Federal Deposit Insurance Corporation

FRAUD *Alert*

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Americans Losing Lives in Nigerian Money Scam

Americans and their money are disappearing in Nigeria.

They are victims of a fraud scheme that has proven effective to the surprise and dismay of law enforcers in this country and abroad. And now they are growing deadly.

These scams are not only durable but they are growing. The U.S. State Department estimated that Nigerian scams are grossing more than $250 million a year and the amount is rising by the month.

There are a couple of variations, but the scam is basically an advanced fee fraud.

In the Nigerian scams, the victim is asked to put up some money at the beginning in order to reap millions of dollars in the end.

The victims generally receive poorly written letters by fax from writers who usually claim to represent either the Nigerian National Petroleum Corporation or the Central Bank of Nigeria.

The gist is the same: Contractors were over-invoiced and millions of dollars are available to be sent out of the country.

But the writer, as a civil servant, cannot have a foreign bank account. The potential victim is asked to provide bank account information, business letterhead, and sometimes Social Security number, date of birth and driver's license number.

Using this information, some victims' bank accounts have been tapped, but have not been depleted from Lagos. The personal identifying information is used mainly to create phony charge cards.

The letter goes on to tell the potential victim that he or she will get up to 30 percent of the money, after the money has been transferred into the victim's account.

But first, the victim will be required to pay various types of government and legal fees in order to get the money out of Nigeria.

"At no time is it fully explained just where or how these large amounts of available funds were located or why they are to be transferred into a foreign personal bank account," a U.S. Secret Service alert points out.

The scam has been around for about five years, and in some law enforcement circles the belief was that few people would be gullible enough to fall for it.

The chilling fact is that people around the world are not only falling for it, they are losing their lives because of it. More than 60 Americans went to Nigeria in the first half of 1994 because of the scam.

Two Americans have already been murdered and seven Japanese have disappeared in Lagos, Nigeria, while involved in the scam.

According to the United States Embassy in Lagos, by late last year, 16 countries have reported 350 victims who lost money in the scam. And in all but 14 cases, the Secret Service said, there was some violence associated with the scam.

In addition, the Nigerian government has issued a decree that any foreigner traveling to Nigeria in

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Americans Losing Lives and Money in Nigerian Scam

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pursuit of an advanced fee fraud can be arrested and confined.

More than a year ago, the Secret Service's Financial Crimes Division began to track the letters and faxes. The division asked law enforcement agencies and consumer and business groups to forward the letters to the Secret Service.

So far, more than 15,000 of these letters have been sent in and the agency gets a couple of hundred each week.

By collecting all of the pertinent information on the letters (the sender's phone and fax numbers and name), the agency says, they have found that all of the letters originated in Lagos.

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The agency considers the scam to be run by Nigerian organized crime.

Among other things, the Nigerian government blames the problem on unemployment, and a get-rich-quick mentality, the Secret Service notes.

Those who are lured to Lagos arrive with "official Diplomatic invitation visas," which do not exist. The victims bypass customs and immigration officials who have already been bribed, the Secret Service says.

The victims are taken to buildings that would appear to be the offices of the Nigerian National Petroleum Company or the Central Bank of Nigeria, and if a victim calls the phone number on the letter, the phone is answered as if it were a legitimate enterprise. All of this is part of the elaborate scheme.

Also, the physical and mental intimidation begins soon after the victim arrives in Lagos.

According to the Secret Service, one American executive reportedly had already wired $1 million to Nigeria, but when he refused to make additional payments, his captors tortured him, set him on fire and dumped him in front of a hotel.

Potential victims are told to come to Lagos, the agency says, because it will be easier to do business face-to-face.

In some cases, victims in the U.S. have had their bank accounts drained without leaving the country. In one instance, in Florida, the victim had wired tens of thousands of dollars to the thieves. When he ran out of money, the criminals told him that if he sent more money they would help him get back what he had lost.

While the money may eventully make its way to Lagos, a victim may be asked to wire it anywhere in the world.

This is where banks can help the Secret Service and law enforcement agencies around the world. The Secret Service has found that victims are told to wire money so it passes through several foreign banks. Bankers should be alert to wire transfers in which it appears the recipient may be part of an advanced fee fraud, such as the one described in this article.

Furthermore, banks should contact the Secret Service in Washington if they receive such a wire transfer request or one of the letters from Nigeria. At the Secret Service, phone: Rich Caruso, special agent, or Craig Spraggins, assistant special agent in charge, at (202) 435-5850.

