



Department of Justice

STATEMENT OF

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BEFORE THE

**SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE**

FOR A HEARING EXAMINING

PHONE SCAMS AND THEIR EFFECTS ON SENIORS

PRESENTED

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Chairman Nelson, Ranking Member Collins, and members of the committee, thank you for the opportunity to discuss the Federal Bureau of Investigation's efforts to combat fraud against our nation's seniors. I am pleased to appear before the committee today to address this important issue.

At the beginning of 2011, the first of our nation's baby boomers reached the age of 65. Since then, thousands a day are also reaching that milestone. They have many reasons to celebrate. Senior citizens are most likely to have a "nest egg," to own their home, and to have excellent credit. Unfortunately, these are also many of the same qualities which make them so attractive to con artists.

As you may already be aware, the FBI participates in a number of working groups and task forces dedicated to combating significant frauds to include phone scams against our nation's citizens. From mortgage and health care fraud task forces to interagency groups such as the Elder Justice Interagency Working Group (EJWG), many of those resources are focused on preventing, detecting, and combating those frauds which harm senior citizens. Unfortunately, though, frauds are limited only to the imagination of those who commit such egregious crimes.

Reverse Mortgage Fraud Schemes

Unscrupulous loan officers, mortgage companies, investors, loan counselors, appraisers, builders, developers, and real estate agents are exploiting home equity conversion mortgages (HECMs) – also known as reverse mortgages – to defraud senior citizens. They recruit seniors through local churches, investment seminars, and television, radio, billboard, and mailer advertisements and commit fraud primarily through equity theft, foreclosure rescue, and investment schemes. HECM-related fraud is occurring in every region of the United States, and reverse mortgage schemes have the potential to increase substantially as demand for these products rises in demographically dense senior citizen jurisdictions.

Equity theft schemes are the most common method used by mortgage fraud perpetrators to exploit HECMs. Perpetrators – often with the aid of straw buyers – execute a scheme designed to withdraw false equity from properties. They typically identify foreclosed, distressed, or abandoned properties (or buyers) using information contained within county deed records. Perpetrators purchase the properties using straw buyers who commit occupancy fraud by

fraudulently stating they will be using the property as their primary residence. They then recruit seniors to “purchase” the properties from the straw buyers by transferring the property deeds to the seniors with no exchange of money. After the seniors have occupied the property for at least 60 days, the perpetrators arrange for the seniors to obtain HECMS, and – with the aid of a fraudulently inflated appraisal – encourage them to request lump sum disbursements of the equity. The perpetrators, often in collusion with the settlement attorney, abscond with all of the equity at closing.

Foreclosure rescue schemes are used by mortgage fraud perpetrators to attract senior citizens who are in jeopardy of losing their homes to foreclosure, with the promise that their reverse mortgage programs will prevent this from occurring. Senior citizens are enticed by originators, investment representatives, or financial relief consultants and are initially led to believe they are obtaining a reverse mortgage. They are subsequently informed that they do not qualify for the reverse mortgage program, but that they do qualify for another mortgage loan type that they offer. The perpetrators then locate an investor willing to act as a straw buyer, order fraudulent home repairs, complete an inflated appraisal, and obtain a forward mortgage subsequently transferring the property away from the seniors and pocketing the equity. The seniors are often notified by the investor/owner to either repurchase the home at a higher price or find alternative living arrangements.

Investment schemes are similar to equity theft schemes and are used by mortgage fraud perpetrators to steal the HECM loan proceeds under the guise of investing it in an annuity, real estate, or other investment product. The perpetrators of this scheme are often affiliated with the originator of the HECM loan and cross-sell the investment product to the victim.

For its part, the FBI continues to develop new ways to both detect and combat mortgage and other financial frauds, including collecting and analyzing data to spot emerging trends and patterns. We are working with our partners at all levels of law enforcement and within regulatory agencies. And we are using the full array of investigative techniques to find and stop criminals before the fact, rather than after the damage has been done.

Telemarketing/Internet Fraud

Internet and telephone fraud is defined as any illegal activity involving phone calls, websites, chat rooms, and/or e-mail. This fraud involves false communication or fraudulent representations to consumers. These crimes may include – but are certainly not limited to – advance-fee schemes, lottery scams, and identity theft. Unfortunately, the variety of schemes is limited only by the imagination of the con artists who offer them.

