



Department of Justice

STATEMENT

OF

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UNITED STATES ATTORNEY
DISTRICT OF MINNESOTA
CHAIRMAN
ATTORNEY GENERAL'S ADVISORY COMMITTEE**

AND

**ROBB ADKINS
EXECUTIVE DIRECTOR
FINANCIAL FRAUD ENFORCEMENT TASK FORCE**

BEFORE THE

**SUBCOMMITTEE ON ADMINISTRATIVE OVERSIGHT AND THE COURTS
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE**

ENTITLED

**"THE FINANCIAL FRAUD ENFORCEMENT TASK FORCE:
SIGNIFICANT ACCOMPLISHMENTS AND ONGOING
CHALLENGES IN THE FIGHT AGAINST FRAUD"**

PRESENTED ON

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**Statement of
B. Todd Jones
United States Attorney
District of Minnesota
Chairman
Attorney General's Advisory Committee**

and

**Robb Adkins
Executive Director
Financial Fraud Enforcement Task Force**

**Subcommittee on Administrative Oversight and the Courts
Committee on the Judiciary
United States Senate**

**“The Financial Fraud Enforcement Task Force:
Significant Accomplishments and Ongoing
Challenges in the Fight Against Fraud”**

June 30, 2011

Chairman Klobuchar, Ranking Member Sessions, and distinguished Members of the Subcommittee, the Department of Justice (the Department) is honored to appear before you today to discuss the Financial Fraud Enforcement Task Force and the continuing fight against fraud. The financial crisis has impacted virtually every American. It has presented not only fraud and deception in the finance and housing markets that helped fuel the crisis, but also the potential for fraudulent schemes to misuse the public's unprecedented investment in economic recovery. Financial Fraud devastates consumers, siphons taxpayer dollars, weakens our markets, and impedes our ongoing economic recovery. While we are aggressively confronting fraud born of the financial crisis, the reality is that we cannot simply prosecute our way out of the situation. Instead, we must address it with an equally broad and comprehensive enforcement response.

This is the mission of the Financial Fraud Enforcement Task Force. The Department thanks you for the opportunity to discuss this broad interagency effort.

I. OVERVIEW

The President created the Financial Fraud Enforcement Task Force (the Task Force) by Executive Order in November 2009. Composed of more than 25 federal agencies, regulators and inspectors general, as well as state and local partners, it is the largest coalition ever brought to bear in confronting fraud. Its membership is broad, consisting of several Department of Justice components, the Department of the Treasury, the Department of Housing and Urban Development, the Department of Commerce, the Department of Labor, the Department of Homeland Security, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Federal Home Finance Agency, the Financial Crimes Enforcement Network, the Federal Reserve Board, the Federal Trade Commission, the Internal Revenue Service — Criminal Investigation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Recovery Accountability and Transparency Board, the Special Inspector General for the Troubled Asset Relief Program, the U.S. Postal Inspection Service, the U.S. Secret Service, federal inspectors general, state attorneys general and many others.

The President's Executive Order directs the Task Force to focus on the full array of corrupt conduct presented by the financial crisis, including securities and commodities fraud, bank fraud, mail and wire fraud, mortgage fraud, money laundering, False Claims Act violations, discrimination, and other financial crimes and violations. This far-reaching list, however, only begins to capture the breadth — and depth — of this massive interagency effort.

The Executive Order directs the Task Force to use the full criminal and civil enforcement resources of the member departments and agencies: (1) to investigate and prosecute financial crimes and other violations relating to the current financial crisis and economic recovery efforts; (2) to recover the proceeds for such crimes and violations; (3) to address discrimination in the lending and financial markets; (4) to enhance coordination and cooperation among federal, state and local authorities responsible for the investigation and prosecution of financial crimes and violations; and (5) to conduct outreach to the public, victims, financial institutions, nonprofit organizations, state and local governments and agencies, and other interested partners to enhance detection and prevention of financial fraud schemes.

