



AUDIT OF THE DEPARTMENT OF JUSTICE'S EFFORTS TO ADDRESS MORTGAGE FRAUD

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EXECUTIVE SUMMARY

The Department of Justice (DOJ) and its components, particularly the FBI, United States Attorneys' Offices (USAO), Criminal Division, and Civil Division, along with the DOJ-led interagency Financial Fraud Enforcement Task Force (FFETF), play an important role in combating mortgage fraud through civil litigation and criminal investigation and prosecution. The objective of this audit was to assess DOJ's approach and enforcement efforts in addressing mortgage fraud generally between fiscal years (FY) 2009 and 2011.

DOJ and its components have repeatedly stated publicly that mortgage fraud is a high priority and during this audit we found some examples of DOJ-led efforts that supported those claims. Two such examples are the Criminal Division's leadership of its mortgage fraud working group and the FBI and USAOs' participation on more than 90 local task forces and working groups. However, we also determined during this audit that DOJ did not uniformly ensure that mortgage fraud was prioritized at a level commensurate with its public statements. For example, the Federal Bureau of Investigation (FBI) Criminal Investigative Division ranked mortgage fraud as the lowest ranked criminal threat in its lowest crime category.¹ Additionally, we found mortgage fraud to be a low priority, or not listed as a priority, for the FBI Field Offices we visited, including Baltimore, Los Angeles, Miami, and New York. We also found that while the FBI received \$196 million in appropriated funding to investigate mortgage fraud activities from fiscal years 2009 through 2011, in FY 2011 the number of FBI agents investigating mortgage fraud as well as the number of pending investigations decreased.

We also attempted to review the scope of DOJ's prosecutorial efforts to address mortgage fraud by reviewing case data. However, we found that the Executive Office for United States Attorneys' (EOUSA) case management system did not allow for a complete or reliable assessment of DOJ's mortgage fraud efforts because many Assistant United States Attorneys (AUSA) informed us about underreporting and misclassification of mortgage fraud cases. They further explained that mortgage fraud cases are often coupled with other criminal activities and that, when initiating a case file, an AUSA may fail to include the mortgage fraud code if it is not the leading charge in a case. In addition, EOUSA is unable to track the complexity of criminal cases or whether the individual defendants prosecuted were high level officials. Capturing such information would allow DOJ to better understand its overall effort and to better evaluate its performance in targeting high-profile offenders.

¹ According to FBI Criminal Investigative Division officials, certain complex financial crimes are not assigned a priority ranking. For example, the FBI informed us that crimes such as bankruptcy fraud, credit card fraud, mass marketing fraud, insurance fraud, money laundering, and other mail and wire fraud crimes were not ranked at all.

In addition to criminal prosecutions, DOJ's fight against mortgage fraud also exists in its civil enforcement efforts. For example, in July 2011, Project High Default Lender was initiated by the U.S. Department of Housing and Urban Development, Office of the Inspector General (HUD-OIG) in conjunction with the Civil Division. The HUD-OIG provided 84 USAOs with lender default data for potential civil investigations and approximately 40 civil investigations were opened as a result of this effort. However, EOUSA was unable to provide any data related to DOJ's civil enforcement efforts because the EOUSA case management system is unable to specifically identify civil mortgage fraud cases. We believe that DOJ should capture such data in order to better understand its overall effort to combat mortgage fraud and to provide a complete and accurate picture of the DOJ civil enforcement effort to ensure that initiatives like Project High Default Lender are properly accounted for.

The Department's inability to accurately collect data about its mortgage fraud efforts was starkly demonstrated when we sought to review the Distressed Homeowner Initiative. On October 9, 2012, the FFETF held a press conference to publicize the results of the initiative.² During this press conference, the Attorney General announced that the initiative resulted in 530 criminal defendants being charged, including 172 executives, in 285 criminal indictments or informations filed in federal courts throughout the United States during the previous 12 months. The Attorney General also announced that 110 federal civil cases were filed against over 150 defendants for losses totaling at least \$37 million, and involving more than 15,000 victims. According to statements made at the press conference, these cases involved more than 73,000 homeowner victims and total losses estimated at more than \$1 billion.

