



Department of Justice

STATEMENT

OF

DICK THORNBURGH
ATTORNEY GENERAL

BEFORE

THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

CONCERNING

FRAUD IN THE SAVINGS AND LOAN ASSOCIATION AREA

ON

FEBRUARY 9, 1989

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE,

I AM PLEASED TO BE HERE TO ADDRESS THE PRESIDENT'S PROPOSAL TO DEAL WITH THE SERIOUS PROBLEM OF FRAUD AND INSIDER ABUSE AFFECTING SOME OF OUR NATION'S FINANCIAL INSTITUTIONS. I WILL DISCUSS WITH YOU WHAT WE AT THE DEPARTMENT OF JUSTICE ARE DOING ABOUT THIS PROBLEM, AND WHAT WE PLAN TO DO UNDER THE SAVINGS AND LOAN REFORM INITIATIVE ANNOUNCED BY PRESIDENT BUSH EARLIER THIS WEEK.

FRAUD AND INSIDER ABUSE ARE BELIEVED TO HAVE BEEN INVOLVED IN TWENTY-FIVE TO THIRTY PERCENT OF SAVINGS AND LOAN FAILURES. OVER THE LAST DECADE THERE HAS BEEN A STEADY INCREASE IN THE NUMBER OF INSOLVENT FEDERALLY INSURED BANKS AND SAVINGS AND LOAN ASSOCIATIONS WITH ESTIMATED LOSSES IN CASES INVOLVING FRAUD AND EMBEZZLEMENT AMOUNTING TO OVER \$2 BILLION IN 1988, ALONE.

MY EXPERIENCE AS A UNITED STATES ATTORNEY AND ASSISTANT ATTORNEY GENERAL, AND AS ATTORNEY GENERAL TEACHES THAT THE BEST WAY TO DETER FRAUD IS WITH TOUGH, TIMELY, AND EFFECTIVE LAW ENFORCEMENT. THERE ARE REALLY TWO IMPORTANT ROLES THAT LAW ENFORCEMENT EFFORTS CAN PLAY. ONE OBVIOUSLY IS THE PROSECUTION OF THOSE WHO HAVE VIOLATED THE LAW IN CONNECTION WITH FAILURES;

THE OTHER IS TO PROVIDE SOME SUGGESTIONS FOR REMEDIATION AS WE DEVELOP THESE CASES AND UNCOVER PATTERNS THAT CAN BE BETTER DEALT WITH BY THE REGULATORY STRUCTURE.

ATTACKING S&L FRAUD AND INSIDER ABUSES IS A KEY PART OF OUR CRACKDOWN ON WHITE COLLAR CRIME, WHAT SOME CALL "CRIME IN THE SUITES," JOINING OUR RECENTLY ANNOUNCED INITIATIVES TARGETING SECURITIES AND COMMODITIES FRAUD AND ONGOING INVESTIGATIONS OF ALLEGED WRONGDOING IN THE DEFENSE PROCUREMENT AREA.

SHORTLY AFTER I ASSUMED OFFICE, I CONDUCTED A REVIEW OF DEPARTMENT OF JUSTICE ACTIVITIES IN THE AREA OF SAVINGS AND LOAN FRAUD. I LEARNED THAT IN RECENT YEARS WE HAVE MADE SIGNIFICANT ADVANCES IN COORDINATING OUR ATTACK ON CRIME IN FINANCIAL INSTITUTIONS BUT THAT WE LACKED SIGNIFICANT RESOURCES TO ADDRESS THE PROBLEM FULLY.

INTERAGENCY BANK FRAUD ENFORCEMENT WORKING GROUP

IN 1984, CONCERNED THAT FINANCIAL INSTITUTIONS WERE BECOMING INCREASINGLY VULNERABLE TO INSIDER FRAUD AND THAT PROSECUTIONS WERE NOT KEEPING PACE WITH CRIMINALITY, THEN ATTORNEY GENERAL WILLIAM FRENCH SMITH AND OFFICIALS OF THE FEDERAL HOME LOAN BANK BOARD (FHLBB), THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (FRB), OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC),

AND FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) FORMED THE INTERAGENCY BANK FRAUD ENFORCEMENT WORKING GROUP (BFWG). BFWG WAS CHARGED WITH DESIGNING IMPROVEMENTS IN THE DETECTION, INVESTIGATION, AND PROSECUTION OF FRAUD AGAINST FINANCIAL INSTITUTIONS.

THE BFWG HAS IN FACT IMPROVED BOTH COMMUNICATION AND COORDINATION AMONG ITS MEMBERS, RESULTING IN A TIGHTER BOND BETWEEN THE AGENCIES AND THE LAW ENFORCEMENT COMMUNITY.