To make this mission a reality, the Task Force has established working groups and committees to focus on the types of financial fraud that affect us most during this time of economic recovery: mortgage fraud; securities, commodities, and investment fraud; financial discrimination; and potential frauds preying upon the response to the economic crisis, including the funds disbursed through the American Recovery and Reinvestment Act and the Troubled Asset Relief Program. Each of the Task Force working groups and committees has their own action plan and goals consistent with its subject matter. For example, the Mortgage Fraud Working Group has hosted public summits in areas hardest hit by mortgage fraud, provided guidance to the field in how to attack mortgage fraud, and has engaged in coordinated mortgage fraud enforcement, whereas the Victims' Rights Committee, which has taken the lead in developing the Task Force's public Web site, updates content and tracks the frequency that the public visits portions of the Web site. Through the working groups and committees of the Task Force, we have put in place a structure that draws from the collective wisdom and expertise of the many member agencies but is still nimble enough to adapt to emerging schemes, capture

lessons learned from one context and apply them to others, and share information and training. Whether it is case referrals, information sharing, case coordination or public outreach, we are far more effective and efficient when we combine our efforts.

The Task Force has developed a comprehensive enforcement network by establishing Financial Fraud Coordinators in every U.S. Attorney's Office in the country to coordinate efforts at the line level. The Task Force has strengthened and expanded that network by incorporating existing national and regional financial fraud task forces and increasing the number of collaborative anti-fraud efforts at the local level, such as the 94 regional mortgage fraud working groups and task forces around the country. We have armed that network with more tools and better trained personnel by compiling and distributing a resource guide of financial databases across enforcement agencies, holding national training conferences spanning the broad range of financial fraud areas, launching a website with fraud reporting and public education resources drawn from the full complement of government agencies, and tracking and distributing information about emerging fraud trends.

As more fully detailed in the Task Force's Annual Report for 2010, which was recently completed and made publicly available at <http://www.stopfraud.gov/docs/FFETF-Report-LR.pdf>, the Task Force made great strides in its inaugural year. There have been impressive criminal, civil and regulatory enforcement efforts by the many Task Force members in its first year, with thousands of enforcement actions addressing a broad array of fraud. For example, during one week in June 2010 alone, the Task Force members announced the indictment of the orchestrator of a multi-billion dollar complex fraud scheme that contributed to the failure of one of the nation's largest banks, as well as over 1,500 prosecutions and civil actions in mortgage fraud cases being prosecuted throughout the country. More recently, other Task Force members in the

Southern District of New York obtained multiple convictions against defendants associated with the Galleon Group, in one of the largest hedge-fund insider-trading cases ever brought by the Department of Justice.

The Task Force is conducting outreach to the public, victims, financial institutions, nonprofit organizations, state and local governments and agencies, and other interested partners to enhance detection and prevention of financial fraud schemes. Understanding that our most powerful tool in combating financial fraud is an informed public, the Task Force has engaged in training and outreach efforts spanning every type of financial fraud and reaching every level of consumer, including government officials, business professionals and private citizens. In the Recovery Act area alone, the Task Force conducted one of the largest anti-fraud training efforts in history in order to help safeguard Recovery Act funds from fraud, waste and abuse. The Task Force has prioritized victim assistance and launched a website that serves as a “one-stop-shop” for the public to report fraud and to obtain information on how to avoid becoming victims.

The financial crisis is incredibly broad and the types of fraud that contribute to and prey upon the crisis are equally broad — including securities and commodities fraud, investment scams, mortgage foreclosure schemes, and efforts to defraud economic recovery programs. The Task Force was set up to address this wide array of fraud, and the committees and working groups of the Task Force — the enforcement experts — have produced impressive results in their first year in information sharing, training, enforcement, and outreach.

II. IMPROVED TRAINING, INFORMATION SHARING AND COLLABORATION

The Task Force’s Training and Information Sharing Committee has been active in its first year, supporting Task Force members and their enforcement priorities. In addition to organizing the National Conference of Financial Fraud Coordinators in October 2010, the committee helped

conduct numerous training courses at the Department's National Advocacy Center in South Carolina, covering a variety of fraud subjects.

The committee developed and distributed across the law enforcement and regulatory agency communities the Resource Guide for Financial Investigations, which currently includes descriptions of 22 data sources from 12 Task Force member agencies that are effective tools in the investigation and prosecution of financial fraud matters. The Resource Guide will be a valuable resource to assist in conducting financial fraud investigations and prosecutions, and the committee expects that it will expand the guide to include additional datasets in the future.

III. ENFORCEMENT

A. MORTGAGE FRAUD

The Mortgage Fraud Working Group is tasked with combating a wide range of fraud in the mortgage, finance and housing markets, including loan modification schemes, foreclosure rescue scams, loan origination fraud, reverse mortgage schemes, short sale frauds and builder bailout schemes. Mortgage fraud trends show that the fraud evolves with the cycles of the housing market and varies by geographic region. Accordingly, the working group has focused its efforts in different, hard-hit regions throughout the country.