Also, if your institution receives one of the letters contact your local U.S. Postal Inspection Service office and your primary federal regulator. Δ

New $100 Note Includes Added Security Features

A redesigned $100 note, which incorporates new and modified security features aimed at staying ahead of counterfeiters, will be ready for circulation early next year.

The $100 note will be followed by redesigns of the lower denominations, which will be introduced at six-to-12-month intervals. (See *Fraud Alert,* Summer 1994.)

In announcing the forthcoming change, the Treasury Department said, the Bureau of Engraving and Printing will provide machine manufacturers with new notes to prepare vending machines, automatic teller machines and other cash-handling equipment for the change.

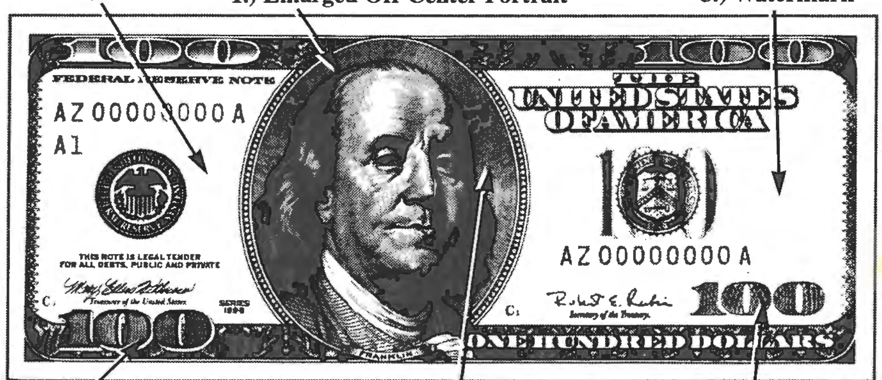
"While machine manufacturers will have to make modifications to accommodate the new bills, they will have a broader field of machine-readable features from which to choose to authenticate currency," Treasury explained.

At the unveiling of the new note in September, Federal Reserve Chairman Alan Greenspan explained the new notes would be put into circulation at the Fed's district banks. "As banks deposit notes in the regular course of business, the Federal Reserve Banks will replace any older design notes with notes of the new design," Greenspan said. This means that $100 notes currently in circulation will be retired as they pass through the Fed system.

Here are the features on the new note:

New Features

1.) Enlarged Off-Center Portrait—The larger portrait permits more detail and makes it harder to counterfeit. The portrait was moved off center to make room for a watermark and for the security thread.



2.) Color Shifting Inks—The inks change color, depending on the viewing angle. The ink is used to print the number in the lower right-hand corner of the front of the bill. When viewed straight on, the ink looks green, but changes to black when the paper is held at an angle.

3.) Watermark—A watermark has been added on the right front side of the note and depicts the same person as in the portrait. The watermark does not reproduce on color copiers. The watermark also makes it easier to verify the authenticity of the note. It will also make it harder to use lower denomination paper to print counterfeit higher denominations.

4.) Concentric Fine-Line Patterns—This series of fine lines is very difficult to reproduce with color copiers or other technology. The technique is used for the background of Benjamin Franklin's portrait on the front and Independence Hall on the reverse side of the note.

Existing Security Features

5.) Security Thread—This polymer thread, embedded vertically in the paper, indicates each bill's denomination. The words on the thread can only be read when held up to a bright light. Also, the new security thread will glow red when held under an ultraviolet light. This makes it impossible to copy with a color copier that uses reflected light. The thread will be in a unique location for each denomination, which can be used by currency-accepting equipment to determine the value of the note.

6.) Microprinting—What appears to be a fine line to the naked eye is actually lettering that can be read with a magnifier. Copiers cannot reproduce it without blurring. On the front of the note "USA 100" is microprinted within the number in the lower left corner and "United States of America" appears on Benjamin Franklin's lapel. Δ

Closing an Ugly Chapter on Financial Institution Crime

The end of the year brings to a close the most concerted effort in the history of American banking to pursue those responsible for crimes involved in the failure of savings and loans and banks.

The Resolution Trust Corporation, created by Congress in 1989 as part of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to clean up the Savings and Loan Association mess, goes out of business at the end of 1995.

Although the RTC will cease to exist at the end of 1995, this does not mean that pending matters will simply disappear.

