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FRAUD ALERT

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Wire Transfer Scheme Uses Bogus "FDIC Examiners"

A wire transfer scheme has been attempted in major cities around the country that involves the perpetrators passing themselves off as FDIC examiners claiming to be testing the electronic funds transfer system.

The FDIC never contacts bank customers to test wire procedures or asks banks to initiate specific wire transfers. Both of these ploys have been used in attempting to pull this off.

What is unique about this scheme is that the perpetrators contact a financial institution's corporate customers to obtain information vital to the fraud.

To Our Readers:

This is the first Fraud Alert produced by the FDIC. This quarterly publication will attempt to pull together from a variety of government sources a periodic compilation of fraudulent activity around the country, with emphasis on information derived from FDIC and Resolution Trust Corp. sources. It is our intent in this publication to highlight fraudulent schemes, update our readers on prosecutions and to advise readers of activities that may not have come to their attention through other information sources.

The Editor

Working the Phones

Perpetrators in the Philadelphia area were able to obtain the authorization code used by a corporate customer when requesting a transfer of funds by their financial institution.

A person pretending to be the corporate customer then called the bank and, using the authorization code, instructed the bank to transfer $480,000 to a Detroit bank.

The corporate customer then received a call from the bogus FDIC Examiner, informing the customer that the bank would be calling to verify the funds transfer, and asking it to confirm the transfer. The customer confirmed the transaction, and the funds were transferred. But in this case, the bank in Detroit halted the transaction before the money could be claimed.

This sort of crime is usually preceded by several calls to the customer and the bank. During these calls details of the wire transfer procedures are gained. It is apparent that the perpetrators have some knowledge of the banking industry, especially funds transfer controls. The people involved are extremely convincing and persuasive.

Advice to Bankers

Because this kind of fraud has been successfully attempted around the country, bankers should:

--Avoid providing information on EFT procedures. Such information should only be given to customers in face-to-face meetings.

--Instruct customers not to divulge any information on their wire transfer procedures, in light of this fraudulent activity.

--Ask customers to report suspicious activity.

CD Investors Lose Funds in East Coast Loan Scams

Some investors, lured by higher than market rates of interest on certificates of deposit, have lost their money because they did not realize what they were signing. Among the papers the consumers signed was a hypothecation agreement.

Under the agreement, the investors allowed sellers of the high interest CDs to use the CDs as collateral for loans. When the loans went into default, the bank offset the CDs to satisfy the defaulted loans and the investors lost their money.

This scheme was uncovered by investigators only after a lending bank failed, but other banks may have made loans collateralized by the CDs.

The activity took place mostly along the East Coast. Newspaper ads offered higher interest rates than those being paid by banks--and insured up to $100,000 by the FDIC.

In this case the interest rate differential was paid up front by the solicitor. Investors who agreed to buy the certificates were asked to sign a number of documents, including the hypothecation agreement for their CD.

Certificates were purchased in the names of the investors in most instances. Using the hypothecation agreement, however, the CDs were pledged as collateral to secure loans. They later went into default.

The only cost to the solicitor was the interest rate difference between the advertised rate and the bank rate.

Investigators turned up several million dollars in loans made using this scheme. Most of the CDs were in $100,000 denominations.

Banks are not the primary target of this scheme. Banks could, however, help protect the intended victims by exercising extreme caution when accepting hypothecated CDs as collateral for loans where the owner of the certificate has no verifiable connection to the borrower.

Ideally, banks should contact the certificate of deposit owners before disbursement of loan proceeds to verify that they have allowed their CDs to be pledged as collateral by the borrower.

RTC Exercises Seizure Authority

The RTC earlier this year seized Inland Empire Mortgage Corp. and its affiliates. The takeover of these open and operating companies was the first of its kind since it was permitted under FIRREA. Seattle-based Inland and its affiliates are subsidiaries of Great West Federal Savings, Craig, CO.

It is believed the subsidiaries diverted $18 million of Great West's funds for improper business and personal use. The RTC is operating these firms to minimize losses resulting from Great West's failure.

Funds Forfeited to the FDIC

The FDIC, in one case, has collected over $735,000 through a forfeiture provision in the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). The amount is one of the first forfeitures brought under FIRREA.

A former vice president and chief executive officer of First Western Savings and Loan of Colorado City, Texas, used shell corporations as straw borrowers. He then created brokerage accounts with funds provided by First Western to purchase problem loans and hide from federal regulators the nature of non-performing loans.

The funds remaining in these accounts were subject to seizure. A coordinated investigative effort by the FDIC, FBI and Internal Revenue Service resulted in the seizure of the funds.

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Bad Copier Leases in Four States

Phony leases, drafted by a leasing company in financial trouble, resulted in at least nine banks losing a total of $10 million.

The company had been legitimately involved in leasing copying machines to non-profit institutions and government entities. But in this instance the institutions' names were forged on the contracts by the leasing company.

Many equipment dealers, who once were involved in legitimate transactions with the lessor, however, conspired with the leasing company in the sale of the fraudulent leases.

