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FBI warns of mortgage fraud 'epidemic'

Seeks to head off 'next S&L crisis'

From Terry Frieden
 CNN Washington Bureau
 Friday, September 17, 2004 Posted: 5:44 PM EDT (2144 GMT)

WASHINGTON (CNN) -- Rampant fraud in the mortgage industry has increased so sharply that the FBI warned Friday of an "epidemic" of financial crimes which, if not curtailed, could become "the next S&L crisis."

Assistant FBI Director Chris Swecker said the booming mortgage market, fueled by low interest rates and soaring home values, has attracted unscrupulous professionals and criminal groups whose fraudulent activities could cause multibillion-dollar losses to financial institutions.

"It has the potential to be an epidemic," said Swecker, who heads the Criminal Division at FBI headquarters in Washington. "We think we can prevent a problem that could have as much impact as the S&L crisis," he said.

In the 1980s, many Savings and Loans failed because of poor management, risky loans and investments, and in some cases, fraud. Taxpayers were left with a \$132 billion tab to cover federal guarantees to S&L customers.

The FBI has dispatched undercover teams across the country in an urgent investigation into dealings by suspect mortgage brokers, appraisers, short-term investors, and loan officers, Swecker, flanked by FBI executives and Justice Department prosecutors, revealed.

In one operation, six individuals were arrested Thursday in Charlotte, charged with bank fraud for their roles in a multimillion-dollar mortgage fraud, officials said. The two-year investigation found fraudulent loans that exposed financial institutions and mortgage companies to \$130 million in potential losses, they said.

Also Thursday, federal agents in Jacksonville arrested two people and executed seven search warrants in connection with an alleged scheme designed to defraud banks of \$22 million, officials said.

The number of open FBI mortgage fraud investigations has increased more than five-fold in the past three years, from 102 probes in 2001 to 533 as of June 30 this year,

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the FBI said. The potential losses are staggering, and many financial institutions are cooperating with investigators.

Officials noted mortgage industry sources have reported more than 12,000 cases of suspicious activity in the past nine months, three times the number reported in all of 2001.

While the FBI described mortgage-related fraud as a nationwide problem, it said the levels of illegal activity are worse in some locations than in others.

States identified as the top 10 "hot spots" for mortgage fraud are Georgia, South Carolina, Florida, Michigan, Illinois, Missouri, California, Nevada, Utah and Colorado.

"It's bad in Georgia, the Atlanta area," said John Gillies, chief of the FBI's Financial Institutions Fraud Unit. "It was bad in the Charlotte area, but we've had a lot of undercover activity there that's helped push the problem into South Carolina."

Josh Hochberg, head of the Justice Department's Fraud Section, said some organized ethnic groups are becoming involved in mortgage fraud schemes, but he declined to identify the groups.

Officials said mortgage fraud is one prominent aspect of a wider problem of fraud aimed at financial institutions. The FBI said action has been taken against 205 individuals in the past month in what it described as the "largest nationwide enforcement operation in FBI history directed at organized groups and individuals engaged in financial institution fraud."

In addition to mortgage fraud, "Operation Continued Action" also targeted loan fraud, check kiting, and identity theft as major problems.

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