



Department of Justice

STATEMENT OF
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BEFORE THE
FINANCIAL CRISIS INQUIRY COMMISSION
(FCIC)

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1 TESTIMONY TO THE FINANCIAL CRISIS INQUIRY COMMISSION
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6 Distinguished Members of the Commission, thank you for the opportunity to speak with
7 you about the Department of Justice's mortgage fraud enforcement efforts in South Florida. I am
8 pleased to be here to assist you in your fact-finding process.

9 As you know, the mission of the Department of Justice and of all the U.S. Attorney's
10 Offices across the country is to enforce our nation's laws by investigating, prosecuting, and
11 punishing those who commit crimes, including financial crimes and frauds. In this context, the
12 Department of Justice and the U.S. Attorney's Office for the Southern District of Florida have
13 waged an aggressive campaign to help stem the tide of mortgage fraud that has tarnished our
14 communities and our nation. But our prosecutorial efforts, no matter how aggressive and
15 focused, are defined and limited by our role in the justice system. In the mortgage fraud arena,
16 our role is to bring to justice those who have committed or have conspired to commit fraud.
17 Unfortunately, that often means that the fraud has already been committed and the harm has
18 already been done by the time we become involved. Still, we believe that our prosecutions, and
19 the resulting punishment, help prevent fraud by deterring others from committing similar crimes
20 in the future.

21 Despite our District's increased scrutiny and continually rising prosecutions, mortgage
22 fraud continues to be a serious problem in South Florida. Earlier in the decade, South Florida
23 benefitted from tremendous growth during the real estate boom. As a result, however, we were
24 hit particularly hard by the market's eventual fall. In 2009, for example, the Miami-Fort
25 Lauderdale metropolitan area was ranked by RealtyTrac, Year-End Metropolitan Foreclosure

26 Market Report among the top ten U.S. metropolitan areas for foreclosure rates, with 1 out of
27 every 14 homes facing foreclosure proceedings. In addition, Fannie Mae ranked Florida Number
28 1 in loan origination fraud in 2008 and Number 3 in 2009. And according to FINCEN,
29 California and Florida led the nation in the number of mortgage fraud loan subjects reported in
30 Suspicious Activity Reports, called SARs, for 2009. In fact, for 2009, 42% of all mortgage fraud
31 subjects reported in SARS came from Florida and California. In addition, the Mortgage Asset
32 Research Institute, commonly known as MARI, has ranked Florida Number 1 for mortgage fraud
33 – for four straight years, since 2006.

34 Mortgage fraud is insidious. It can rob homeowners of the roof over their head, their
35 savings and security. Recent figures estimate nationwide mortgage fraud losses for 2009 at
36 approximately \$14 billion. In addition to staggering losses, our cases reflect that mortgage fraud
37 breeds other crimes. For example, we see from our cases that proceeds of crime are being
38 laundered through investments in commercial and residential real estate. We continue to see
39 mortgage fraud tied to other serious crimes, such as identity theft, money laundering and credit
40 card fraud, to name a few. The use of the Internet and related technology to receive and process
41 loan applications is increasing. We have even had a case of attempted arson by a mother and son
42 team of public adjusters who were hired to torch a house believed to be in foreclosure, so they
43 could file a fraudulent claim and split the insurance proceeds with the home owner. [U.S. v.
44 Alvarez, Case No. 08-21012-CR-King].

45 Our criminal prosecutions confirm that the perpetrators of mortgage fraud have infiltrated
46 every level of the loan industry -- from straw buyers who pose as legitimate purchasers, to
47 corrupt mortgage brokers and appraisers, to complicit title agents, attorneys and bank loan
48 officers. And we are aggressively prosecuting everyone, up and down the line.

49 To address the mortgage fraud problem in South Florida, in September 2007, the USAO
50 announced its Mortgage Fraud Initiative. Then in June 2008, we built upon the success of that
51 Initiative, and created a Mortgage Fraud Strike Force, comprised of experienced federal
52 prosecutors, and state and local agents, officers, and financial analysts dedicated exclusively to
53 investigating and prosecuting mortgage fraud cases.

54 Using this model of federal, state and local cooperation, law enforcement is working
55 together, efficiently and quickly sharing information and focusing on common goals: to ferret
56 out illicit financial activities, make criminals accountable, and increase confidence and promote
57 integrity in the system. Among those agencies leading the effort are the Federal Bureau of
58 Investigation, the U.S. Secret Service, U.S. Postal Inspection Service, Federal Deposit Insurance
59 Corporation, U.S. Department of Housing and Urban Development - Office of Inspector General,
60 Florida Office of Financial Regulation, and the Miami-Dade Police Department.

