



# Department of Justice

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STATEMENT OF  
KEVIN PERKINS  
ASSISTANT DIRECTOR  
FEDERAL BUREAU OF INVESTIGATION

BEFORE THE  
COMMITTEE ON JUDICIARY  
UNITED STATES SENATE

ENTITLED  
“INVESTIGATING AND PROSECUTING FINANCIAL FRAUD AFTER THE FRAUD  
ENFORCEMENT AND RECOVERY ACT”

PRESENTED  
SEPTEMBER 22, 2010

**STATEMENT OF  
KEVIN L. PERKINS  
ASSISTANT DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION  
FEDERAL BUREAU OF INVESTIGATION  
BEFORE THE  
JUDICIARY COMMITTEE  
UNITED STATES SENATE  
SEPTEMBER 22, 2010**

Good afternoon Senator Kaufman and distinguished Members of the Committee. I want to thank you for the opportunity to testify before you today about the FBI's ongoing efforts to combat significant financial crimes.

Since my last appearance before you, the FBI has continued to uncover massive frauds, including newly identified Ponzi schemes. In June, Lee Farkas, former chairman of Taylor, Bean, and Whitaker, a large mortgage origination company was charged with a \$1.9 billion fraud that contributed to the failure of Colonial Bank, one of the largest banks in the United States and the sixth largest bank failure in the country.

On September 15, 2010, Nevin Shapiro, owner and former chief executive officer of Capitol Investments, pled guilty to an \$880 million Ponzi scheme involving his firm in New Jersey. In July, Paul Greenwood, a managing partner at both WG Trading and Westridge Capital Management, pled guilty for his role in a \$700 million scheme that defrauded charitable and university foundations as well as pension and retirement plans.

Over the past six months, the prosecutions of the Galleon insider trading case in New York and the Petters \$3.9 billion Ponzi scheme in Minnesota continued with guilty pleas and significant sentences of top-level corporate executives. These cases are just a few examples of the thousands of financial fraud investigations ongoing at the FBI and conducted in conjunction with the Administration's Financial Fraud Enforcement Task Force.

### Mortgage Fraud

In the last three years alone, the FBI has seen the number of mortgage fraud cases steadily climb from 1,200 in 2007 to over 3,000 in 2010. Nearly 70 percent of these pending cases represent losses to financial institutions and other victims exceeding \$1 million. In many of these cases the loss far exceeds \$1 million.

Operation Stolen Dreams - a three and a half month takedown of mortgage fraud schemes throughout the country - demonstrates just how rampant mortgage fraud is in this country. The sweep was organized by President Obama's interagency Financial Fraud Enforcement Task Force, which was established to lead an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. Operation Stolen Dreams involved 1,517 criminal defendants nationwide, including 863 Informations/Indictments filed and 525 arrests of those who are allegedly responsible for more than \$3.05 billion in losses. Additionally, the operation has resulted in 191 civil enforcement actions, which have resulted in the recovery of more than \$196 million.

Mortgage Fraud, however, is just one component of the recent financial crisis. At this time, I

would like to highlight some of the other types of financial schemes the FBI is currently investigating.

### Corporate Fraud

The FBI's efforts to address complex securities and corporate frauds have also greatly expanded in recent years. New corporate fraud cases, for example, are up by 111% while High Yield Securities Frauds have grown by over 200%.

Corporate Fraud has been associated with the failures of prominent financial institutions, the falsification of accounting records, the manipulation of earnings reports, embezzlement by corporate insiders, and misrepresentations regarding the risks and valuations of complex financial instruments (e.g., credit default swaps and mortgage backed securities).

Through the manipulation of financial data, the share price of a corporation's stock remains artificially inflated based on fictitious performance indicators provided to the investing public. In addition to significant financial losses to investors, Corporate Fraud has the potential to cause immeasurable damage to the U.S. economy and investor confidence.

As the lead law enforcement 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.

The majority of Corporate Fraud cases pursued by the FBI involve accounting schemes designed to deceive investors, auditors, and analysts about the true financial condition of a corporation. In FY 2010, our efforts have translated into over 600 Corporate Fraud investigations throughout the United States, several of which involved losses to public investors that individually exceed \$1 billion.

### Securities Fraud

Over the last five years, losses associated with open securities and commodities fraud schemes have increased into the billions of dollars. Some specific schemes associated with this type of fraud include:

#### *High Yield Investment Fraud/Ponzi Schemes*

High Yield Investment Fraud schemes have many variations, all of which are characterized by offers of low risk investments, guaranteeing an unusually high rate of return. Victims are enticed by the prospect of easy money, and a fast turnaround.

These schemes use money collected from new victims, rather than profits from an underlying business venture, to pay the high rates of return promised to earlier investors. This arrangement gives investors the impression there is a legitimate, money-making enterprise behind the fraudster's story; but in reality, unwitting investors are the only source of funding.