A large financial services firm acted as the broker for these leases, and sold them to financial institutions in Iowa, Illinois, Indiana and Kansas. The broker for the leases does not appear to be criminally involved. Instead, the firm appears to have been negligent in screening these leases for sale to the financial institutions.

A number of the banks are suing the broker. Only one suit has been settled thus far, with the bank collecting about 50 cents for every dollar it lost.

Generally the banks became aware of the fraud after the payments from the leasing company slowed and the lessees denied liability for the contracts.

This scheme was easy to pull off, because the financial institutions did not deal directly with the lessees, nor did they verify the existence of liability or of lease collateral, when they considered purchasing the lease. The fraud went undetected long before it should have been obvious that the leases were bogus, because the leasing company made payments directly to the financial institutions.

If you have any questions on this scheme, please contact the criminal coordinator in your regional office.

Fraudulent Mid Town Bank Cashier's Checks and Money Orders in Circulation

Bankers should be aware that fraudulent duplicates of cashier's checks and money orders from Mid Town Bank and Trust Co., of Chicago, are still in circulation.

Mid Town told the Federal Reserve Bank of Chicago this spring that duplicates of its bank checks had been presented for payment at its office. The bank believes that the persons negotiating these items are attempting to duplicate Mid Town's style of issuing checks.

The bank believes that the duplicates were made during a recent printing order.

Checks that are presented for payment to Mid Town will be inspected for authenticity.

If it is determined the check was not issued by Mid Town, the bank will make every effort to call the depository bank and inform the institution that the check will not be honored. The check will then be returned through normal channels as fraudulent.

Experts say that in similar situations, such checks have been negotiated across the country and abroad.

These are the instruments and their serial numbers:

Cashier's checks 133901-141700.

Personal Money Orders 219051-226850.

RTC Moves Against Borrowers, Brokers

A full court press is on at the RTC's Office of Investigations to bring more civil fraud cases against borrowers who tapped several institutions for money, and against brokers whose actions contributed to the failure of some S&Ls.

The Office of Investigations has marshaled an array of experts to pursue these cases. About 400 investigators are deployed in four regional and 14 field offices around the country.

The investigators will have the support of outside accounting and financial experts to establish the paper trails needed to develop these civil fraud cases.

Investigators will be focusing on "common borrowers." These were people who borrowed from a variety of lenders, mainly for real estate deals that later went sour. These borrowers, however, benefited from the use of the money. In some cases, these common borrowers produced losses of hundreds of millions of dollars at S&Ls that later failed.

Another prime target will be securities brokers who sold faulty hedging programs to thrifts, or other brokers who took excessive markups on the debt securities they sold to institutions.

The RTC will likely bring professional liability lawsuits in about half of the 200 S&Ls that were seized in 1989. The claims being pursued are gross negligence by directors and officers. Additionally, about 20 percent of the cases could be brought against accountants for malpractice.

The RTC's Top Criminal Fraud

Federal bank and thrift regulators have compiled a list of 100 top criminal cases at financial institutions. Of that total, about 60 come from the nearly 700 thrifts under the control of the Resolution Trust Corporation.

The list of the top cases was compiled jointly by the RTC and the other regulators of federal financial institutions.

The list represents what the regulators consider to be the most egregious cases of criminal violations.

The Department of Justice, which prosecutes criminal cases for the RTC and FDIC, has beefed up resources devoted to many of the cases.

The RTC has responded by developing added criminal referrals, tracing funds, producing documents, and otherwise assisting the Federal Bureau of Investigations and the United States Attorneys.

Among the top cases being pursued by the RTC were these recent developments:

- --**Drexel Burnham Lambert**--Alan E. Rosenthal, an ex-Drexel official, was indicted on 11 counts of conspiracy, fraud and embezzlement. The indictment alleges that Rosenthal conspired with Michael Milken and others to create more than $1.6 million in bogus tax losses for one of Drexel's clients.

- --**Lincoln Savings and Loan, Irvine, CA**--An Aug. 2 trial date has been set for Charles Keating and three former executives of either American Continental or its Lincoln Savings unit. They were indicted by a California grand jury on charges of securities fraud. Federal criminal charges also are expected.

- --**Columbia Savings and Loan, Beverly Hills, CA**--A former vice president of Columbia and two executives of an automatic teller machine leasing company have been charged with defrauding the thrift of more than $12 million. The OTS is seeking $25 million in restitution from the trio and wants them banned from the federally insured financial services industry.

- --**Imperial Savings Association, San Diego, CA**--Ten convictions have resulted from activities involving Imperial. Earlier this year, Bruce Li was sentenced to five and one-half years in prison and ordered to pay a $150,000 fine.

- --**Caprock Savings and Loan, Lubbock, TX**--Federal money laundering laws have been applied for the first time in a thrift fraud case to four executives and two lawyers of Caprock. They were charged this spring with conspiring to defraud the institution and to launder money. They devised a complicated scheme to use funds borrowed from Caprock to buy stock in the thrift's now defunct parent company.

These are considered to be among the RTC's top cases because of the expected massive losses and the extent of expected fraud.

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