Shortly after this press conference, we requested documentation that supported the statistics presented. In November 2012, in response to our request, DOJ officials informed us that shortly after the press conference concluded they became concerned with the accuracy of the statistics. Based on a review of the case list that was the basis for the figures, the then-Executive Director of the FFETF told us that numerous significant errors and inaccuracies existed with the information. For example, multiple cases were included in the reported statistics that were not distressed homeowner-related fraud. Also, a significant number of the included cases were brought prior to the FY 2012 timeframe.

Over the following months, we repeatedly asked the Department about its efforts to correct the statistics. We learned that, on August 9, 2013, the FBI provided a memorandum to the FFETF concluding that several of the statistics announced during the October 2012 press conference were substantially overstated. Specifically, the number of criminal defendants charged as part of the initiative was 107, not 530 as originally reported; and the total estimated losses associated with true Distressed Homeowners cases were \$95 million, 91 percent

² According to the Distressed Homeowner Initiative press release issued on October 9, 2012, the initiative was "the first ever nationwide effort to target fraud schemes that prey upon suffering homeowners."

less than the \$1 billion reported at the October 2012 press conference. The Department's October 9, 2012, press release and the press conference transcript of the Attorney General's remarks, both available on the Department's website, now include disclosures citing the inaccuracy of the originally reported statistics, and the language in each has revised wording and statistics based on the FBI's August 2013 memorandum.

Despite being aware of the serious flaws in these statistics since at least November 2012, we found that the Department continued to cite them in mortgage fraud press releases that it issued in the ensuing 10 months. We believe the Department should not have continued to issue press releases with these statistics once it became aware of the serious flaws.

We also found that neither DOJ nor the FFETF had an established methodology for obtaining and verifying the criminal mortgage fraud statistics announced during the press conference on October 9, 2012. We found this process to be disturbing, and it led the Department to report inaccurate information to the public.

According to DOJ officials, the data collected and publicly announced for an earlier FFETF mortgage fraud initiative – Operation Stolen Dreams – also may have contained similar errors.³ According to these officials, a similar collection methodology was employed for the statistics publicly reported by the Department for this initiative.

This audit report makes 7 recommendations to help DOJ improve its understanding, coordination, and reporting of its efforts to address mortgage fraud.

³ Operation Stolen Dreams started on March 1, 2010, and was announced as "the largest collective enforcement effort ever brought to bear in confronting mortgage fraud."

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AUDIT OF THE DEPARTMENT OF JUSTICE'S EFFORTS TO ADDRESS MORTGAGE FRAUD

The Department of Justice (DOJ) and its components, particularly the Federal Bureau of Investigation (FBI), United States Attorneys' Offices (USAO), Criminal Division, and Civil Division, along with many other federal, state, and local law enforcement agencies, play a lead role in combating mortgage fraud by using criminal and civil enforcement tools against individuals and entities that commit mortgage fraud.⁴

According to the co-chair of the Financial Fraud Enforcement Task Force (FFETF) Mortgage Fraud Working Group (MFWG), in the early 2000s, a booming real estate market, combined with a relaxation of underwriting standards and practices, created an environment for mortgage fraud to flourish. During this time, according to the co-chair of the MFWG, a host of corrupt borrowers and industry insiders including – real estate agents, property appraisers, attorneys, title insurance agents, and mortgage brokers – capitalized on opportunities to victimize financial institutions.

An article written by the co-chair of the MFWG stated that when the housing market began to decline in 2007, real estate values began to fall and mortgage lenders began experiencing large losses due to fraud, reducing their ability to fund new mortgage loans. Foreclosures left houses empty and ill-kept, while their artificially inflated prices kept new buyers from buying them. Neighborhoods, which had seen their real estate tax bills increase steeply due to the inflated sales prices of the fraudulently mortgaged homes, found themselves surrounded by abandoned, decaying houses that invited crime.

The nature and seriousness of mortgage fraud varies from state to state and city to city, with some areas affected more significantly than others. According to the FBI, the overall levels of mortgage fraud activity corresponds closely with mortgage loan originations, unemployment, mortgage loan delinquencies, loan defaults, foreclosures, negative home equity values, loan modifications, housing prices and inventory, real estate sales, housing construction, and bank failures.

According to the FFETF, common mortgage fraud schemes typically involve a borrower or industry insider who misstates, misrepresents, or omits information on a mortgage application that causes a lender to fund, purchase, or insure a mortgage loan it otherwise would not have had it possessed the correct information. This type of fraud is known as loan origination fraud and is considered by the FBI to be the most common type of mortgage fraud scheme.