The working group has held regional summits around the country in Miami, Detroit, Phoenix, Columbus, Fresno, and Los Angeles. In each location, the public came together to hear from law enforcement, victims, housing counselors, industry experts and others to assess the mortgage fraud issues in that community. The regional summits also included a closed session with regional law enforcement authorities, including the regional mortgage fraud working groups and task forces, to discuss strategies, resources and initiatives to successfully combat mortgage fraud.

Increased efforts to combat mortgage fraud have seen dramatic enforcement results. In the first year of the Task Force, the number of mortgage fraud defendants charged by U.S. Attorneys' Offices has more than doubled from 526 in fiscal year 2009, to 1,235 in fiscal year 2010. There was a similar increase in the number of mortgage fraud cases charged, going from 267 in fiscal year 2009 to 656 in fiscal year 2010. And the emphasis on firm sentences for mortgage fraud followed the same trend for 2010, with a near doubling of the number of defendants sentenced to more than two, three and five years in prison. This increase has coincided with a near doubling of the number of regional mortgage fraud working groups and task forces nationwide.

The Mortgage Fraud Working Group helped increase not just the cases charged and sentences imposed for mortgage fraud, but also expanded the tools and strategies used to confront mortgage fraud. For example, on June 17, 2010, the group announced the results of Operation Stolen Dreams, which included charges, convictions and sentencings against a total of more than 1,500 criminal defendants involved in mortgage fraud throughout the United States. The operation was different from prior efforts not just in terms of its size, but also because it included a broad array of enforcement actions. Civil enforcement actions were part of the sweep as well, with approximately 400 civil fraud defendants involved and nearly \$200 million in civil recoveries ordered. And the sweep included not just federal enforcement by U.S. Attorneys' Offices, but important participation by federal agencies such as the Federal Trade Commission (FTC), state attorneys general and district attorneys, and the use of bankruptcy actions and other enforcement means to confront fraud. These efforts reinforce the strength of the Task Force's strategy of bringing broad coalitions to bear and using all of the enforcement tools available to us. We expect this approach to continue to be effective.

Our fight against mortgage fraud continues. For example, two weeks ago, Ben Wagner, U.S. Attorney for the Eastern District of California and co-chair of the Mortgage Fraud Working Group, announced that in the year since Operation Stolen Dreams his U.S. Attorney's Office alone had charged 47 new mortgage fraud defendants involving many tens of millions of dollars in alleged losses. Mortgage fraud continues to be a problem in regions throughout the country and will continue to be a Task Force priority.

B. RECOVERY ACT, PROCUREMENT AND GRANT FRAUD

According to the Recovery Board, by the close of 2010 the federal government had released approximately \$600 billion in funds under the Recovery Act. Notwithstanding the substantial volume of funds now distributed, the number of prosecutions for Recovery Act-related offenses has been relatively low.

The relatively low level of fraud to date is due in significant part to the continuing efforts of the Recovery Board and the inspectors general, bolstered by the working group, to prevent fraud from happening in the first place, through such mechanisms as the Recovery Operations Center (ROC). The establishment of the Recovery Act, Procurement and Grant Fraud Working Group added the full weight of the law enforcement community behind the Recovery Board's efforts.

Because it was established at a stage when stimulus funds had yet to be distributed in significant quantities, the working group focused its early efforts on fraud prevention. Perhaps the most influential work done by the working group to date is the group's fraud prevention and detection training effort. At the close of 2010, more than 100,000 professionals responsible for awarding and overseeing Recovery Act funds, including inspectors, agents and prosecutors, were

trained as part of this effort, and these numbers are only continuing to grow. This targeted fraud prevention and detection effort is one of the largest in history.

These efforts were punctuated by a flagship training event for agents, auditors and procurement and grant officers, entitled “Focus on Recovery,” which was held in November 2010, in Philadelphia. The Conference included speakers from the highest levels of the Justice Department and inspectors general community, as well as elected officials, including the Vice President of the United States. The conference was a tremendous success, attracting well over 500 attendees.

