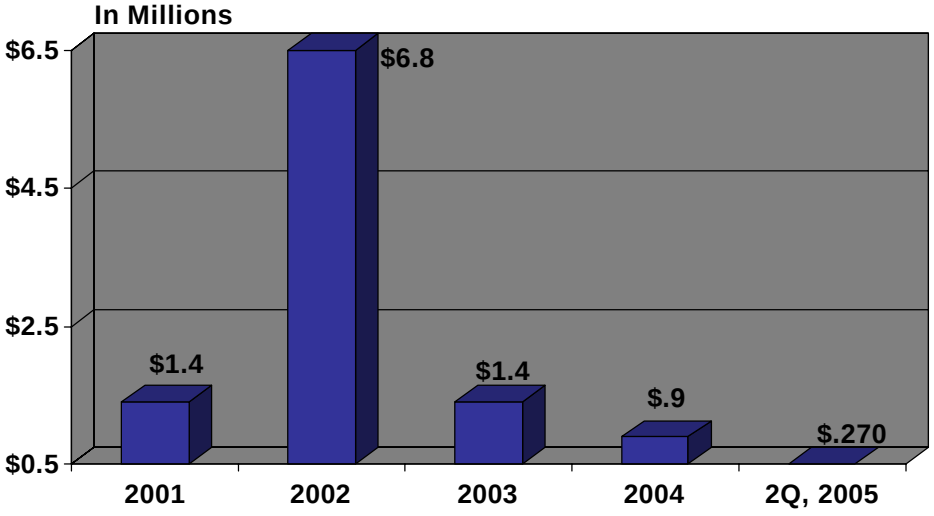

## MONEY LAUNDERING RESTITUTIONS



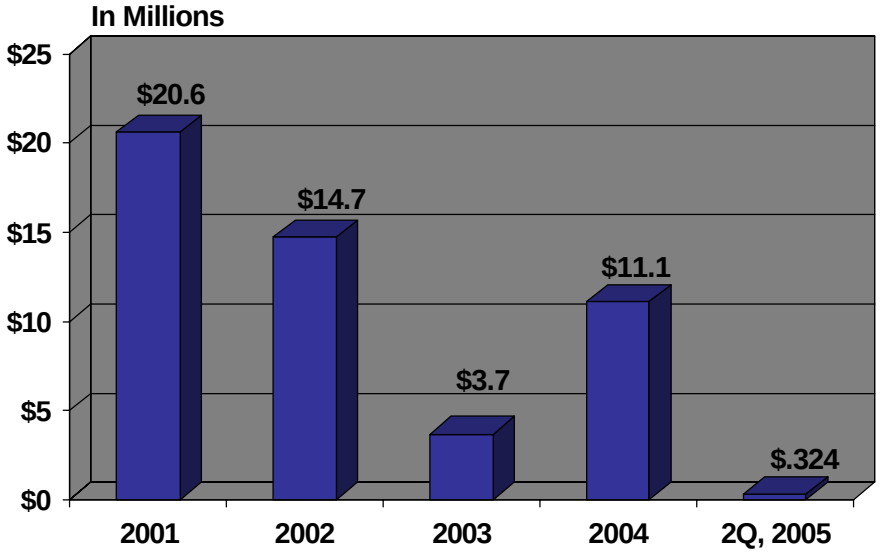
## MONEY LAUNDERING RECOVERIES




## MONEY LAUNDERING FINES

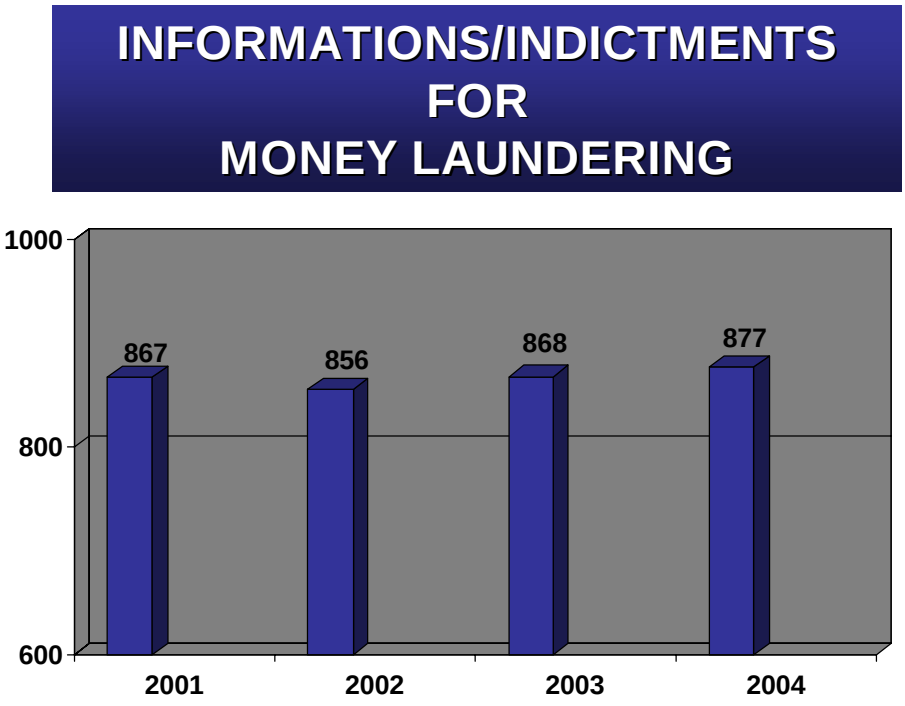


# MONEY LAUNDERING SEIZURES



The following two charts represent the totality of the efforts in Money Laundering and Asset Forfeiture across all FBI investigative programs. Chart One - represents the total number of Informations/Indictments for all FBI programs. Chart Two - relates to asset forfeitures. It should be noted that forfeiture statistics are not included as there are factors beyond the control of the FBI investigative program, including decisions made during the prosecutorial phase, such as plea agreements and decisions to seek restitution.

**INFORMATIONS/INDICTMENTS**
**PER YEAR FOR MONEY LAUNDERING**
**TITLE 18 U.S. CODE (USC), SECTION 1956 AND T 18, USC, SECTION 1957**



**III. Significant Cases**

**<u>BAJA KINGS; ORGANIZED CRIME DRUG ENFORCEMENT TASK FORCE/MEXICAN DRUG TRAFFICKING ORGANIZATION (EL PASO)</u>**: Operation Baja Kings was initiated by the El Paso Division in January 2004. This investigation centered on the infiltration of a money laundering organization controlled by Ismael Zambada Garcia and Joaquin Guzman Lorea. The investigation lead to other spin off investigations in New York, New Jersey, Illinois, Colorado, Michigan and California. The investigation resulted in the seizure of $12 million in bulk cash and over $10 million in property. In addition, the investigation resulted in the seizure of one ton of cocaine and two and a half tons of marijuana.

**<u>CREDIT LYONNAIS S.A., DBA ALTUS FINANCE S.A. ; FRAUD BY WIRE; MAIL FRAUD; MONEY LAUNDERING (LOS ANGELES)</u>**: During 1991, Credit Lyonnais S.A., through its subsidiary Altus Finance S.A. ("Altus"), purchased a controlling interest in Executive Life Insurance Company ("ELIC"), one of the largest insurers in California, a prohibited relationship per California Insurance Codes. The non-disclosure of the relationship lead to federal conspiracy, mail fraud, wire fraud, securities fraud, and other fraud charges. More than $771,075,000 in assets was forfeited as a result of this investigation.

## Tips and Information for the Public
## Identifying Money Laundering

**Know your risks and vulnerability to being used for laundering money**:

- Maintain and test internal financial controls, policies, and operations.
- Know your customers and understand how their businesses operate.
- Recognize and report suspicious transactions, maintain professional skepticism.
- Beware of large-scale cash transactions, the large or rapid movement of funds, and an unrealistic net worth compared to reported income and/or employment.
- Report unusual business activity that is not financially logical or does not appear to have a legitimate economic purpose.
- Maintain good record keeping.
- Educate and train employees to the symptoms of money laundering--Ask questions, if a transaction appears suspicious.