61 Our Mortgage Fraud Strike Force has yielded substantial results. As of September 10,
62 2010, we have prosecuted 412 mortgage fraud defendants, at all levels of the mortgage process,
63 responsible for almost half a billion dollars in fraud (\$499,534,033 million). In February 2008,
64 before the formation of our Task Force, the number of mortgage fraud defendants charged was
65 55, and they were responsible for \$76 million in fraudulent loans. More recently, the Financial
66 Fraud Enforcement Task Force, established in November 2009, has helped to shed a national
67 spotlight and renewed multi-agency emphasis on mortgage fraud investigations and
68 prosecutions.

69 In mid-June of this year, Attorney General Eric Holder and members of the Financial
70 Fraud Enforcement Task Force announced the results of a nationwide mortgage fraud effort,
71 aptly named *Operation Stolen Dreams*. This national take-down, organized by the interagency

72 Financial Fraud Enforcement Task Force, culminated in charges against 1215 mortgage fraud
73 defendants, 485 arrests, and an estimated loss amount of \$2.3 billion in fraudulent mortgage
74 loans. In South Florida, from March 1, 2010 to June 17, 2010, *Operation Stolen Dreams*
75 resulted in charges against 86 mortgage fraud defendants and the issuance of approximately \$76
76 million in mortgage loans, all based on fraud.

77 One of the local cases we announced during *Operation Stolen Dreams* -- though not the
78 largest in terms of the amount of the fraud -- was certainly one of the cruelest schemes and one
79 that highlights the fact that mortgage fraud is not a victimless crime. In U.S. v. Antoine, Case
80 No. 10-20430-CR-Lenard, a purported "investment manager" and a mortgage broker targeted
81 immigrants in the local Haitian-American community. These defendants advertised in local
82 radio spots, offering to provide purported immigration services and assistance with other
83 government programs to needy immigrants. Instead, the defendants abused their clients' trust
84 and stole their personal identifying information, including names, social security numbers, and
85 driver's licenses, and used that information to commit mortgage fraud. Armed with the stolen
86 identities, the two defendants fraudulently applied for and obtained mortgage loans to purchase
87 various properties in the victims' names -- all without the knowledge or consent of the victims.
88 To complete the fraud, the defendants later prepared and executed phony quit-claim deeds
89 transferring title from the victims' identities to themselves. Thereafter, friends and family of one
90 of the defendants would live in the properties until the defendants could flip the properties or the
91 property fell into foreclosure.

92 Another case, U.S. v. Ramos, Case No. 10-20438-CR-Middlebrooks, involved 11
93 defendants, including a mortgage broker, a real estate broker, a loan processor, and eight straw
94 buyers, all of whom were being paid for allowing the use of their names to commit mortgage

95 fraud. In this scheme, which involved 15 properties and defrauded nine separate lenders, the
96 defendants obtained more than \$11.2 million in loans, most of which ultimately went into
97 foreclosure after various flips.

98 Similarly, in U.S. v. Medina, Case No. 09-21028-CR-Lenard, 13 defendants, including a
99 loan officer, a title agent, a recruiter, and paid straw buyers, caused the lender to issue \$16.9
100 million in mortgage loans for the purchase of 12 high-end properties, including multiple units at
101 a luxury condominium building on Brickell Bay Drive in Miami and single family homes in
102 Coral Gables, all based on fraudulent documentation. The fraud resulted in losses of \$9.7
103 million to the lender.

104 Some of the more common mortgage fraud schemes occurring in these cases include:

105 1. Illegal Property Flipping – where property is refinanced or resold after purchase,
106 usually from a complicit straw buyer, for an artificially inflated price.

107 2. Straw Buyers – where individuals are unwittingly used or (more often) allow
108 themselves to be used to buy property in order to conceal the identity of the true owner. The
109 straw buyer never intends to live on the property or make mortgage payments, and is typically
110 compensated for the use of his/her identity and credit. False financial information is usually
111 provided in the loan application process.

112 3. Foreclosure Fraud – where vulnerable owners, fearing foreclosure, are defrauded into
113 transferring title to their property in the hopes of resolving their debt issues, only to lose their
114 homes unwittingly.

115 4. Exploitation of Home Equity Lines of Credit – where fraudsters, frequently using
116 stolen identities, obtain credit by securing multiple lines of credit on a single property and
117 quickly cashing out the equity from the property.

118 5. Double HUD-1 Statements – where the title agent creates two sets of HUD-1
119 Settlement Statements, one with an inflated purchase price (which is provided to the lender), and
120 a second with the actual lower purchase price (which is provided to the seller).

121 6. Shot Gun Sales – where the organizer takes out multiple loans with multiple lenders
122 nearly simultaneously, each lender being unaware that other lenders are lending money on the
123 same property. The organizer steals the loan proceeds and allows the property to fall into
124 foreclosure.

