



Department of Justice

"WHITE COLLAR CRIME: THE NATURE OF THE THREAT"

REMARKS

BY

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Most of you, I'm sure, have seen, if only on TV, one of my favorite Jimmy Stewart movies -- It's A Wonderful Life. Jimmy Stewart plays George Bailey -- president of Bailey Building and Loan -- a reluctant banker, who always plans to leave his hometown of Bedford Falls. But every time he starts to head out of town, he has to turn around and save it again. He even gives up his honeymoon, doling out \$2000 cash in hand to stop a run on the bank. Eventually he reaches a point of despair. His Uncle Billy has mislaid \$8000, and the bank examiner is due the day before Christmas. George is only kept from throwing himself off a bridge by the arrival of his guardian angel -- Clarence. "I wish I'd never been born," George moans. So Clarence -- a pretty bright angel, long overdue for his wings -- actually shows George what Bedford Falls would've been like if he hadn't lived -- a total sinkhole called Pottersville. And we're all very glad to see George rush back home to hug Donna Reed, safe and -- thanks to a basket full of money from the townspeople -- solvent again.

I recall George's banking career to you because -- for all that Forties' romance -- George Bailey is still how we believe bankers ought to behave. Bailey Building and Loan you will recognize as an important community institution. George's job was to help his community grow, in particular, to help families buy new homes. In fact, any sequel would have had George Bailey taking part in a genuine miracle even his guardian angel couldn't have foreseen -- the postwar housing boom. Imagine -- in the last fifty years, 70 million new homes have been built, three

quarters of the existing dwellings in this country. Bankers like George Bailey -- and some of you, I'm sure, here today -- loaned \$2.2 trillion in mortgage money, secured by a national housing stock worth \$4 trillion. The S & L's underwrote that miracle, which let so many of us live, in reality, a Wonderful Life.

But in contrast, listen to what Shirley Lampel, a widow, had to say after losing \$30,000 -- her whole life savings, which she had been deceived into thinking were insured -- when the Lincoln Savings & Loan went belly up in 1989.

"It used to be that a person puts on a mask and goes in with a gun and robs a bank," said Mrs. Lampel. "Now we go into a bank and we get mugged. When did the bank become the crook?"

When did the bank become the crook?

This is only one of the reverberating questions, raised by the nation's S & L crisis. We know that any number of financial and fiduciary failings contributed to their massive collapse, but today I want to turn your attention to the moral failing, the criminality that also stands revealed. Attorneys from our Department of Justice Fraud Squad talk about an "epidemic of fraud" among the S & L's presently in default. Twenty-five to thirty percent, conservatively, of these "thrift failures" can be laid to wrong-doing by miscreant bank officials. And their

misdeeds only compound the many detriments society already suffers from the perpetrators of financial and corporate crimes. These are the public enemies who ruthlessly think only of themselves as Number One: the white-collar criminals.

Yes, they are different.

They come not as threatening intruders or violent assailants, but in the very good company of those we implicitly trust. There are no gun shots, no blood-stained knives, no wailing police sirens at the scene of their crimes, but white-collar criminals still leave their victims -- such as Mrs. Lampel -- emotionally traumatized as well as economically destitute. Individual financial losses from their thievery far exceed the combined "take" from the more publicized thefts of robbery, larceny, and burglary.

For society as a whole, white-collar criminals undermine our faith in major institutions of business and finance, such as the S & L's. They can cause job loss, false pricing, deterioration of standards -- and coupled with failure to inspect, to report, to account, as in the case of the S & L's -- a malaise of public anxiety and cynicism that is the bane of good government itself.

Finally, white-collar crime loads tremendous losses on the country's economy -- most to be borne by consumers and tax-

payers. Total losses from the S & L collapse are estimated to be as high as \$500 billion. And the direct losses are compounded by an undermining of economic growth, the actual undoing of future chances for that Wonderful Life.

Those are some dire results of corrupt practices that too often plagued the Eighties -- as opposed to the honest business done during the decade. Much activity came from a near frenzy of economic growth, but too much of it slipped beyond legitimate risk into White-Collar Crime. Our investigations have catalogued seven different and distinct types of white-collar crime. There may be more. But I want to take you through the police line-up of these seven, very quickly -- all manner of crooks, deceptively well-dressed. You may even spot some familiar faces.

Start with those crooks guilty of Savings & Loan Rip-Off. Next, those defense contractors who lied, bribed, and spied to commit Defense Procurement Fraud. Third in line stand those investment bankers, brokers, and traders who engaged in Insider-Trading. Their faces became most recognizable, once they started rushing to point each other out to us.