Loan origination fraud is divided into two categories: fraud for housing and fraud for profit. Fraud for housing entails misrepresentations by the applicant for

⁴ See Appendix III for the complete list of DOJ components that have a role in addressing mortgage fraud.

the purpose of purchasing a property for a primary residence. This scheme usually involves a single loan. Although applicants may embellish income and conceal debt, the intent of the borrower usually is to repay the loan. Conversely, fraud for profit often involves multiple loans and elaborate schemes perpetrated to gain illicit proceeds from property sales. Intentional misrepresentations concerning appraisals and loan documents are common in fraud for profit schemes, and participants are frequently paid for their participation.

According to the FBI, loan origination fraud was the most prevalent type of scheme due to the ease in obtaining a loan. However, tightened lending practices that followed the collapse of the housing market led mortgage fraud crime to evolve away from loan origination fraud in many areas of the country. Now, we were told by the FBI, there are many different schemes that victimize consumers, such as foreclosure rescue scams, loan modification schemes, and short-sale frauds. The FBI reported that for the first time in many years, distressed homeowner frauds have displaced loan origination fraud as the number one mortgage fraud threat in many areas of the country.

Distressed homeowner scams target vulnerable homeowners and include schemes such as foreclosure rescue and loan modification. In a foreclosure rescue scheme, perpetrators convince homeowners that they can save their homes from foreclosure through deed transfers and the payment of up-front fees. Loan modification schemes are a type of foreclosure rescue scheme in which advanced fees are paid by homeowners. Perpetrators solicit homeowners offering to help them stop the foreclosure process on their homes. Perpetrators require an up-front fee from homeowners to participate in the loan modification program. Often, after collecting these fees, these companies do little or nothing to help the homeowners. Foreclosure schemes are often used in combination with other fraudulent schemes, such as those involving short sales and property flipping.

Some observers use the term "mortgage fraud" to include mortgage-backed securities fraud, which involves wrongdoing related to the packaging, selling, and valuing of residential and commercial mortgage-backed securities. However, the FBI considers this type of misconduct to be a form of securities fraud and not mortgage fraud; therefore, we did not include as part of the scope of this audit.

OIG Audit Approach

The objective of this audit was to assess DOJ's approach and enforcement efforts in addressing mortgage fraud. To accomplish our objective we interviewed officials from several DOJ components responsible for addressing mortgage fraud, including the Criminal Division, Civil Division, Executive Office for United States Attorneys (EOUSA), five USAOs, and officials at FBI headquarters and four FBI field offices. To gain a broader perspective on mortgage fraud issues and DOJ's efforts to combat mortgage fraud, we also interviewed representatives from non-DOJ agencies with responsibilities for addressing mortgage fraud. These non-DOJ agencies included officials from the Department of Housing and Urban Development Office of the Inspector General, the Federal Housing and Finance Agency Office of

the Inspector General, and the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). In addition, we reviewed statistics provided by the FBI and EOUSA related to mortgage fraud investigations and prosecutions as well as manpower resources dedicated to mortgage fraud.

In addressing our audit objective, this report provides an overview of the federal government's recent response to mortgage fraud. Following that, we assess DOJ's role and overall approach to mortgage fraud and offer recommendations for improving reporting of its efforts to combat this crime. We also provide analyses of the investigative, prosecutorial, and civil enforcement efforts of the various DOJ components involved in addressing mortgage fraud and make recommendations to strengthen those mortgage fraud efforts.

Enactment of the Fraud Enforcement and Recovery Act

On May 20, 2009, the President signed the Fraud Enforcement and Recovery Act of 2009 (FERA).⁵ FERA was intended to enhance criminal and civil enforcement of federal fraud laws, especially mortgage fraud, and provide agents and prosecutors with the necessary resources to address these crimes. Two provisions of FERA involving mortgage fraud enforcement included amendments and revisions to criminal and civil fraud statutes. First, FERA expanded the definition of a financial institution to include mortgage lending businesses not directly regulated or insured by the federal government. This change enlarged the scope of federal prosecutions in the area of mortgage fraud by making it a federal crime to defraud these types of institutions. Second, FERA revised part of the False Claims Act, which is one of the government's civil tools for redressing fraud against American taxpayers. The amendment expands liability under the False Claims Act by more broadly defining "a false record or statement material to a false or fraudulent claim" to include "any request or demand" related to a government program and which will be paid from funds supplied by the government.