125 7. Ghost Sales – where the organizer steals the identities of the sellers and conducts the
126 closing by forging the sellers' names. The closing and sale take place without the knowledge or
127 consent of the owners of the properties. The organizer then simply files a change of address form
128 with the Postal Service so the true owner, who usually still lives in the property, has no idea that
129 his property has been mortgaged without his consent.

130 8. Builder Bailout – similar to a straw buyer flipping scheme, but in this case, it is the
131 developer who pays the straw purchaser and/or finances the purchase of properties within a
132 development to get the properties off the developer's books and make a profit on the sale.

133 9. Quitclaim Deed Fraud – where a property is illegally quitclaimed from an unsuspecting
134 homeowner to another individual for the purpose of taking title to the property. Since the
135 quitclaim deed accelerates the mortgage payment, the unsuspecting owner is on the hook for the
136 foreclosure of the property and has no title to the property.

137 We have found that, like in health care fraud, as we investigate and prosecute the
138 mortgage fraud du jour, fraudsters change their methods of operation and develop new schemes
139 in an attempt to stay one step ahead of law enforcement and avoid detection. Although it can be

140 challenging to keep pace with fraudsters given our limited resources, we have become adept at
141 retooling and pursuing evolving fraud schemes. Today's emerging fraud schemes include:

142 1. Flopping/Short Sale Fraud – during a short sale, a distressed property is sold at less
143 than market value, with the bank losing money on the sale. In this scheme, however, individuals
144 (usually a complicit real estate agent and homeowner/seller) agree to manipulate the short sale
145 offers to induce a lender to accept a lower offer despite the existence of higher price offers.
146 Then, once the short sale closes at the lower price, a pre-arranged straw purchaser will purchase
147 the property at a higher price.

148 2. Commercial Loan Fraud – similar to traditional straw buyer schemes for residential
149 properties, this type of mortgage fraud is based in part on false statements in the commercial loan
150 application and false supporting documentation, including list of assets, income and collateral of
151 a business applying for a commercial loan.

152 3. Reverse Mortgage/Loan Modification Fraud – where an institution or individual
153 promises to help an individual in distress, generally an elderly person, in obtaining a reverse
154 mortgage or loan modification of an existing mortgage. The fraudster then charges hidden and
155 exorbitant fees without actually providing any services. In the case of a reverse mortgage, an
156 individual would also attempt to obtain a reverse mortgage on behalf of someone, and keep all of
157 the money obtained from the equity of the original mortgage.

158 As we proceed, we will continue to discover other emerging schemes. Mortgage fraud,
159 like all fraud, is a crime of opportunity. Open the door to such fraud and someone will walk
160 right through. Along with our law enforcement partners, we are here to help close that door.

161 Lastly, I would like to stress one point. While prosecutions play an important role in
162 deterring mortgage fraud, prosecutions are by no means the solution to the mortgage fraud

163 problem. We can once again double prosecutions and still not slow down the tide of fraud.
164 Prevention is the real answer. In that regard, private industry, law enforcement and regulators
165 must join forces, communicate, and coordinate, to better prevent the fraud on the front end. That
166 is where the Financial Fraud Enforcement Task Force will have its greatest impact. By
167 educating the industry about emerging frauds, learning from victims at Town Hall-style
168 meetings, educating the public on how to avoid becoming victims of fraud, and spearheading
169 national projects like *Operation Stolen Dreams*, the Financial Crime Enforcement Task Force
170 provides a crucial tool to combat financial fraud. Earlier this month, Assistant Attorney General
171 Tony West of the Civil Division and I, joined by other members of the Financial Fraud
172 Enforcement Task Force, addressed the Hispanic National Bar Association and the National
173 Hispanic Prosecutors Association at their annual convention, with the goal of establishing a
174 mortgage fraud dialogue. The event was very well attended and even better received. In
175 addition, in February 2010, the Miami USAO hosted the first of the FFETF's Town Hall
176 meetings, a mortgage fraud summit, bringing together under one roof home owners, industry
177 leaders, and law enforcement for a frank discussion on the state of mortgage fraud in our
178 community and how we can work together to deter and stop fraud. The goal of this summit was
179 to provide our community with an opportunity to both provide and obtain information about how
180 mortgage fraud affects our neighborhoods and to be involved in the solution. For the law
181 enforcement agencies that participated in the summit, including the FBI, Secret Service, IRS,
182 U.S. Postal Inspection Service, FDIC, HUD-OIG, Florida Office of Financial Regulation, the
183 Florida State Attorney General's Office, and the Florida Statewide Prosecutor's Office, it
184 provided an opportunity to analyze trends, see patterns, and develop creative solutions to address

185 the problem. The Department of Justice believed that strong community outreach and education
186 will prove to be a crucial tool in helping us to combat mortgage fraud.

187 This concludes my prepared testimony. I am happy to answer any questions that the
188 Commission may have.