The Crime Control Act of 1990 (CCA) created the Office of the Special Counsel for Financial Institution Fraud in the Department of Justice. The special counsel was given a five-year term, which ended November 28, 1995.

The special counsel was empowered to supervise and coordinate investigations and prosecutions of financial institution fraud, and to ensure the full use of federal laws to recover the proceeds of financial institution fraud.

The results of the special counsel's activities are spelled out in a recently released report. In addition to failed S&L and bank cases prosecuted by U.S. Attorneys' offices, the report notes, task forces were set up in three areas of the country that were particularly hard-hit.

The Dallas Bank Fraud Task Force was set up in 1987 and at its peak in 1992 had a staff of approximately 150. The success of the task force can be seen in the numbers. By June 30, 1995, it had charged 288 defendants and obtained 246 financial fraud convictions.

The success in Dallas led to the creation of the New England Bank Fraud Task Force in February 1991. By June 30, 1995, the task force had brought charges against 102 defendants, which resulted in 91 convictions.

The San Diego Bank Fraud Tax Force was established on June 10, 1992. By June 30, 1995, the task force charged a total of 42 defendants and obtained 28 convictions.

"With the help of the federal regulatory and investigative agencies, the Justice Department has achieved tremendous success in bringing to justice those who looted our nation's financial institutions during the 1980s," Gerald M. Stern, special counsel for financial institution fraud, wrote in the report recapping the effort.

Let's look at the results of this massive effort by regulators, investigators and prosecutors.

• 6,405 defendants were charged with bank-related crimes between October 1, 1988 and June 30, 1995.

• Of those defendants tried, 5,506 convictions have been obtained for a conviction rate of 96.5 percent.

• The number of defendants charged and convicted in financial institution fraud cases rose steadily from 1988 until they peaked in 1992.

• 75.5 percent of those convicted in major financial institution fraud prosecutions between Oct. 1, 1988, and June 30, 1995, have been sentenced to jail. (This is considered an outstanding accomplishment by the Justice Department because of the economic nature of the crimes and the fact that the defendants were likely to be first-time offenders.)

• Nearly 30 percent of the defendants convicted in major financial institution fraud cases over this period were directors, officers, chief executive officers or bank presidents. The remaining 70 percent included accountants, attorneys, consultants, and other professionals.

The RTC also had some notable accomplishments during its six-year life. Here is a breakdown:

• 747 institutions were sold or the depositors paid off by the RTC, including 41 institutions never in receivership.

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• 25 million deposit accounts were protected from loss in the institutions above.

• $220.6 billion in deposits were held by those 747 institutions.

• $392.8 billion was recovered through asset sales and collections as of September 30, 1995.

• $12.7 billion in assets remained to be sold at the end of August 1995.

• 23,659 units of affordable housing were sold as of the end of September 1995.

• $90.1 billion was the cost of the cleanup to the taxpayer at the end of November 1995.

• $2.3 billion in professional liability settlements and judgments was produced, including the $977.5 million recovered so far from Drexel Burnham Lambert, Inc., and investment banker Michael R. Milken.

• 6,064 criminal matters had been referred to the U.S. Department of Justice for further investigation by September 30, 1995.

• 2,189 defendants faced criminal charges and 2,080 of those persons were convicted. Another 91 are awaiting sentencing.

• $602.1 million in restitution was ordered to be paid by 932 defendants in the federal and state courts. $24.1 million of this total has been recovered.

In his report on financial institution fraud, the special counsel highlighted the following cases among the "major successes in the prosecution of bank fraud" since the passage of FIRREA and the CCA.

• Charles Keating, Jr., was convicted by a federal jury on January 6, 1993, of all 77 counts of racketeering, conspiracy, bank fraud, interstate transportation of stolen property, misapplication of funds and securities fraud. Keating and four other officers/directors of Lincoln Savings and its parent company, American Continental Corp., were charged with engaging in a pattern of racketeering to obtain money from and through Lincoln.

Keating was sentenced to more than 12 years' imprisonment and ordered to pay over $122.4 million in restitution.

• Tom J. Billman was convicted of 11 counts of mail and wire fraud which grew out of the collapse in 1985 of Community Savings and Loan, a Maryland state-insured institution. He was sentenced to 40 years in prison—the longest term ever for bank fraud—and restitution of over $41 million.

• The Bank of Credit and Commerce International (BCCI), which had committed massive bank fraud while operating in 72 countries, was closed by banking regulators in 10 countries on July 5, 1991. In December 1991, BCCI agreed to plead guilty to federal and state charges in the United States of racketeering, fraud and money laundering and forfeited about $1 billion in assets.

