

Statement of

The Honorable Patrick Leahy

United States Senator
Vermont
December 9, 2009

Statement Of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee,
Hearing On "Mortgage Fraud, Securities Fraud,
And The Financial Meltdown: Prosecuting Those Responsible"
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I thank Senator Kaufman for chairing this hearing on combating mortgage and financial fraud. He has been a leader on this vital issue. Early this year, Senator Kaufman, Senator Grassley and I introduced the bipartisan Fraud Enforcement and Recovery Act (FERA) of 2009. Our bipartisan efforts led to strong votes in both houses of Congress and passage of this important bill in May.

Senator Kaufman has spoken out on the need for aggressive fraud enforcement all year. I am glad that he is now conducting this important hearing to examine how the new enforcement tools we provided are working, to review the current state of our fraud enforcement efforts, and to consider additional steps to strengthen these efforts.

The Fraud Enforcement and Recovery Act was a major step toward holding accountable those who have caused so much damage to our economy and protecting our economic recovery efforts from the scourge of fraud. This law has strengthened the Federal Government's capacity to investigate and prosecute the kinds of financial frauds that so severely undermined our economy and hurt so many hard-working people in this country. These frauds have robbed people of their savings, their retirement accounts, college funds for their children, and their equity and have cost too many people their homes. This new law is helping to provide the resources and legal tools needed to police and deter fraud and to protect taxpayer-funded economic recovery efforts now being implemented.

Mortgage fraud had reached near epidemic levels in this country. Reports of mortgage fraud are up 682 percent over the past five years, and more than 2800 percent in the past decade. And massive, new corporate frauds, like the \$65 billion dollar Ponzi scheme perpetrated by Bernard Madoff, are being uncovered as the economy has turned worse, exposing many investors to massive losses. We are now better able to take action to better protect the victims of these frauds. These victims include homeowners who have been fleeced by unscrupulous mortgage brokers who promise to help them, only to leave them unable to keep their homes and in even more debt than before. They include retirees who have lost their life savings in stock scams and Ponzi schemes, which have come to light as the markets have fallen and corporations have collapsed. They also include American taxpayers who have invested billions of dollars to restore our

economy, and who expect us to protect that investment and make sure those funds are not exploited by fraud.

In the last three years, the number of criminal mortgage fraud investigations opened by the Federal Bureau of Investigation (FBI) has more than doubled, and the FBI anticipates that number may double yet again. Despite this increase, the FBI at the start of this year had fewer than 250 special agents nationwide assigned to financial fraud cases, which is only a quarter of the number the Bureau had more than a decade ago at the time of the savings and loan crisis. I hope that congressional action through passage of FERA and appropriations has allowed the FBI and other enforcement agencies to dedicate more resources to combating fraud, and I look forward to hearing about increased efforts.

Fraud enforcement is an excellent investment for the American taxpayer. According to recent data provided by the Justice Department, the Government recovers more than \$20 for every dollar spent on criminal fraud litigation. We need to ensure going forward that FERA is fully funded and that enforcement agencies allocate sufficient resources to combating fraud.

The Fraud Enforcement and Recovery Act also made a number of straightforward, important improvements to fraud and money laundering statutes to strengthen prosecutors' ability to combat this growing wave of fraud, and it strengthened one of the most potent civil tools we have for rooting out fraud in Government - the False Claims Act. The Federal Government has recovered more than \$22 billion using the False Claims Act since it was modernized through the work of Senator Grassley and Congressman Berman in 1986, and FERA made the statute still more effective. I look forward to hearing how these new tools have helped enforcement efforts. Strengthening fraud enforcement has been a key priority for President Obama. During the campaign, President Obama promised to "crack down on mortgage fraud professionals found guilty of fraud by increasing enforcement and creating new criminal penalties." The President has made good on this promise by calling for additional resources for fraud investigation and prosecution in his budget and by signing FERA into law.

This is a bipartisan issue. Democrats, Republicans, and Independents share a commitment to fight fraud and the horrible costs it is imposing on hard-working Americans. No one wants to see taxpayer money intended to fund economic recovery efforts diverted by fraud. No one wants to see those who engaged in mortgage fraud escape accountability.

The recovery efforts are leading to economic progress. That is good. That is necessary. But that is not enough. We need to make sure that we are spending our public resources wisely and that they are not being dissipated by fraud. We need to ensure that those responsible for the downturn through fraudulent acts in financial markets and the housing market are held to account.

That is why it was so important that we quickly and decisively passed FERA and is so important that that we remain vigilant in our oversight of fraud enforcement efforts. In addition, the same Senators who have led the fight against mortgage and financial fraud are now working to vigorously combat health care fraud. Senator Kaufman and I are working hard to ensure that health care reform legislation includes tough and smart new measures to crack down on fraud. I applaud his leadership in that area, as well.

I look forward to hearing from today's witnesses about important progress in cracking down on fraud and protecting the economic well being of hard-working Americans.

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