FERA also authorized DOJ to receive an additional \$165 million for fiscal years 2010 and 2011 in order to pursue criminal, civil, and administrative investigations and prosecutions of financial frauds, including mortgage fraud. However, outside of the FBI, FERA did not specifically require that a portion of these funds be used for mortgage fraud. Additionally, the actual amount of funds appropriated by Congress to the DOJ following the adoption of FERA were significantly less than the amounts authorized by FERA, as shown below.

⁵ Pub.L. 111-21, S. 386, 123 Stat. 1617 (2009).

Fraud Enforcement and Recovery Act Funds Authorized and Appropriated (in millions)				
Component	Authorized FY 2010	Appropriated FY 2010	Authorized FY 2011	Appropriated FY 2011
FBI	\$75M	\$25.5M	\$65M	\$20.2M
USAOs	\$50M	\$7.5M	\$50M	\$0
Criminal Division	\$20M	\$1.8M	\$20M	\$0
Civil Division	\$15M	\$0	\$15M	\$0

Source: DOJ

The Financial Fraud Enforcement Task Force

On November 17, 2009, the President issued an Executive Order creating the Financial Fraud Enforcement Task Force (FFETF). The FFETF is an interagency task force led by DOJ and chaired by the Attorney General. The membership of the FFETF consists of more than 25 federal agencies, regulators, and inspectors general, as well as state and local partners.⁶ An Executive Director of the FFETF was assigned from DOJ.

According to the Executive Order, the President created the FFETF to strengthen the efforts of the DOJ to investigate and prosecute significant financial crimes, recover the proceeds of those crimes, and ensure just and effective punishment. One of the missions of the FFETF is to enhance cooperation between federal, state, local, tribal, and territorial authorities responsible for the investigation and prosecution of significant financial crimes. According to its First Year Annual Report, the FFETF also was charged with promoting training, data collection, and information sharing. In support of this mission, the FFETF established three committees that address enforcement efforts, training and information sharing, and victims' rights. The Enforcement Committee created five working groups to focus on certain priority areas, bringing together subject matter experts from agencies at an operational level to work together to make a significant, coordinated, and focused push of enforcement in these areas.⁷

⁶ See Appendix II for Executive Order 13519 on the Financial Fraud Enforcement Task Force (E.O. 13519) which includes Task Force membership.

⁷ The five original working groups of the FFETF were: (1) the Mortgage Fraud Working Group, (2) the Recovery Act, Procurement, and Grant Fraud Working Group, (3) the Rescue Fraud Working Group, (4) the Securities and Commodities Fraud Working Group, and (5) the Non-Discrimination Working Group. The number of working groups was increased to eight in January 2012. The following working groups were added to the FFETF at that time: (6) the Oil and Gas Price Working Group, (7) the Consumer Protection Working Group, and (8) the Residential Mortgage-Backed Securities Working Group.

The FFETF's Mortgage Fraud Working Group (MFWG) was created as one of the five working groups because mortgage fraud was considered a priority area for the President and the Department. The MFWG is comprised of high-level federal and state executives and is co-chaired by the Assistant Attorney General of DOJ's Civil Division; a U.S. Attorney from the Attorney General's Advisory Committee; the Chief of the FBI's Financial Crimes Section; the Inspector General of the Department of Housing and Urban Development; and a representative from the National Association of Attorneys General. According to its action plan, the primary purpose of the MFWG is to increase enforcement in the area of mortgage fraud, and to do so through greater coordination among law enforcement agencies, the development and sharing of enforcement strategies, and training. The action plan states that the MFWG has worked to expand and invigorate the 90 existing local multi-agency mortgage fraud task forces and working groups located in USAOs around the country, to increase both criminal and civil enforcement actions by federal agencies in the near term, and to increase training and other resources available to federal, state and local enforcement agencies. In 2012, the FFETF established a mortgage fraud scorecard to track the Department's mortgage fraud efforts, including: the number of law enforcement training events conducted; outreach to professional organizations; community outreach; and victim assistance.

DOJ Approach to Mortgage Fraud

Beyond its leadership of the FFETF and the MFWG, the DOJ plays an important role in combating mortgage fraud through criminal investigations and prosecutions of individuals and entities that commit this type of fraud. DOJ also has significant civil enforcement tools at its disposal that can help deter such fraudulent activity.