• David Paul, the former chairman of the failed CenTrust Bank of Miami, was convicted in November 1993 of 68 counts of bank fraud. But before his second trial on the counts of securities fraud in the indictment, Paul pleaded guilty. He was sentenced to 11 years in prison and ordered to pay $56 million in restitution.

"Looking to the future," Stern wrote, "the demands for quick movement of vast sums of money and the banking industry's increasing reliance on computers ensure that a significant level of financial fraud will continue to exist. Our ability to meet current and future threats to the soundness of our financial institutions is vastly improved given our record of success in fighting the S&L crooks of the 1980s."

The RTC and the FDIC are working together to make sure that unfinished business is transferred to the FDIC. The agencies are compiling and shifting the pending criminal matters to the FDIC. Pending subpoenas and other litigation will go on uninterrupted.

Restitution ordered to be paid to the RTC will be transferred to the FDIC, where compliance with the courts' orders will be monitored. Δ

Six Face Trial for Phony Money Order Scheme

The leaders of a Texas operation that resulted in some $61 million in bogus "certified money orders" are on trial in Dallas federal court.

The six men were charged by a federal grand jury with 17 counts of bank fraud, mail fraud and conspiracy to commit mail fraud. They are: Billy Mack O'Neill, alias "O.M.B., W. D. McCall" of Victoria, Tex.; Franklin Rollin Johnston, alias "Johnny Johnston" of Waxahachie, Tex.; Jerry Lynn Wilkins of Dallas, Tex.; Lavoyd Wayne Dollar of Waxahachie, Tex.; Steven P. Moser of Watsontown, Pa.; and Thomas D. Gandy of Wichita, Kans.

O'Neill, Johnston and Wilkins were at the center of the scheme, which copied bogus money orders that were being sold in Wisconsin. The three men used the format and materials of the Wisconsin group and sold the bogus money orders around the country, said Postal Inspector J. D. Butler of Dallas, who investigated the case.

The "certified money orders" were part of a kit that was sold as a way of eliminating debt and buying property. The financial institutions and government agencies that received the money orders and attempted to redeem the worthless instruments, received from Waxahachie in return an equally worthless "certified banker's check."

The indictment said that the defendants would demand that creditors "zero balance" their accounts and would threaten legal action, "including filing liens against the creditors and prosecution," if the worthless money orders or banker's checks were not accepted as full payment of the debt. Further, the indictment said, "they would file liens against and sue creditors, their employees, government officials and others to intimidate and harass them and cloud the title to properties."

The indictment covers the period from July 1993 through May 1995. This was the time during which banks began receiving the money orders, and continues through foreclosure on the property and the sheriff's sales to pay the outstanding debt, Butler said.

The scam was housed in a Waxahachie building owned by Dollar. The scheme essentially dried up after Postal Inspectors and the U.S. Secret Service executed a search warrant at the building in December 1993.

The worthless money orders surface periodically, however, said Butler. The few that do appear, he said, are copies made by fringe organizations of the political right. *(Verdicts in the trial will be reported in a future issue.)* Δ

Brothers Sentenced in Gulf Federal Failure

Two Louisiana brothers were sentenced for their roles in the 1986 failure of Gulf Federal Savings & Loan, Metairie, La.

The action by the New Orleans court capped a 10-year legal battle among John and Joseph Mmahat and the FDIC.

John Mmahat, the former chairman of the board and general counsel of Gulf Federal, received 21 years in prison and was ordered to pay $2 million in restitution to the FDIC. His brother, Joseph Mmahat, the former president of Gulf Federal, was sentenced to 29 months in prison and ordered to pay $45,000 in restitution.

The brothers were convicted of conspiracy, making false statements, making false entries and the misapplication of funds in connection with $5.1 million in loans.

Before the sentence was imposed in the New Orleans federal district court, John Mmahat asked the court to take into account the fact that he spent the last 10 years litigating every aspect of the FDIC's case against him.

"I'll tell you what I'm going to take into account—the fact that you have breached every trust and every confidence that has ever been placed in you," responded Judge Edith Brown Clement. Δ

Nevis Given Seven Years for Failing to Pay FDIC Restitution

Thomas E. Nevis was remanded to federal custody in November for seven years, after thwarting the FDIC's efforts to collect $1.8 million in restitution that a federal court in 1989 ordered him to pay.