In the year ahead, a critical foundation for the working group is the enforcement framework previously established by the National Procurement Fraud Task Force (NPFTF), which has now been merged into the working group, bringing together the community of inspectors general with the institutional knowledge of how to prevent and investigate procurement and grant fraud. The expertise that these inspectors general bring to the table will be of tremendous benefit for the working group as it continues its training, detection, prevention, and enforcement efforts.

C. TARP-RELATED FRAUD ENFORCEMENT

The Rescue Fraud Working Group is focused on the detection of fraud, waste and abuse, and increasing the robust and aggressive prosecution of crimes related to the Troubled Asset Relief Program (TARP). The working group has labored collectively to improve coordination and information sharing among agencies addressing rescue fraud, to enhance civil and criminal enforcement efforts, and to increase training and outreach opportunities for member agencies.

The working group made great progress in achieving these goals, including partnering throughout the country with working group members as well as state and local agencies to

conduct investigations and to engage in outreach activities to familiarize authorities with the investigatory resources of the Special Inspector General of the TARP (SIGTARP) as well as working group priorities.

The working group's efforts have translated to significant results within its first year. For example, on June 15, 2010, the Justice Department's Criminal Division and the U.S. Attorney's Office in the Eastern District of Virginia, working in partnership with SIGTARP and other Task Force members, charged Lee Bentley Farkas, former chairman of Taylor, Bean & Whitaker (TBW), for his role in a more than \$2.9 billion fraud scheme that contributed to the failures of Colonial Bank and TBW. The scheme involved, among other things, an attempt to steal \$553 million from TARP. Farkas was convicted on all counts in April 2011.

In another significant rescue fraud enforcement milestone, on October 8, 2010, Charles Antonucci, the former president and CEO of Park Avenue Bank, pleaded guilty in U.S. District Court for the Southern District of New York to securities fraud, making false statements to bank regulators, bank bribery and embezzlement of bank funds. Antonucci attempted to steal \$11 million of TARP funds by, among other things, making fraudulent claims about the bank's capital position. With his guilty plea, Antonucci became the first defendant convicted of attempting to steal from the taxpayers' investment in TARP.

In the year ahead, the working group intends to continue to engage in collaborative enforcement efforts and outreach, with the goal of continuing to protect TARP funds from fraud, waste and abuse.

D. SECURITIES, COMMODITIES AND INVESTMENT FRAUD

The Securities and Commodities Fraud Working Group (SCFWG) brings together an impressive array of subject-matter experts in the enforcement of securities, commodities,

corporate and investment frauds. Although many members of the SCFWG have a long history of collaboration, through the working group they have formed new initiatives, information-sharing efforts and training programs.

In the first year, SCFWG members conducted workshops on and discussed a number of important issues related to securities and commodities fraud enforcement, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, the investigation and prosecution of investment fraud schemes, parallel criminal and civil proceedings, and the use of SEC administrative proceedings.

Apart from the formal meetings of the working group, SCFWG representatives communicate regularly to coordinate on specific investigations and prosecutions, as well as relevant policies. SCFWG members also participate in regional and state cooperative efforts, such as the Virginia Financial and Securities Fraud Task Force; the Connecticut Securities, Commodities and Investor Fraud Task Force; and the South Florida Securities and Investment Fraud Initiative.

The SCFWG members also have been active in public awareness and education. For example, to help people affected by the economic downturn, the FTC created ftc.gov/moneymatters, a website with information about avoiding scams, managing money and dealing with debt. As part of the Delivering Trust Campaign, the U.S. Postal Inspection Service developed a fraud prevention brochure with additional fraud prevention and awareness tips and mailed it to every household in the United States.

During 2010, SCFWG members investigated and prosecuted numerous significant securities, commodities and other investment frauds. The following are just a few of the many impressive enforcement results in 2010:

- On April 8, 2010, Thomas J. Petters was sentenced to 50 years in prison, one of the longest financial crimes-related sentences in history, for engaging in \$3.4 billion investment fraud that harmed hundreds of investors. In addition, prosecutors in the United States Attorney's Office obtained lengthy prison terms were secured against Petters' co-conspirators. This case was the largest fraud case ever prosecuted in the District of Minnesota. Members of the SCFWG continue to investigate other individuals and companies related to the investment scheme.

- As discussed above, in June 2010, the Criminal Division and the U.S. Attorney's Office for the Eastern District of Virginia, in partnership with other Task Force members, charged Lee Bentley Farkas with, among other things, securities fraud in connection with his role in a more than \$2.9 billion fraud scheme that contributed to the failures of one of the 25 largest banks in the United States and one of the largest privately held mortgage lending companies.