IT HAS PRODUCED A UNIFORM CRIMINAL REFERRAL FORM FOR USE BY ALL FEDERALLY INSURED FINANCIAL INSTITUTIONS AND SUPERVISORY AGENCIES TO FACILITATE PROMPT REPORTING OF SUSPECTED CRIMES. MOREOVER, IT HAS PROMOTED A PROGRAM CALLED "FAST TRACK," WHICH IS DESIGNED TO FACILITATE THE ECONOMICAL, EFFECTIVE PROSECUTION OF CERTAIN FINANCIAL INSTITUTION FRAUDS WHICH WOULD OTHERWISE ESCAPE CRIMINAL PROSECUTION.

WE HAVE ALSO INSTITUTED A COMPREHENSIVE BANK FRAUD INVESTIGATION TRAINING PROGRAM, INCLUDING SEVERAL JOINT TRAINING COURSES FOR FBI AGENTS AND BANK EXAMINERS. IN ADDITION, TWO BANK FRAUD SEMINARS FOR PROSECUTORS AND AGENCY ATTORNEYS HAVE BEEN PRESENTED THROUGH THE ATTORNEY GENERAL'S ADVOCACY INSTITUTE.

A SIGNIFICANT CASE TRACKING SYSTEM WAS ESTABLISHED TO IDENTIFY CRIMINAL REFERRALS IDENTIFIED BY CONCERNED SUPERVISORY

BANK AGENCIES. FINALLY, THE BFWG SUCCESSFULLY SOUGHT AMENDMENTS TO THE RIGHT TO FINANCIAL PRIVACY ACT DESIGNED TO FACILITATE THE TIMELY SHARING OF INFORMATION AMONG FINANCIAL INSTITUTIONS, THEIR REGULATORS, AND LAW ENFORCEMENT AUTHORITIES.

ENFORCEMENT EFFORTS

A PRIME EXAMPLE OF WHAT COOPERATION AND COMMITMENT TO BRINGING PROSECUTIONS AGAINST THOSE WHO PREY ON FINANCIAL INSTITUTIONS CAN DO IS SEEN IN OUR TASK FORCE IN THE NORTHERN DISTRICT OF TEXAS. THIS YEAR OLD EFFORT, INVOLVING THE UNITED STATES ATTORNEY'S OFFICE, THE FBI, THE CRIMINAL AND TAX DIVISIONS, THE INTERNAL REVENUE SERVICE (IRS), AND THE FHLBB, WAS LAUNCHED TO IDENTIFY AND PROSECUTE CRIMES DIRECTED AGAINST SAVINGS AND LOAN ASSOCIATIONS AND BANKS IN THE DISTRICT.

CURRENTLY MORE THAN TWELVE ATTORNEYS FROM THE CRIMINAL DIVISION 'S FRAUD SECTION, FOUR ASSISTANT U.S. ATTORNEYS, TWENTY-FIVE FBI AGENTS AND SIXTEEN IRS INVESTIGATORS CONSTITUTE WHAT HAS BECOME KNOWN AS THE DALLAS BANK FRAUD TASK FORCE, A MODEL INVESTIGATIVE AND PROSECUTIVE OPERATION WHICH HAS TRAINED ITS SIGHTS ON EXTENSIVE ALLEGATIONS OF WRONGDOING IN THE DALLAS AREA SAVINGS AND LOAN COMMUNITY.

THE TASK FORCE HAS BROUGHT CRIMINAL CHARGES (8 INDICTMENTS AND 16 INFORMATIONS) AGAINST 33 INDIVIDUALS TO DATE. THERE HAVE BEEN 20 CONVICTIONS (15 GUILTY PLEAS AND FIVE JURY VERDICTS OF GUILTY) AND ONLY ONE ACQUITTAL. THREE DEFENDANTS ARE ON TRIAL AND SIX ARE AWAITING TRIAL. TWELVE DEFENDANTS HAVE BEEN SENTENCED. EIGHT RECEIVED IMPRISONMENT AND FOUR WERE PLACED ON PROBATION. GENERALLY, IMPRISONMENT RANGED FROM SIX MONTHS TO ONE YEAR, BUT ONE DEFENDANT RECEIVED 35 YEARS' IMPRISONMENT. FINES TOTALING \$133,250 HAVE BEEN IMPOSED AND RESTITUTION TOTALING \$2,791,500 HAS BEEN ORDERED (\$591,500 OF THE RESTITUTION WAS DIRECTED TO THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION).