Next come those convicted of Public Corruption -- holders of public office who, by kickbacks and bribes, betrayed their office. Close by their side are those involved in HUD Scandals

-- over 800 of whom we are investigating for "serving the greedy, rather than the needy." Then, an international gang of drug lords and bankers guilty of Money-Laundering -- perhaps the most heinous of white-collar crimes since it allows the drug cartels to realize a "safe" profit on their dread trade. And last in line, those offenders who commit Corporate Violations, such as price-fixing and restraint of trade, or that latest injury to the planet -- despoiling the environment.

You might notice one peculiar thing, as these white-collar criminals join the line-up. They each leave a lot of paper behind. That is frequently the only way we can catch white-collar criminals -- by picking up the damning paper trail that can corral an embezzler, or expose a penny stock fraud, or unravel a bogus transaction on the falsely balanced books of an S & L.

Easier said than done. Having spent a dozen years myself as a corporate lawyer -- before ever trying a criminal case -- I can verify how complicated even legitimate business transactions can be. When shifty operators start to bend such transactions into illegitimate shape -- to hide fraud, pay-offs, kickbacks, etc. -- that deliberate tangle is even harder to unravel. It takes much more than the police breaking down doors to seize evidence. It requires adept craftsmen who can break open false books to discover hidden assets. Catching a white-collar criminal still

demands the kind of investigative probing Judge Samuel Seabury of New York used in his famous prosecutions of the corrupt in the 1920s. As described by his biographer,

"Seabury's technique was to perform the unspectacular job of research where it hurt: income tax returns, bank deposit slips, savings accounts of the accused's family, brokerage statements, real estate and other filed papers."

"Research where it hurts." That is exactly what we have undertaken -- to turn to the white-collar crime that most concerns Dallas -- in the growing cases of S & L Rip-Off. That is how we will use the additional \$50 million voted us by Congress -- to double Justice Department personnel devoted to prosecuting the S & L crooks in 26 cities across this country, using the specific model of our highly successful Dallas Bank Fraud Task Force.

I want to pay special tribute to that Task Force for their record, to date, of 66 indictments and 49 convictions. We take great pride in their skill and probity in these white-collar criminal cases. Let me illustrate their determination and astuteness by telling you how they tracked two paper trails in the most infamous S & L Rip-Off prosecuted thus far -- Vernon Savings and Loan.

You are aware that Vernon's virtual entire executive suite has now been convicted of bank fraud. And I'm sure you comprehend how their corrupt scheming kept up a merry-go-round in worthless loans -- millions of dollars picked and pocketed and repocketed and picked again. But let's eschew crooked finance -- such illicit practices as we call, in less than legal language, "trading dead cows for dead horses." Let's look at low greed -- in even less legal language, "the pig principle." With a couple of examples.

Start this paper trail with the flight logs of various Vernon aircraft -- unique transport, I would suggest, for an S & L. On January 12, 1986, Vernon's Falcon 50 flew the bank's four highest-fliers back to Addison, Texas, after two days' hunting pheasant in Kansas. They were the only passengers listed on the Falcon's manifest. But a sharp look at the manifests of other Vernon aircraft on that day revealed to the Dallas Task Force that another single passenger took off from Addison in Vernon's Lear Jet, also on January 12 -- L. Linton Bowman III, the Texas state regulator of Vernon. First paper clue. How came he there -- why and from whence?

His name on the Lear manifest was enough to start the Dallas Task Force checking back in Kansas into the registers of the Lazy-J Hunting Lodge's and the Wheatlands Motor Inn. Sure enough, Mr. Bowman was also at the motel from January 10 through

12. They even found a record of the Kansas hunting license bought for this bank examiner to shoot birds. Second paper clue.

But what really caught their eye -- the third paper clue -- was an entry on the Vernon bank books, showing Patrick G. King had drawn an advance on January 10 for \$1500 for a trip to California. How could Mr. King fly to California when he was going off to shoot pheasant in Kansas? No way. What Mr. King really did was sign the check for Mr. Malone to cash. And Mr. Malone -- as he later testified under a plea agreement -- divided the \$1500 cash among others who had come along for the pheasant hunt. Four female dancers from Dallas' Million Dollar Saloon. End of that paper trail.

Mr. King was convicted for far grander larceny, but counts 36 and 37 of the indictment -- charging him with this disguised \$1500 hire -- show you how deep in false entries Vernon tried to hide even the entertainment provided to a public official.