Subsequently, Farkas was convicted by a jury on all counts.

- In April 2010, the SEC filed charges against Goldman Sachs & Co. and one of its employees, Fabrice Tourre, alleging fraud in connection with the marketing of a synthetic collateralized debt obligation (CDO). On July 20, 2010, the court entered a consent judgment in which Goldman agreed to pay \$550 million to settle the charges. The SEC's litigation continues against Fabrice Tourre.

- The CFTC filed 57 enforcement actions in Fiscal Year (FY) 2010, representing a 14 percent increase over the number of cases filed in FY 2009. During this period, the CFTC obtained judgments ordering the payment of more than \$200 million in civil monetary penalties, restitution and disgorgement. During FY 2010, the number of investigations opened by the CFTC increased 66 percent from the prior fiscal year.

- On December 22, 2010, the FTC filed suit against 10 individuals and 61 corporations allegedly responsible for an Internet scheme that caused consumers to lose more than \$275 million. The scheme lured consumers with allegedly false promises of government grants or money-making programs and, at its height, ensnared 15,000 consumers per day.

E. EFFORTS TO COMBAT DISCRIMINATION IN THE HOUSING AND FINANCE MARKETS

The Task Force's Non-Discrimination Working Group focuses on financial fraud and other unfair practices directed at people or neighborhoods based on race, color, religion, national origin, sex, age, disability or any other bases prohibited by law. These practices take many forms, including charging minorities higher prices for credit, providing less favorable financial services to minority neighborhoods and steering minorities to more expensive loan products.

Throughout 2010, the members of the working group came together to discuss enforcement initiatives and to sponsor outreach events for the public, enforcement authorities, housing counselors and industry representatives.

Again, increased collaboration has helped improve enforcement. During the first year of the Task Force, the Department of Justice received more referrals from the federal banking regulators and others for potential discriminatory conduct than at any time in at least 20 years. The bank regulators and the Department of Housing and Urban Development combined referred 26 matters to the Department of Justice involving possible discrimination on the basis of race or national origin, which is more than twice as many as in the previous year. The Task Force expects that these referrals, and other enforcement actions taken by the Task Force members, will yield an increased number of cases in the year ahead. This would be in addition to the millions of dollars that Task Force members recovered for victims of discrimination through enforcement actions brought in 2010.

Beyond increased information sharing and referrals, the working group members have also pursued significant enforcement actions. For example, in March 2010, the United States filed a fair lending complaint and consent order resolving *United States v. AIG Federal Savings Bank and Wilmington Finance Inc.*, in which two subsidiaries of AIG agreed to pay more than \$6 million to resolve allegations that they engaged in a pattern or practice of discrimination against African American borrowers, and agreed to invest at least \$1 million in consumer financial education.

IV. UPHOLDING THE RIGHTS OF VICTIMS

Finally, the Task Force has established a Victims' Rights Committee (VRC). The VRC's primary purpose is to address the needs and rights of victims of financial fraud. Accordingly, the committee has concentrated its efforts in three areas: (1) public awareness and education through the launch of a public website; (2) training on victims' rights and services; and (3) focusing on restitution as a priority in federal prosecutions.

During its first year, the VRC has worked to meet its goals by developing website content, training materials and legislative improvements aimed at addressing the needs and rights of financial fraud victims. The committee took the lead in establishing the Task Force's public website, www.stopfraud.gov, which was launched at a ceremony commemorating National Crime Victims' Rights Week. The website is an invaluable resource for members of the public, and contains descriptions of a wide variety of financial scams and information on how best to avoid becoming a victim of financial fraud. Beyond establishing the website, the VRC has also conducted numerous training sessions at national training events, and is currently working to develop an exportable training module that can be used by investigators, prosecutors and victim service providers to improve their awareness of and response to financial fraud victims.

V. CONCLUSION

Chairman Klobuchar, Ranking Member Sessions, and distinguished Members of the Subcommittee, thank you for this opportunity to discuss with you the significant accomplishments and ongoing challenges of combating financial fraud. While we have accomplished much in the first year of the Task Force, our work is far from complete. A healthy economy and, in these times, a full economic recovery, requires our continued vigilance in protecting American businesses and consumers from financial fraud. We look forward to working with you in pursuit of our shared goals and will be happy to answer any questions that you may have.