The DOJ Criminal Division's Fraud Section, along with the USAOs, investigates and prosecutes federal fraud offenses, including mortgage fraud. In addition to its litigation responsibilities, the Criminal Division's Fraud Section helps implement criminal enforcement policy and provides advice, assistance, and manpower to the USAOs. In FY 2010, the Criminal Division's Fraud Section received funding to fight financial institutional fraud, which includes mortgage fraud. As shown in the following chart, it did not receive any additional funding or support for financial institutional fraud activities in FYs 2009 or 2011.

Criminal Division Financial Fraud Funding & Resources by Fiscal Year				
FY	2009	2010	2011	Total
Funding Received (in millions)	\$0	\$1.8	\$0	\$1.8
New Attorney Positions	0	3	0	3
New Non-Attorney Positions	0	2	0	2

Source: DOJ Criminal Division

In 2007, prior to the creation of the FFETF and the MFWG, the Criminal Division created and the Fraud Section chaired a mortgage fraud working group as a derivative of their Interagency Bank Fraud Enforcement Working Group. The Criminal Division mortgage fraud working group continued in existence after the creation of the FFETF's MFWG.

The Criminal Division working group meetings are regularly attended by representatives from several DOJ components, including the Civil Division, EOUSA, select USAOs, and the FBI. We were told that representatives from other federal agencies and state bank regulators also attend the group's meetings. According to the Chair of the Criminal Division mortgage fraud working group, the working group explores mortgage fraud issues, considers trends, and enables members to network. The Criminal Division's Mortgage Fraud Working Group similarly does not have any performance metrics to measure its successes or progress towards meeting its stated goals and objectives.

Because of the apparent similarities between the MFWG and the Criminal Division's mortgage fraud working group, we asked about a possible duplication of mortgage fraud efforts. According to the Chair of Criminal Division mortgage fraud working group, the Criminal Division working group is attended mainly by mid-level DOJ component managers while the MFWG is attended primarily by senior and executive level management. The FFETF Executive Director concurred with this assessment and explained that the FFETF MFWG has the ability to affect change at a national level and is in a better position to do outreach, provide training efforts, and conduct national summits. The Criminal Division working group is mainly used to discuss trends and the status of cases, and to network at the operational level. According to the Chair of the Criminal Division mortgage fraud working group, the Criminal Division working group and the MFWG are complementary, although at times there are parallels in their respective efforts to address mortgage fraud.

DOJ Criminal Enforcement Effort

The FBI is the principal investigative arm of DOJ and has the authority and responsibility to investigate mortgage fraud and refer such investigations to the

USAOs for prosecution. Outside of the FBI, federal agencies such as the Department of Housing and Urban Development Office of the Inspector General, U.S. Postal Inspection Service, U.S. Secret Service, and the Federal Housing and Finance Agency Office of the Inspector General also investigate mortgage fraud and refer cases to the USAOs.

FBI Investigative Effort

Primary responsibility for the FBI's mortgage fraud program resides in the Financial Institution Fraud Unit within the Financial Crimes Section of the Criminal Investigative Division. The mission of the Financial Institution Fraud Unit is to oversee the investigation of financial industry fraud schemes perpetrated by individuals and criminal organizations that target financial institutions. As part of its responsibilities, the Financial Institution Fraud Unit is designed to coordinate efforts between FBI headquarters and its field offices.

From fiscal years 2009 to 2011, Congress appropriated significant additional funding to the FBI for the investigation of mortgage fraud cases and white collar crime. This funding was intended to increase the number of agents dedicated to mortgage fraud and white collar crime investigations and add to the existing mortgage fraud task forces. According to an FBI budget official, the additional funding listed in the following table was used exclusively to support mortgage fraud investigations; however, the new agent positions may or may not have been used exclusively to support mortgage fraud. The FBI official further told us that these new agents were allocated to FBI field offices based on the level of mortgage fraud activity occurring in each field office's area of responsibility. The FBI official also stated, however, that assignment of FBI casework in the field is driven by threat level and therefore FBI agents in the field are typically assigned to work in a program area (such as white collar crime) and generally are not directly assigned to work specific types of cases; thus, over time, agents' program area and case types may shift as a threat changes. The FBI budget official added that historically, when the FBI is appropriated funding for new special agent positions for the field, a ratio of support positions (Clerical, Investigative, and Information Technology support) are typically funded as well. These ratio support positions, although received through a specific enhancement, do not necessarily work solely on certain types of cases. Rather, their time may be spent supporting a myriad of FBI programs in the field office to which they are assigned.

