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FBI to Focus On Area Mortgage Loan Fraud

Agency to Host Investigators, Law Enforcement Officials

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Thursday, December 6, 2007; D01

The [FBI](#) today will launch a mortgage fraud task force in its Washington field office, joining a widening net of state and local investigators digging into the market crisis.

Investigators are seeking to uncover evidence of overvalued home appraisals, shoddy lending practices and alleged irregularities in the packaging and sale of groups of loans that were marketed to ordinary investors, state investment funds and big [Wall Street](#) banks.

Today the FBI will host the top federal prosecutors in the District and [Northern Virginia](#) as well as investigators from the [Department of Housing and Urban Development](#), the [Internal Revenue Service](#) and the [Small Business Administration](#). Law enforcement officials from [Loudoun](#), [Fairfax](#) and [Prince William counties](#) also will attend to devise strategies for attacking the issue across the region, an FBI official said.

FBI officials have opened 1,210 mortgage-related probes this year, said Sharon E. Ormsby, a section chief in the financial crimes section at the agency's headquarters. Ormsby called the figure "an exponential increase" that reflects a rise in suspicious loans reported by financial institutions.

Activity by federal and state investigators can carry profound consequences for the companies involved. After New York Attorney General Andrew M. Cuomo issued subpoenas to [Fannie Mae](#) and [Freddie Mac](#) last month, the stock prices of both mortgage finance companies dropped, even though they were not clear targets of his probe of overvalued house appraisals.

Cuomo instead wanted the companies to employ an auditor to review loans connected to [Washington Mutual](#), the nation's biggest savings and loan, which Cuomo accused of pressuring appraisers to boost their judgments about house values. The bank has denied the allegations but said it would cooperate with investigators. Cuomo last summer sent a batch of subpoenas to at least half a dozen investment banks, including [Merrill Lynch](#) and [Deutsche Bank](#).

Those subpoenas, reported by the [Wall Street Journal](#), seek information on how billions

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of dollars in complex securities backed by mortgages were packaged and sold to yield-hungry investors all over the world, according to people familiar with the matter. These securities are at the heart of the credit crisis that has been roiling financial markets since summer. Spokesmen at the banks declined to comment or did not return calls.

Attorneys general in [Ohio](#) and [California](#), among other states, are investigating whether credit-rating agencies minimized the risks of mortgage debt because of alleged conflicts of interest in the way raters are paid. They have also expressed interest in losses at mortgage finance firms, including [New Century Financial](#) and [Countrywide Financial](#).

Investigating wrongdoing in the real estate market "is at the very top of my priority list," said Ohio Attorney General Marc Dann. He said he was moving beyond small-time fraud schemes to investigate lenders, credit raters and others who may have looked the other way rather than acknowledging problem loans.

The state probes piggyback on new authority by the [Securities and Exchange Commission](#), which recently gained more oversight of rating agencies. The SEC has opened more than two-dozen investigations across the subprime lending horizon, according to an agency spokesman. On the list: whether large banks knowingly concealed real estate losses from investors, whether mortgage company executives engaged in insider trading and whether risks stemming from the loans were adequately disclosed.

Whether heightened government scrutiny following billions of dollars in investor losses will result in a spate of criminal and civil cases remains unclear at this early stage. People involved in the probes say the critical question is whether companies or individuals knowingly violated the law in a desire to make money or avoid losing it as the housing and mortgage markets soured. Without questionable e-mails, it could be difficult for investigators to make a case that higher-level bankers, lenders and others knew about the troubled investments, former prosecutors said.

The cases so far generally involve a substantial paper trail. This week the U.S. Attorney in [Manhattan](#) announced criminal conspiracy indictments against half a dozen people for duping homeowners with financial troubles into turning over their houses in a bid to save them from foreclosure. Instead, the defendants refinanced the properties and took millions of dollars in loan proceeds for themselves, prosecutors said.

In another case, Jerold Levert, a [Cleveland](#) accountant, was sentenced to 10 years in prison for mail fraud as part of a wide-ranging scheme in which he manufactured documents to help customers get mortgage loans they otherwise would not have qualified for. According to a confidential price list obtained by the U.S. Postal Inspection Service, which helped break the case, Levert charged \$200 for bank statements, \$150 for tax returns and \$25 for a pay stub.

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