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FRAUD ALERT

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Postal Inspectors Move into Money Laundering and Financial Fraud...It Isn't Just Stolen Checks Any More

The U. S. Postal Inspection Service, for bankers, has often been associated with stolen checks. But that authority has been broadened in recent years to bring postal inspectors into the battle against money laundering. Thomas S. White is an inspector-attorney in Washington, and the agency's national advisor for money laundering investigations. It was White who worked with Congress to broaden the money laundering statute to include the U. S. Postal Service. *Fraud Alert* spoke with White recently about the broader role of the agency in dealing with fraud.

FA: How would banks feel the effects of your work most directly?

WHITE: In the past, we had most of our contact with the banks across the country involving the negotiation of checks stolen from the U.S. mails. Even today we're doing a lot of work with banks, especially through their security departments, to stop this type of activity. More recently we're getting involved in various insider bank fraud investigations. In some areas of the country we're involved in the bank fraud task forces, in other parts involved on an as-needed basis, working with the FBI, IRS, what have you, in task force investigations.

A lot of the cases involving financial institution fraud are also a violation of the federal mail fraud statute. Of course, we have the primary jurisdiction to investigate all mail fraud cases in the United States. That gives us the in to start assisting the other agencies in the bank fraud area.

FA: You're more directly involved in money laundering operations?

WHITE: My specific role is as an advisor for various cases that can have a money laundering feature in the prosecution. We take a very broad view of the money laundering statute. Usually when you think of money laundering you think of drugs and the proceeds from drug sales and laundering the money to get it back to Colombia. The actual federal statute is much broader than that. For instance, if somebody is commiting a mail fraud scheme and they are getting money from that scheme and they put the money somewhere that it won't be found, or they plow the money back into the scheme or to pay expenses that is also money laundering.

We have a lot of boiler room operations that we investigate, where they phone you or send out post cards saying, "You've won a prize, you only need to send in $100 as a handling fee and we'll send you your new Mercedes Benz."

People send their money and it pays the cost of the people making the calls, and pays the rent on the office and the furniture. By doing that next step, making those payments with those mail fraud proceeds they have committed the federal offense of money laundering.

FA: Are there new forms of money laundering appearing that bankers should be aware of?

WHITE: Talking about new areas, one that's going on now is a scam where people in other countries, especially Nigeria, are sending out official-looking notices to businesses and some bankers saying that they can invest their money in Nigeria and get a very huge rate of return. It's a scam that's been developing over the last year or so. Some people have been taken by it.

In some instances people go to Nigeria to try to invest it there. It's nothing but a scam. The Nigerian government has nothing to do with it.

FA: Are these Nigerians targeting banks?

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Postal Inspectors Move Beyond Stolen Checks

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WHITE: Some of these solicitations are to bankers. I think they try to identify through a source book who is in charge of either a company or a corporation and they try to hit some bankers in that fashion. Now, I haven't heard of a banker being taken, but some have received the solicitation.

FA: What about stolen checks and money orders? Isn't that kind of activity declining with people using credit cards more?

WHITE: I'm not sure I could put a dollar or number on it. It is changing, I'll say that. When you start bringing up credit cards, we get involved in that quite a bit, because a lot of times credit cards are stolen from the mails. That can be an underlying offense for a money laundering violation. Like a check theft, once they use the credit card it can be a money laundering violation. If the person has 15 or more stolen credit cards, they've violated federal law. If they take the next step and get a cash advance, they've moved into a money laundering violation.

We've had cases where people have taken the credit cards and bought merchandise and then fenced the merchandise to get the cash. That fencing operation we've charged as a money laundering offense and they've forfeited the property involved.

FA: What should bankers be watching for?

WHITE: There is probably nothing new. It's the same type of thing they should always watch for. For example, always verify the identity of anybody who comes into the bank. A lot of times people will come in with, say, a check stolen from the mails and they will try to overpower the teller just with their presence to get the check cashed. It's very important that the people on the front lines not be intimidated, that they do their jobs as they should, and make sure they know the person whose check they are cashing.

This isn't new, but there is a scheme out there that criminals send out invoices without the business having ever ordered anything with hopes that the business will just go ahead and pay it. It's just another area to watch out for, the false billing or false invoice. As soon as we shut one down another pops up.

FA: Are there more stolen checks out there than there were 10 years ago?