FBI Mortgage Fraud and White Collar Crime Funding & Resources by Fiscal Year⁸				
FY	2009	2010	2011	Total
Funding Received (in millions)	\$36.6	\$79.7	\$79.7	\$196.0
New Agents	25	50	81	156
New Non-Agent Positions	33	93	130	256

Source: FBI

We found that, despite public statements by the FFETF and the Department about the importance of pursuing financial frauds cases, including mortgage fraud, the FBI Criminal Investigative Division ranked Complex Financial Crimes as the lowest of the six ranked criminal threats within its area of responsibility, and ranked mortgage fraud as the lowest subcategory threat within the Complex Financial Crimes category.⁹ Additionally, we found mortgage fraud to be a low priority, or not listed as a priority, for FBI Field Offices in the locations we visited, including Baltimore, Los Angeles, Miami, and New York.

Statistical Data

FBI records show that the number of mortgage fraud cases opened from 2009 through 2011 declined in each subsequent year. FBI officials we spoke with attributed this decline in part to enhanced underwriting standards among lenders that resulted in a reduction in mortgage fraud associated with loan originations. We found that FBI data also reflected decreases in FY 2011 for the number of FBI special agents dedicated to mortgage fraud and the number of pending FBI investigations. However, the statistics we received from the FBI show an increase each year in the number of convictions, with figures nearly doubling from 2009 to 2010, and rising again slightly in FY 2011.

⁸ According to the FBI, these amounts reflect a combination of existing funding as well as funds that were appropriated specifically to combat mortgage fraud.

⁹ The FBI Criminal Investigative Division prioritizes crime threats that are in its area of responsibility. In 2011, there were six crime threat categories ranked in the following order: Public Corruption, Southwest Border, Civil Rights, Violent Crime, Organized Crime, and Complex Financial Crime. Under each category there are several subcategory program areas that were also prioritized. Under Complex Financial Crime, which is ranked last, the subcategories are prioritized in the following order: Corporate and Securities/Commodities Fraud, Health Care Fraud, and Mortgage Fraud. According to the FBI, complex financial crimes such as bankruptcy fraud, credit card fraud, mass marketing fraud, insurance fraud, money laundering, and other mail and wire fraud crimes are not assigned a priority ranking.

FBI Mortgage Fraud Statistics by Fiscal Year					
FY	Agents	Cases Opened	Pending Investigations	Information/ Indictments	Convictions¹⁰
2009	300	1,771	2,794	873	555
2010	356	1,174	3,129	1,565	1,087
2011	325	599	2,691	1,230	1,118

Source: FBI

According to various FBI officials, the mortgage fraud problem has evolved and is waning. These officials believe that the number of investigations and prosecutions will continue to decline in the current and subsequent fiscal years. As mentioned earlier, in the early to mid-2000s, loan origination fraud was the most common type of mortgage fraud scheme. However, following the decline of the housing market tightened lending regulations led to a decrease in loan originations and this caused the incidence of loan origination fraud to decline. According to the former Deputy Director of the FBI, as lending standards tightened and foreclosures rose, criminals began to focus their schemes on vulnerable homeowners facing foreclosure.

The information we obtained during our interviews with field level FBI Special Agents was consistent with the data shown above. Although each of the FBI field offices we visited had at least one squad, and in most cases multiple squads that were tasked with investigating mortgage fraud, several Special Agents assigned to these squads stated that mortgage fraud began to evolve as a threat in 2011 and has generally diminished as a priority in their offices. According to some Special Agents, the emerging foreclosure rescue schemes do not typically have high dollar loss amounts like the loan origination scams of previous years, and such cases may not meet certain USAO prosecutorial thresholds. We were told that these cases are sometimes put into an unaddressed work file by the FBI in order to accumulate sufficient fraudulent activity and dollar losses before presenting them to the USAO for prosecution.¹¹ The Special Agents we spoke with said that accumulating

¹⁰ In the chart on page 17, we present EOUSA data that shows that EOUSA reported a smaller number of mortgage fraud cases with a guilty disposition in each FY for the same time period. We did not compare each case counted as a conviction by the FBI with the cases reported by EOUSA as having a guilty disposition because each component classifies mortgage fraud cases differently in their case management systems. However, we believe the discrepancies in the reporting between these Department agencies is evidence that the Department currently does not have an accurate understanding of its overall mortgage fraud effort, as we discuss in greater detail later in this report.