An advance-fee scheme occurs when the victim pays money to someone in anticipation of receiving something of greater value – such as a loan, contract, investment, or gift – and then

receives little or nothing in return. This type of scheme may involve the sale of products or services, the offering of investments, lottery winnings, “found money,” or many other “opportunities.” Clever con artists will offer to find financing arrangements for their clients who pay a “finder’s fee” in advance. They require their clients to sign contracts in which they agree to pay the fee when they are introduced to the financing source. Victims often learn that they are ineligible for financing only after they have paid the “finder” according to the contract. Such agreements may be legal unless it can be shown that the “finder” never had the intention or the ability to provide financing for the victims.

Letter fraud originating in Nigeria combines the threat of impersonation fraud with a variation of an advance-fee scheme in which correspondence from Nigeria offers the recipient the “opportunity” to share in a percentage of millions of dollars that the author – a self-proclaimed government official – is trying to transfer illegally out of Nigeria. The recipient is encouraged to send information to the author, such as a bank name and account numbers and/or other identifying information using a fax number or e-mail address provided. The scheme relies on convincing a willing victim, who has demonstrated a “propensity for larceny” by responding to the invitation, to send money to the author of the letter in Nigeria in several installments of increasing amounts for a variety of reasons.

Payment of taxes, bribes to government officials, and legal fees are often described in great detail with the promise that all expenses will be reimbursed as soon as the funds are spirited out of Nigeria. In actuality, the millions of dollars do not exist, and the victim eventually ends up with nothing but loss. Once the victim stops sending money, the perpetrators have been known to use the personal information and checks that they received to impersonate the victim, draining bank accounts and credit card balances. While such an invitation impresses most law-abiding citizens as a hoax, millions of dollars in losses are caused by these schemes annually. Some victims have been lured to Nigeria, where they have been imprisoned against their will along with losing large sums of money. The Nigerian government is not sympathetic to victims of these schemes, since the victim actually conspires to remove funds from Nigeria in a manner that is contrary to Nigerian law. The schemes themselves violate section 419 of the Nigerian criminal code, hence the label “419 fraud.”

The FBI continues to collaborate with our federal, state and local, law enforcement partners in Jamaican Lottery Scam investigations. The FBI also participates in DOJ’s International Organized Crime Intelligence and Operations Center (IOC-2). IOC-2 was established in May 2009 and serves to marshal the resources of multiple U.S. law enforcement agencies, as well as federal prosecutors, to collectively combat the threats posed by international criminal organizations to domestic safety and security.

Participants in the IOC-2 are the Department of Justice, the Federal Bureau of Investigation, the Drug Enforcement Administration, the Bureau of Alcohol, Tobacco, Firearms

and Explosives, the United States Secret Service, U.S. Immigration and Customs Enforcement Homeland Security Investigations, the Internal Revenue Service, the United States Postal Inspection Service, the Department of State Bureau of Diplomatic Security, and the Department of Labor Office of the Inspector General.

To combat the numerous fraudsters who would do our citizens harm, the Federal Bureau of Investigation and the National White Collar Crime Center (NW3C) established the Internet Crime Complaint Center (IC3).

The IC3's mission is to serve as a vehicle to receive, develop, and refer criminal complaints regarding the rapidly expanding arena of cyber crime. The IC3 gives the victims of cyber crime a convenient and easy-to-use reporting mechanism that alerts authorities of suspected criminal or civil violations. The IC3 accepts online Internet crime complaints from either the actual victim or from a third party to the complainant. For law enforcement and regulatory agencies at the federal, state, local, and international level, the IC3 provides a central referral mechanism for complaints involving Internet related crimes.. As Internet crime complaints are reported online, the IC3 electronically compiles the data. Trained analysts review and research each complaint, disseminating information to the appropriate federal, state, local, or international law enforcement or regulatory agencies for criminal, civil, or administrative action, as appropriate. Significant and supplemental to partnering with law enforcement and regulatory agencies, it will remain a priority objective of the IC3 to establish effective alliances with industry. Such alliances will enable the IC3 to leverage both intelligence and subject matter expert resources, pivotal in identifying and in crafting an aggressive, proactive approach to combating cyber crime.

Since its inception, the IC3 has received complaints crossing the spectrum of cyber crime matters, to include online fraud in its many forms, including intellectual property rights (IPR) matters, computer intrusions (hacking), economic espionage (theft of trade secrets), online extortion, international money laundering, identity theft, and a growing list of Internet-facilitated crimes. Since June 2000, it has become increasingly evident that, regardless of the label placed on a cyber crime matter, the potential for it to overlap with another referred matter is substantial.

Health Care Fraud

Fraud, waste, and abuse in our health care system is a problem that affects both public and private payers, draining critical resources from our health care system, and contributing to the rising cost of health care for all. Taxpayer dollars lost to fraud, waste, and abuse harm not just the federal government, but everyone, and, particularly some of our most vulnerable citizens.