FINANCIAL INSTITUTION FRAUD PROSECUTIONS HAVE OCCURRED AND ARE OCCURRING IN A NUMBER OF OTHER DISTRICTS, PARTICULARLY IN THE SUNBELT REGION -- CALIFORNIA, OKLAHOMA, COLORADO, AND FLORIDA -- BUT ALSO IN NEW YORK, KANSAS, AND MINNESOTA. I HAVE MADE IT CLEAR TO THE UNITED STATES ATTORNEYS THAT THIS IS A HIGH PRIORITY ENFORCEMENT AREA. BUT EXISTING INVESTIGATIVE AND PROSECUTIVE RESOURCES HAVE NOT BEEN SUFFICIENT TO ADDRESS ALL THE SERIOUS CRIMINALITY CALLED TO THE ATTENTION OF THE DEPARTMENT OF JUSTICE.

THE ADMINISTRATION'S PROPOSAL

THE PRESIDENT'S COMPREHENSIVE PLAN DEALING WITH THE SAVINGS AND LOAN PROBLEM WOULD INCREASE THE BUDGET OF THE JUSTICE

DEPARTMENT BY APPROXIMATELY \$50 MILLION. THE INCREASE WOULD BE USED TO PROVIDE IN THE ORDER OF 200 NEW INVESTIGATORS, OVER A HUNDRED NEW PROSECUTORS, THIRTY OR MORE OTHER NEW ATTORNEYS, PLUS ADDITIONAL SUPPORT PERSONNEL TO STRENGTHEN THE ENFORCEMENT OF CRIMINAL AND CIVIL LAWS CONCERNING FINANCIAL INSTITUTIONS FRAUD.

IT WILL ALMOST DOUBLE THE PERSONNEL DEVOTED TO THE APPREHENSION AND PROSECUTION OF INDIVIDUALS COMMITTING FRAUD IN OUR FINANCIAL INSTITUTIONS. IT WILL SUPPORT IN EXCESS OF 600 NEW POSITIONS DEDICATED TO ADDRESSING FRAUD AND INSIDER ABUSE IN S&LS AND OTHER FINANCIAL INSTITUTIONS WHERE THESE PROBLEMS EXIST.

IN ADDITION, WE WILL DEVELOP NEW SPECIALIZED TRAINING PROGRAMS FOR PROSECUTORS IN S&L AND FINANCIAL INSTITUTION FRAUD ENFORCEMENT. SOME RESOURCES WOULD BE DEVOTED TO STRENGTHENING THE ADMINISTRATIVE CAPABILITIES PERTAINING TO COORDINATION OF INTERAGENCY TASK FORCE ACTIVITIES DEVOTED TO FINANCIAL INSTITUTION FRAUD, AND TO ENHANCEMENT OF FINANCIAL INSTITUTION FRAUD CASE TRACKING CAPABILITIES.

THE INCREASE IN ATTORNEY AND SUPPORT STAFF IN THE LITIGATING DIVISIONS WOULD ENHANCE OUR ABILITY TO CARRY OUT TWO SUBSTANTIAL MISSIONS: TO PROVIDE A NUCLEUS OF EXPERIENCED PROSECUTORS FOR TASK FORCES SIMILAR TO THAT ESTABLISHED IN THE DALLAS AREA; AND

TO AUGMENT THE RESOURCES OF THOSE UNITED STATES ATTORNEYS' OFFICES THAT MAY NOT REQUIRE A SUBSTANTIAL INCREASE IN THEIR OWN RESOURCES TO COPE WITH A REGIONAL CRISIS IN BANK FRAUD ENFORCEMENT, BUT THAT MAY FROM TIME TO TIME NEED ASSISTANCE IN INVESTIGATING AND PROSECUTING SUCH CASES WHEN THEIR OWN RESOURCES ARE INSUFFICIENT FOR THOSE CASES.

THESE CRITICAL ADDITIONAL RESOURCES WILL HELP KEEP THE PRESIDENT'S SOLEMN PLEDGE TO THE AMERICAN PEOPLE WHEN HE SAID:

"...THAT WE WILL MAKE EVERY EFFORT TO RECOVER ASSETS DIVERTED FROM THESE INSTITUTIONS, AND TO PLACE BEHIND BARS THOSE WHO HAVE CAUSED LOSSES THROUGH CRIMINAL BEHAVIOR. LET THOSE WHO WOULD TAKE ADVANTAGE OF THE PUBLIC TRUST AND PUT AT RISK THE SAVINGS OF AMERICAN FAMILIES ANTICIPATE THAT WE WILL SEEK THEM OUT, PURSUE THEM RELENTLESSLY AND DEMAND THE MOST SEVERE PENALTIES."

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY AND AM AVAILABLE FOR TO ANSWER YOUR QUESTIONS.