Nevis' legal battle began in 1988 when the California businessman was indicted on 24 counts of conspiracy, bank fraud, and mail fraud in connection with loans obtained from the failed State Federal Savings and Loan Association of Corvallis, Ore.

After he was found guilty on 22 of the counts, he was sentenced to two years' incarceration and five years' probation. He also agreed to pay the $2 million in restitution in five annual installments, beginning one year after his release from prison.

Nevis paid only $200,000 of the obligation while he appealed his sentence. He remained free while losing his appeal at every level. Finally, the U.S. Supreme Court refused to hear the case in June 1991.

A month later he was resentenced, this time to a work release facility to allow him to pay the restitution. But he failed to make the first installment of $400,000 in 1993 and the FDIC began a two-year effort to collect the money.

The U.S. Department of Justice also opened an investigation. The Justice Department filed suit, seeking $36 million (the loss to the S&L) in damages from Nevis, claiming he had transferred money into his businesses to avoid paying restitution to the FDIC.

The court appointed a receiver over Nevis' businesses to liquidate them, with the proceeds to go to the FDIC.

At his September probation revocation hearing, Federal Judge David Levi of the Eastern District of California revoked probation, noting that Nevis had unjustly preferred other creditors to the detriment of the FDIC and pointed out Nevis' efforts to conceal

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Checks Stolen in Texas May Hit Elsewhere

The Federal Bureau of Investigation says that some 2,000 business checks that were stolen are now being deposited into personal bank accounts in the Dallas/Fort Worth area.

The FBI, however, is alerting banks in Texas and bordering states to be on the alert for checks issued to: Medina Supply Co., 230 East Smith Road, P.O. Box 249, Medina, Ohio 44258. The checks' routing number is 041205673 and the account number is 00165034. The paying bank is Old Phoenix National Bank, Medina, Ohio, 44258. The checks are numbered from 039940-041939.

The FBI said that other check shipments, intended for businesses in San Antonio and Houston, have also been interrupted. As a result, the FBI said that stolen checks could turn up in other Texas cities and bordering states.

Typically, the FBI says, account holders will permit someone to use their account to deposit one of these stolen checks, and then quickly write a check for the amount of the deposit.

The account holders in the meantime will file a police report that their checkbooks were stolen. The account holder will then file an affidavit of forgery with the bank that in essence says the signature on the check has been forged and is not the account holder's. The result: The customer is held harmless and does not have to repay the amount of the check.

Thus far, the FBI has found the Medina checks deposited into personal accounts in Denton, Tex., as well as Dallas. The checks ranged from $1,200 to $6,700.

The Medina business checks were stolen from a United Parcel Service shipment which originated in Mesquite, Tex., and was bound for Medina, Ohio. Δ

FDIC Expects $2.3 million in Texas Forfeiture

The FDIC and the Department of Justice recently reached a settlement with the family of former Garland, Tex., Mayor James L. Toler. Under the settlement Justice collected $2.3 million, which the FDIC expects to receive as forfeiture proceeds.

Toler is serving a 20-year sentence for bank fraud and racketeering convictions that grew out of loan and appraisal schemes that netted him $38 million.

Toler was convicted in 1991 on charges that he and former Garland Developer D. L. "Danny" Faulkner orchestrated the theft of more than $200 million from Empire Savings and Loan Association of Mesquite and four other thrifts in Texas and Arkansas, The Dallas Morning News reported. The money was siphoned from huge loans made by the thrifts in the early 1980s for condo projects.

At the same time, inflated appraisals and land flips played a part in the condo projects, which ultimately failed.

The collapse of the five thrifts cost taxpayers an estimated $1 billion. More than 100 people were convicted on felony charges that resulted from the FBI's investigation of the failed thrifts, the newspaper said.

The forfeiture settlement leaves the Toler family with a ranch as its only major asset. The family has vowed that no assets have been hidden, but should any undisclosed assets surface the FDIC and Justice can pursue them. Δ

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resources from the FDIC, with which the agency could have been paid.

When Nevis was resentenced in November, Judge Levi told him that "it's not simply that you failed, Mr. Nevis, it's that you paid virtually no restitution and that you had no right to put your money into failing family businesses."

Nevis also faces sentencing next February after pleading guilty to charges that he failed to pay the Internal Revenue Service several hundred thousand dollars in income taxes. Δ

Attention: Chief Executive Officer

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