WHITE: There are probably more because there are more people in society, but there are fewer stolen from the mails. Credit cards have become more attractive to thieves. The mail theft is more directly related to drug use. We're constantly trying to develop improved security methods to prevent stealing, but the drug problem is still here.

FA: With electronic fund transfers, you would think the level of stolen checks would be down quite a bit?

WHITE: You would think that. And, in fact, a combination of EFT and crime prevention awareness has contributed to a decline in checks stolen from the mails. But there are still a lot of people who use the mails to send checks. I don't know if that is ever going to stop.

FA: When it comes to stolen checks and money laundering, what steps should bankers take to avoid getting caught in the middle of something?

WHITE: If they suspect something questionable is going on, they should contact their local police, who can respond very quickly. Although we'll get involved in the investigation, we don't have the resources to respond to every question or instance. When we get involved, after being contacted by the victim or the bank, we need to get all of the information and put it into our computer system so we can identify what the people are doing. Because we can take stolen checks from one area and associate them with stolen checks from another area and then we can see what a gang is doing as it moves around the country.

That's why we send questionnaires on stolen checks to banks. We need the information. The sooner they get it back to us, the better it is as far as the investigation goes. What we're looking for are patterns, groups of people doing it.

FA: Would bankers ever call you directly?

WHITE: We welcome the calls, but we can't respond as quickly as the local police. If they do have a question, though, they should feel free to call any postal inspector. If they suspect any kind of mail fraud going on, we would like to hear about it. Whether we investigate ourselves, or with another agency. It is something we are charged with putting an end to.

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William Taylor, Chairman

Alan J. Whitney, Director, Office of Corporate Communications

Frank Gresock, Editor

RTC Steps Up Contractor Monitoring

The Resolution Trust Corporation is increasing the staff that monitors contracts for the management and sale of assets from failed savings associations.

The Office of Contractor Oversight and Surveillance, in coming weeks, will be adding some 15 people to its Washington staff of about 38. It also will be hiring a total of 50 auditors and investigators for the RTC's six field offices.

When Congress created the RTC in 1989, it required the agency to hire as many outside contractors as possible to manage and sell the assets of the defunct S&Ls.

The agency has awarded 190 large contracts to 90 contractors to handle these assets. Because of the enormous number of properties involved, about $15 billion will change hands between the RTC and its contractors this year. The agency estimates that for each $1 it pays out in management fees, it receives $25 from the contractors in rent and other revenues.

The contractors are paid management as well as disposition fees. The disposition fees, based on a complex formula, are paid to the contractors as assets are sold.

With the high volume of money changing hands, there is ample opportunity for fraud. For that reason the oversight and surveillance office monitors the process from the time the contract application comes in the door. The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) bars contractors from doing business with the RTC is they are felons, caused losses at an S&L, or owe money to a failed S&L.

Howard W. Cox, director of the oversight office, points out the importance of background checks on potential contractors. He notes that his office has "found a good number who have lied on their applications."

Last year, for example, investigators discovered that the president of one firm with 12 RTC contracts had certified that he had no debts, when a background check showed he had defaulted on S&L debts. The businessman lost his contracts and was barred from further RTC contracting.

He was one of 30 contractors in 1991 who were either prevented from getting an RTC contract or permanently excluded from doing business with the agency.

Once contracts are awarded they come under the purview of the office's largest group of staffers; those who do audit and performance reviews. In order to handle the assets, the contractors hire appraisers, real estate brokers and property managers as subcontractors. "Here you have groups with the potential for serious fraud," said Cox.

The audits and performance reviews, Cox explained, are to ensure that the contractors "are policing their subcontractors and not ripping us off."

Cox' office will be adding more contract investigators to its audit and performance unit. The agency is looking for certified public accountants, auditors, and people with backgrounds in contract auditing and loan servicing.

The office is beefing up its staff, in part to supervise accounting firms that have RTC contracts. In one instance, the RTC was told by an employee of an accounting firm that billed the agency for trips that the employee had never taken.

When it comes to the type of fraud being found, Cox said that the RTC is seeing the same sort of contract fraud that has been going on since the founding of the country.

Although Cox will be hiring additional staff, he says, "the best defense against contract fraud is an alert government employee who works with the contractors and has a good sense of smell."

The bulk of the fraud is found by employees, Cox pointed out. That's why last year 4,000 RTC employees in 15 offices around the country were trained in how to spot contract fraud and to whom it should be reported.

FIRREA also calls for greater contracting opportunities for businesses headed by women or minorities. Contractors who submit applications for a joint venture with a woman- or minority-owned firm have an advantage over their competitors in getting the RTC contract.