In Prime Bank Investment Fraud, for example, victims are told that certain financial instruments such as notes, letters of credit, debentures, or guarantees have been issued by well-known institutions such as the World Bank, and offer a risk-free opportunity with high rates of return. Perpetrators often claim unusually high rates of return and low risk are the result of a worldwide secret exchange open only to the world's largest financial institutions. Victims are often drawn into Prime Bank Investment Frauds because the criminals use sophisticated terms, legal looking documents, and claim that the investments are insured against loss.

In FY 2010, the FBI has opened 291 new High Yield Investment Fraud cases. Many of the Ponzi scheme investigations have an international nexus, and have affected thousands of victims. The most significant of these, the \$64 billion Ponzi scheme perpetrated by Bernard L. Madoff, resulted in the longest prison sentence in the history of financial crime – 150 years. More recently, Scott Rothstein, a prominent Florida attorney, was sentenced to 50 years in prison for orchestrating a Ponzi scheme that took in \$1.6 billion. The FBI continues to target this criminal threat, and currently has more than 780 pending High Yield Investment Fraud cases.

### *Market Manipulation*

Market Manipulation, or "Pump and Dump," schemes are based on the manipulation of lower-volume stocks purchased on small over-the-counter markets. The basic goal of market manipulation fraud is to artificially inflate ("pump") the price of penny stocks so the conspirators can sell ("dump") their shares at a large profit. The "pump" involves recruiting unwitting investors through false or deceptive sales practices, public information, or corporate filings. Many of these schemes use "boiler room" methods where brokers, who are bribed by the conspirators, use high pressure sales tactics to increase the number of investors and, therefore, raise the price of the stock. Once the price of the targeted shares reaches a certain point, the perpetrators "dump" their shares at a huge profit and leave innocent investors with significant losses. These schemes generate an estimated \$6 billion in losses each year, and have the ability to significantly impact investor confidence.

The trend seen in Market Manipulation cases involving computer intrusion also continues. Computer intrusion for the purpose of Market Manipulation often includes a criminal hacking into victims' personal online brokerage accounts and using the accounts to purchase shares of a penny stock to inflate its price. As in normal Pump and Dump schemes, once the price of the stock reaches a certain point, the perpetrators dump their own shares and walk away with large profits. To date in FY 2010, FBI investigations have translated into charges being brought against 31 individuals allegedly involved in Market Manipulation schemes.

### *Insider Trading*

Lack of regulatory oversight and transparency in Hedge Fund markets continues to make this industry susceptible to various types of Securities Fraud and Insider Trading, and creates significant challenges for law enforcement. In addition, since these funds are typically heavily leveraged, there is always the potential for significant losses.

The FBI proactively investigates Insider Trading schemes, using all available tools to remove the most egregious offenders from the financial markets. To address the threat, the FBI also continues to coordinate with the U.S. Securities and Exchange Commission (SEC) in a parallel law enforcement and regulatory effort to ensure financial markets are fairly operated. To date in FY 2010, the FBI has more than 65 pending Insider Trading cases.

As this Committee is aware, the FBI successfully infiltrated the Insider Trading ring associated with the Galleon Group, a prominent Hedge Fund in New York City. Indeed, since my last appearance before you, several high level executives/participants have pled guilty or been sentenced for their role in this ring.

### Partnerships

In response to the wave of financial crimes, the FBI established Mortgage Fraud Task Forces across the country. With representatives of federal, state, and local law enforcement, these task

forces are strategically placed in areas identified as high threat areas for Mortgage Fraud. Partners are varied, but typically include representatives of HUD-OIG, the U.S. Postal Inspection Service, the Internal Revenue Service – Criminal Investigative Division, FinCEN, the Federal Deposit Insurance Corporation (FDIC), the Department of Homeland Security Immigration and Customs Enforcement - Homeland Security Investigations, and the U.S. Secret Service, as well as state and local law enforcement offices.

This multi-agency task force model serves as a force-multiplier, providing an array of resources to adequately identify the sources of the fraud; allowing agencies to share investigative expertise; and increases jurisdictional avenues, allowing task force members to find the most effective way to prosecute each case, particularly in active markets where fraud is widespread.

In addition, the FBI participates on both the national Mortgage Fraud Working Group (MFWG), and the national Bank Fraud Working Group (BFWG). The MFWG and BFWG, chaired by the DOJ Criminal Fraud Section, represent a collaborative effort of multiple federal agencies; and facilitate the information sharing process across agencies, as well as to private organizations. Working in partnerships, the FBI is building on existing FBI intelligence databases to identify industry insiders and egregious criminal enterprises conducting systemic Mortgage Fraud.

In order to most effectively combat the threats of Corporate and Securities Fraud, the FBI has partnered with numerous external agencies to form numerous working groups that address Corporate Fraud and/or Securities Fraud across the country. These working groups, such as the DC Metro Corporate Fraud Working Group, enhance cooperation and information sharing, and provide a venue where the FBI can meet with our partners to discuss current trends, threats, and the progress of selected ongoing investigations. In addition, the FBI works closely with the Special Inspector General for the TARP (SIG-TARP) to guard against fraud in the \$700 billion TARP. The FBI is currently conducting several joint investigations with the SIG-TARP. Further, the FBI participates on the Term Asset-Backed Securities Loan Facility (TALF) Task Force. The TALF is a Federal Reserve program through which the Federal Reserve Bank of New York makes loans, which are secured by collateral in the form of asset-backed securities. These loans are typically made to Hedge Funds and other investment groups, and are vulnerable to fraud.