The Obama Administration has made important strides in reducing fraud, waste, and abuse across the government. In fiscal year (FY) 2013, the government's health care fraud

prevention and enforcement efforts recovered \$4.3 billion in taxpayer dollars. This is the highest annual amount recovered from individuals and companies who attempted to defraud seniors and taxpayers or who sought payments to which they were not entitled.¹

The FBI is the primary agency for exposing and investigating health care fraud, with jurisdiction over both federal and private insurance programs. We use our analytic expertise to identify key trends and tap into our investigative partnerships with federal, state, and local agencies, as well as our relationships with national groups and associations, to uncover fraud. Our field offices also proactively target fraud through coordinated initiatives, task forces and strike teams, and undercover operations.

The FBI is also actively involved in the Healthcare Fraud Prevention Partnership. This voluntary, collaborative arrangement uniting public and private organizations is the next step in the Administration's efforts to combat health care fraud and safeguard health care dollars to better protect taxpayers and consumers.

This partnership is designed to share information and best practices in order to improve detection and prevent payment of fraudulent health care billings. Its goal is to reveal and halt scams that cut across a number of public and private payers. The partnership will enable those on the front lines of industry anti-fraud efforts to share their insights more easily with investigators, prosecutors, policymakers and other stakeholders. It will help law enforcement officials to more effectively identify and prevent suspicious activities and use the full range of tools and authorities provided by the Affordable Care Act and other essential statutes to combat and prosecute illegal actions.

We are also active participants in the Administration's Health Care Fraud Prevention and Enforcement Action Team (HEAT). HEAT was established in 2009 as a new effort with increased tools and resources, and a sustained focus by senior level leadership to enhance collaboration between the Departments of Health and Human Services (HHS) and Justice (DOJ). With the creation of the new HEAT effort, DOJ and HHS pledged a cabinet-level commitment to prevent and prosecute health care fraud. One of the missions of HEAT is to build upon existing partnerships between DOJ and HHS, such as the Medicare Fraud Strike Force Teams, to reduce fraud and recover taxpayer dollars.

The first Medicare Fraud Strike Force was launched in March 2007 as part of the South Florida Initiative. For the period of May 7, 2007, through September 30, 2013, Medicare Fraud Strike Force prosecutors filed more than 788 cases charging more than 1,727 defendants who collectively billed the Medicare program more than \$5.5 billion; 1,137 defendants pleaded guilty

and 148 others were convicted in jury trials; and 1087 defendants were sentenced to imprisonment for an average term of approximately 47 months.¹

Senior citizen involvement is a key component of all of the Medicare anti-fraud efforts. Alert and vigilant beneficiaries, family members, and caregivers are some of our most valuable partners in stopping fraudulent activity. We encourage Medicare beneficiaries to review their Medicare billing statements and other medical reports in order to spot unusual or questionable charges. If a Medicare beneficiary suspects fraud, they should call 1-800-Medicare to report it.

In anticipation of potential fraud schemes associated with the October 2013 implementation of the Affordable Care Act (ACA) Health Care exchanges, the FBI was an active participant in the DOJ lead information sharing and coordination effort involving HHS, FTC, and federal, state and local agencies from around the country. As with the launch of any new government program, there are those that seek to take advantage of consumers. Potential fraud was anticipated to include advance fee schemes, identity theft, fraudulent insurance plans, deceptive web sites, and other schemes. Due to the numerous agencies involved and the need to effectively share intelligence, the FTC Consumer Sentinel database was selected to maintain complaint information. Regularly scheduled meetings were also utilized to share information and schemes and concerns. The successful joint effort ensured the early dissemination of techniques to investigate and prevent suspect activity.

By working together to stop fraud, like we are doing in the successful strike force model, we can ensure that we are safeguarding taxpayer dollars and keeping our nation's health care system strong for those who need it, both now and in the future.

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In conclusion, as you have heard, fraud targeting our senior citizens exists in many forms, is creative in its approach, and can often leave our most vulnerable citizens with little to no savings to enjoy a time in life they've earned. The FBI, in partnership with our federal, state, and local partners is committed to identifying this threat where it exists and taking aggressive action in response.

Chairman Nelson and Ranking Member Collins, I would like to thank you again for this opportunity to discuss the FBI's efforts to combat fraud against our nation's senior citizens. I am now happy to answer any questions that you may have.

¹ *FY 2013 Health Care Fraud and Abuse Control Act (HCFAC) report.*