

Statement of

The Honorable Patrick Leahy

United States Senator
Vermont
February 11, 2009

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Chairman, Senate Judiciary Committee

"The Need for Increased Fraud Enforcement in the Wake of the Economic Downturn"
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We turn today to the issue of fraud. We need to consider better ways to protect the money being spent to help put the economy on a road to recovery. The Federal Government has already spent hundreds of billions of dollars to stabilize our banking system and will be spending hundreds of billions more. This week the Senate finally approved the American Recovery and Reinvestment Act to provide a boost to the economy and create jobs.

Until this year, the Government has paid too little attention to the mortgage and financial fraud that has so dramatically contributed to the economic downturn. Just as we did after the savings and loan crisis nearly two decades ago, we need to rebuild and strengthen the Justice Department's ability to enforce Federal fraud laws to recover the billions lost in real estate and securities schemes. We also need to prevent these same schemes in the future. We need to ensure against the diversion of money intended to rebuild our economy and provide jobs.

Too many Americans have already lost their jobs and their homes. We learn more and more each day about the causes of this crisis, and it is now becoming clear that unscrupulous mortgage brokers and Wall Street financiers were among the principle contributors to this economic collapse.

As the crisis worsened last fall, I called upon Federal law enforcement to track down and punish those responsible for the financial and mortgage frauds. At today's hearing, we will learn more about the scope of the fraud problem, about how enforcement efforts are progressing, and whether the Justice Department needs new tools and greater resources to root out those responsible for these financial crimes.

Senators from both sides of the aisle are working together to strengthen the Government's ability to fight fraud in these difficult economic times. Last week, Senator Grassley, Senator Kaufman and I introduced the Fraud Enforcement and Recovery Act to provide resources for strengthened fraud enforcement at the Justice Department, the FBI, the Office of Inspector General at the Department of Housing and Urban Development, and the Postal Inspection Service. This bill would also create important new tools for prosecutors to use in their fight against fraud. In addition, Senators Schumer and Shelby introduced a complementary bill calling for additional FBI agents, Assistant U.S. Attorneys, and staff at the Securities and Exchange Commission.

While the full scope of the fraud that triggered this economic crisis is still unknown, we are beginning to learn what went wrong. As banks and private mortgage companies relaxed their standards for loans, approving ever riskier mortgages with less and less due diligence, they created an environment that invited fraud. Private mortgage brokers and lending businesses came to dominate the home housing market, and these companies were not subject to the kind of banking oversight and internal regulations that had traditionally helped to prevent fraud. We are now seeing the results of this lax supervision and absence of accountability.

In the last two weeks, the Justice Department has announced prosecutions involving more than \$100 million lost to mortgage and real estate frauds, and the FBI estimates there may be as much as \$2 billion lost to these frauds each year. Just last year in Vermont, a crooked mortgage broker was convicted of defrauding homeowners and banks of over \$1 million in deals related to more than 200 homes in Vermont and upstate New York.

The problem is not limited to mortgage frauds. Home mortgages were packaged together and turned into securities that were bought and sold in largely unregulated markets on Wall Street. As the value of the mortgages started to decline with falling housing prices, these securities unraveled. Unfortunately, some on Wall Street were not honest about these securities, leading to more fraud, and victimizing investors nationwide.

All of this fraud has contributed to an unprecedented collapse in the mortgage-backed securities market. In the past year, banks and financial institutions in the United States alone have suffered more than \$500 billion in losses associated with the sub-prime mortgage industry. Some of our Nation's largest financial institutions collapsed as a result. And that is not to mention the Madoff scandal, which included what is reported to be a \$50 billion Ponzi scheme.

We must give law enforcement agencies the tools and resources they need to root out fraud so that it can never again place our financial system at risk. Ordinary Americans, who bear the brunt of this financial downturn, deserve to know that their Government is doing all it can to hold responsible those who committed fraud in the run-up to this collapse and to prevent future fraud, particularly with so much taxpayer money at risk.

Our witnesses this morning are Deputy FBI Director John Pistole, and Rita Glavin, the Acting Head of the Justice Department's Criminal Division. We also welcome Neil Barofsky, the new Special Inspector General for the Troubled Assets Relief Program. Mr. Barofsky, you have a tremendously important charge to protect and oversee the billions being spent on behalf of taxpayers through the TARP program. I look forward to working with you all to restore our nation's capacity to enforce effective anti-fraud laws.

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