As you know, the FBI is a member of the Administration's Financial Fraud Enforcement Task Force (FFETF). The task force is chaired by the Attorney General and is currently comprised of more than 20 agencies, including the SEC, the Commodities Futures Trading Commission (CFTC), the Department of Treasury, the FDIC, and HUD. Such coordination allows us to maximize intelligence sharing and to ensure that significant financial crimes are appropriately addressed.

The FBI also participates in the Securities and Commodities Fraud Working Group, a national interagency coordinating body established by the DOJ Criminal Fraud Section to provide a forum for exchanging information, discussing violation trends, legal developments, law enforcement issues, and investigative techniques. In addition, FBI Corporate Fraud and Securities Fraud program managers frequently meet with their counterparts at the SEC's Home Office in Washington, D.C. to discuss threats, emerging trends, pending investigations, and to share intelligence.

#### Industry Liaison

In addition to its partners in law enforcement and regulatory areas, the FBI continues to foster relationships with representatives of the mortgage industry to promote Mortgage Fraud awareness. The FBI has spoken at and participated in various mortgage industry conferences and seminars, including those sponsored by the Mortgage Bankers Association (MBA), the American Bankers Association, and the BITS Financial Services Roundtable (a consortium of financial institutions).

To raise awareness of this issue and provide easy accessibility to investigative personnel, the FBI has provided contact information of the FBI's Mortgage Fraud Supervisors to relevant groups, to include the MBA, Mortgage Asset Research Institute (MARI), Fannie Mae, Freddie Mac, and others.

Also, the FBI frequently participates in industry-sponsored fraud deterrence seminars, conferences, and meetings, which include topics, such as, quality control and industry best practices to detect, deter, and prevent Mortgage Fraud. These meetings play a significant role in training and educating industry professionals. Companies share current and common fraud trends, loan underwriting weaknesses, and best practices for fraud avoidance. These meetings also increase the interaction between industry and FBI personnel.

Additionally, the FBI continues to train its personnel and conduct joint training with HUD-OIG and our partners in industry on Mortgage Fraud. For example, industry experts have assisted in the training of FBI personnel on mortgage industry practices, documentation, and industry views of laws and regulations. Industry partners have also offered to assist the FBI in developing advanced Mortgage Fraud investigative training material and fraud detection tools.

Likewise, the FBI makes considerable investment in industry liaison for our Corporate Fraud and Securities Fraud programs. We not only bring in industry experts to train FBI personnel, but FBI personnel also frequently attend meetings and conferences set up by industry as part of our effort to foster relationships and proactively gather information.

#### Proactive Approach to Financial Fraud

In addition to more than tripling the number of FBI Special Agents who investigate mortgage fraud cases in the field, the FBI has implemented a number of innovative and proactive methods to detect and combat Mortgage Fraud, and other significant financial frauds.

Our Financial Institution Fraud Unit (FIFU) has responsibility for management of the FBI's Mortgage Fraud program and serves as a veritable fusion center. Through program guidance, oversight, training, and information sharing, the FIFU provides the tools necessary to identify the most egregious Mortgage Fraud perpetrators, prioritize pending investigations, and ensure that Mortgage Fraud efforts are both threat-based and intelligence driven.

Furthering its efforts to expand and mature intelligence collection and analysis capabilities, the FBI's Financial Intelligence Center (FIC) provides tactical analysis of intelligence data, data sets, and databases. Through the use of evolving technology and data exploitation techniques, the FIC creates targeting packages to identify the most egregious criminal offenders and to enhance current criminal investigations. The FIC also coordinates with FBI field offices in an effort to both complement field resources and to identify emerging economic threats.

The FBI continues to utilize its analytical computer application to identify property-flipping transactions. As potential targets are analyzed and flagged, the information is provided to the respective FBI field office for further assessment. Illegal Property flipping is described as purchasing properties and artificially inflating their value through false appraisals. The artificially valued properties are then sold to an associate of the “flipper” at a substantially inflated price. Quite often the property is “flipped” within 30 days, but sometimes the “flip” occurs on the same day as the original purchase. Typically, illegally flipped properties go into foreclosure, and are ultimately repurchased for a fraction of their original value.

Other methods employed by the FBI include sophisticated investigative techniques, such as, undercover operations. These investigative measures not only result in the collection of valuable evidence, but also provide an opportunity to apprehend criminals in the commission of their crimes, thus reducing losses to individuals and financial institutions.

### Conclusion

Mr. Chairman, the FBI remains committed to its responsibility to aggressively investigate significant financial crimes. To maximize our current resources, we have used our expanded and maturing intelligence collection and analysis capabilities to better identify and understand the growing threat posed by financial frauds. We also continue to rely heavily on the strong relationships we have with our law enforcement, regulatory and industry partners.

The FBI looks forward to working with you, and other members of this committee, in solving this serious threat to our nation’s economy. Thank you for allowing me the opportunity to testify before you today.