But Cox says it leads to the potential for the use of straw firms to create the impression of participation by women or minorities.

RTC Finds Evidence of Fraud in 64% of failed S &Ls

Investigations by the Resolution Trust Corp., as of June, have led to suspected criminal conduct being found in 446, or 64 percent, of the 691 thrifts for which the agency's investigators had completed Preliminary Findings Reports.

Fraud and potential criminal conduct contributed to the failure of 228, or 33 percent, of the RTC's thrifts. By the end of June, 2,274 criminal referrals had been filed with the Department of Justice; 852 of the referrals were filed by the RTC.

In RTC-controlled thrifts, 592 defendants were indicted and 416 were convicted. Beyond the prison sentences imposed thus far, restitution totaling $88.6 million has been ordered by the courts and approximately $5.6 million has been collected.

In recent S&L cases, the courts have convicted or sentenced the following people involved in these S&Ls:

Community S&LA, Fond du Lac, Wisc.—The former president, James C. Beck, was found guilty of defrauding the S&L and of lying to examiners. He faces a maximum of 10 years in prison and $15,000 in fines.

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Couch Mortgage, Houston, Tex.—O. Dean Couch, Jr., former president, was convicted on charges that he used residential properties as collateral for more than one loan. He was also convicted of using homeowners' escrow to cover his company's payroll.

Lincoln S&LA, Irvine, Cal.—Charles Keating, Jr., was sentenced to 10 years in prison and fined $250,000 this spring on 17 counts of California state securities fraud. Keating is now on trial on civil fraud charges in Tucson , where he faces federal fraud and racketeering charges that carry a 510-year maximum sentence. Former Lincoln director Andrew F. Ligget pleaded guilty to three counts of misapplication of funds. He faces a maximum of 15 years in prison plus fines and restitution. Judith E. Wischer, former American Continental director, pleaded guilty to bank and securities fraud charges. Wischer faces the same sentence and penalties as Ligget.Robert M. Wurzelbacher, Jr., former senior vice president of Lincoln, pleaded guilty to three counts of misapplication of $13.9 million of the thrift's deposits.

Enterprise Federal S&LA, Marrero, La.—Ronald C. Brechtel and Phillip H. Gattuso, former directors, have been convicted of several counts of fraud. Brechtel was sentenced to perform 4,160 hours of community service, one year at the Volunteers of America Community Correctional Center, five years probation, and was ordered to pay restitution of $321,600. Gattuso received the same sentence and also was ordered to pay restitution of $374,100. Both defendants appear able to satisfy the restitution orders.

Century S&LA, Baytown, Tex.—Former president Anthony Rome was sentenced to 15 years in prison for bank fraud. Allison Clover was a straw borrower in Rome's scheme. Roger Solesbee, a third participant in the scheme, had earlier pleaded guilty and cooperated with the government in the prosecution. Solesbee received a three-year sentence. In June, Clover was sentenced to 12 years in prison. Rome also was ordered to pay restitution of $1.4 million to the RTC.

City FSB, Somerset, N. J.—Former branch manager of City Federal Mortgage Corp., Herb R. Edwards, pleaded guilty to embezzling approximately $614,000 from the thrift. Edwards' co-conspirator and coworker Theresa Kaskey pleaded guilty to similar charges in May. The mortgage company is a subsidiary of City FSB.

Southwest FSA, Dallas, Tex.—George C. Dillon, Southwest's attorney, and borrower Stephen Renshaw pleaded guilty to bank fraud after diverting nine checks, totaling $507,908, to private accounts.

Westwood S&LA, Los Angeles, Cal.—Edward M. Israel, former chairman of Westwood, was sentenced to 18 months in prison and five years probation for defrauding Westwood and Brookside savings associations of Los Angeles. Israel was ordered to pay $6 million in civil and criminal restitution. He has paid $1 million and has three years to pay the balance. Israel had earlier pleaded guilty to three counts of fraud.

Columbia S&LA of Beverly Hills, Cal.—Thomas Speigel, Former CEO, was indicted earlier this summer on 55 counts of misappropriating funds and property, and misrepresenting his compensation to the S&L's board and federal regulators. Speigel pleaded innocent to the charges. Speigel faces a maximum sentence of 275 years in prison and fines of $13 million. Speigel was the highest paid S&L executive when he made a reported $9.03 million in 1985.

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