Start with another check, this time for \$9000, made out to "First Equity Financial" by G. Gipp Dupree, a loan broker who did business with Vernon. Dupree had this check covered by a voucher from Shamrock Savings Association, charging Dupree for consulting fees of \$9000. Ostensibly in payment for such consulting, the check was endorsed by the signature of "Jerry Lane," president of Shamrock in Amarillo. Every appearance of legitimacy -- except

that when the Dallas Task Force showed Mr. Lane the cancelled check, he said he'd never signed it, and would so testify in court. First paper clue.

Then the Dallas Task Force tracked the check back through the banks that had cleared and stamped it. Dupree's bank had the check from the bank of SC Auto Reconstruction. SC Auto Reconstruction had taken the check in partial payment for a \$20,000 purchase of a fully restored, fuel-injected 1960's Corvette. Second paper clue. The Corvette was going to be the property of the son of Woody F. Lemons, Vernon's CEO. Third paper clue. Lemons had forged Jerry Lane's signature. End of another paper trail.

Again, Woody Lemons was sentenced to thirty years for much larger money manipulations at Vernon -- taking kickbacks of \$212,000 from Mr. Dupree on the funding of a falsely inflated \$46 million loan. But this early \$9000 was Mr. Lemons' first try at bullying and suborning Mr. Dupree. During the trial, the federal prosecutor noted that Mr. Lemons was "testing" Mr. Dupree to see how "malleable" he was. And Mr. Lemons' method was the "pig principle" at work. He got Mr. Dupree to accept a forged check as cover for his kickback, then used the money to enrich and indulge his own family.

What such paper trails reveal, over and over again, is a twisted, convoluted pattern of illegal manipulation for personal gain. I fully understand your deep feelings about recent hard times here in Dallas -- the economic troubles you've faced since the collapse of oil prices -- and I'm delighted to see Texas lately begin to turn the corner again. But we must be clear that a root problem among the S & L's is not your Texas economy. The problem is their criminality.

Falling oil prices, the bad real estate market, the general Texas downturn did not form the criminal intent of the Vernon executive board. Like all con artists and swindlers, they fantasized pyramiding riches that would save them from the consequences of their illegal excesses. Profits from wild-cat banking would grow so large -- even if there were violations of the law -- that they would escape judgment, be seen as pillars of finance. As such pillars, they surely deserved the best -- even if they had to slip themselves the best under the table, with a share to those willing to look the other way. That is the "pig principle" carried to its piggiest.

And that is also why we must exercise more than due diligence against White Collar Crime. In the case of the S & L's, we must exercise an overdue diligence -- to protect the market integrity, honest enterprise, and fair profits of the greatest free economy on earth.

Too often we hear the wrong-headed complaint that going after White Collar Crime is anti-business. Of course it is not. I have always looked upon our actions against White Collar Crime as designed to thwart a reprehensible attempt to subvert our free enterprise system. We are protecting the valued institutions of that system when we act against the corrupt S & L's and the crimes of their officials.

And we do this because we -- that is, the Feds, the Department of Justice -- are the only ones with the investigative manpower and prosecutorial capacity and legal scope to handle the cases. White Collar Crime can't be effectively addressed by private suit or a local constabulary when it involves sophisticated conspiracies to defraud, or complicated money laundering schemes reaching across international boundaries, or environmental damage to a national coastline. Even in Texas -- as proud as you are of handling your own troubles -- it takes a federally backed Task Force to take on a Texas-size headache like the S & L Rip-Off.

Our responsibility to prosecute White-Collar Crime is especially awesome during a time when so many elsewhere -- in Russia, and Eastern Europe, and indeed, the world over -- are looking to the United States for institutional wisdom. How can we advise others how to move toward democracy and free-market capitalism if we do not make every effort ourselves to preserve

our institutions from lawless subornation? We must defend the world's most formidable exchange -- our free marketplace -- against any depredation by those who would subvert its integrity. And I emphasize again, that is why the work of the Dallas Task Force is vital -- to unmask and bring to account wrong-doers, who have tried to turn our Savings and Loan institutions into shell-game booths in a thieves' bazaar.

In sum, even globally, we are in this for all the right Jimmy-Stewart reasons. We believe in George Bailey's approach to the banking business. Even more, we believe in protecting the values of institutions like Bailey Building and Loan, protecting them from fraud and manipulation and looting -- that serial run of white-collar crimes -- because upon such values depends the integrity of the whole system. We are helping protect George Bailey's customers, his depositors, his mortgage-holders, so that they too can enjoy the full fruits of their labor, the honest increment of their savings, and the real prospect for a Wonderful Life.

You've been through rough times with these rogue S & L's during the decade of the 1980s. For this decade ahead -- the 1990s -- I can assure you they will be the focus of a renewed and aggressive federal law enforcement effort to preserve that Wonderful Life for all Americans.