¹¹ The unaddressed work files are a repository for significant mortgage fraud cases that would be addressed but for the lack of adequate investigative resources or cases that require additional information to open a full investigation. Field office personnel are reminded to conduct reviews of unaddressed work files every 90 days to determine if these matters can be addressed as preliminary or full investigations utilizing existing resources.

sufficient fraudulent activity and dollar losses can be a cumbersome and time consuming process.

In FY 2011, the FBI's Financial Institution Fraud Unit conducted an analysis of trends throughout the FBI field offices specific to the opening and closing of mortgage fraud cases. The Financial Institution Fraud Unit analysis identified two areas of concern: (1) significant mortgage fraud cases were not being opened because of a lack of adequate resources to open them, and (2) significant mortgage fraud cases were being closed due to the diversion of the resources which had been assigned to address these cases to higher priority matters.¹²

According to the Financial Institution Fraud Unit analysis, from FY 2009 through FY 2011, FBI field offices opened over 3,000 new mortgage fraud cases. During this same time frame, the total number of mortgage fraud Suspicious Activity Reports (SARs) generated by federally insured financial institutions exceeded 231,000.¹³ We were told that SARs can provide the FBI with tips and leads regarding mortgage fraud, but does not necessarily provide sufficient information to initiate an investigation. As seen in the following table, per the FBI, the number of mortgage fraud SARs increased from 67,190 in FY 2009 to 93,508 in FY 2011.¹⁴

Mortgage Fraud Suspicious Activity Reports (SARs) Filed by Fiscal Year	
FY	SARs Filed
2009	67,190
2010	70,533
2011	93,508

Source: FBI

According to the FBI, the Financial Institution Fraud Unit does not equate each SAR filing as predication to initiate an investigation. When multiple SARs have associations to the same fraud group, they would be combined into one

¹² Under 1 Funded Staff Level (FSL), FBI field offices were asked to reprioritize many of their investigations based on current and emerging threats in their area of responsibility. This will necessarily result in a reduction of resources being allocated to what are considered lower priority threats. As a result, in some instances resources previously devoted to mortgage fraud may be re-directed to higher priority investigations.

¹³ The purpose of the Suspicious Activity Report (SAR) is to report known or suspected violations of law or suspicious activity observed by financial institutions subject to the regulations of the Bank Secrecy Act. A SAR is considered a mortgage fraud-related when the financial institution filling out the form indicates "mortgage loan fraud" as a characterization of the type of suspicious activity. As of April 2013, the electronic version of the SAR includes a section on mortgage fraud.

¹⁴ According to officials at FinCEN, the increase in the number of mortgage fraud SARs does not necessarily correlate to an increase in the level of mortgage fraud activity. The FinCEN officials said that the increase in mortgage fraud SARs simply could reflect an improvement in the ability of financial institutions to identify potential issues related to mortgage fraud that previously existed.

investigation. FBI officials stated that the FBI is unable to address every potential allegation of mortgage fraud but attempts to work higher level cases which involve multiple victims, higher dollar losses or fraud activity, and organized groups involved in fraud. Additionally, some SARs may not provide sufficient information to open an investigation, or they may relate to an individual home mortgage which the FBI would not address. However, the sheer volume of mortgage fraud SARs as compared to actual case initiations during this time frame may indicate significant mortgage fraud cases were going unaddressed, according to the Financial Institution Fraud Unit.

The Financial Institution Fraud Unit also determined that in FY 2011 a total of 747 mortgage fraud cases were closed by FBI field offices without prosecution. The Financial Institution Fraud Unit conducted a detailed analysis of cases closed during this time frame and concluded that the majority of cases closed by the FBI in FY 2011 were closed with minimal or no investigation conducted.

We concluded, based on the statistics provided by the FBI along with the relatively low ranking that mortgage fraud received on various FBI priority lists that mortgage fraud did not receive a priority ranking commensurate with DOJ's statements related to mortgage fraud during the period of our review. We further found, based on our discussions with FBI officials that the priority level for mortgage fraud investigations within the FBI will likely diminish in the coming years.

FBI Undercover Operations

Mortgage fraud has traditionally been investigated by the FBI reactively, that is after the crime has already been committed. We were told these reactive investigations are labor intensive and may involve voluminous document reviews and numerous witness interviews. However, reactive investigations are not the only tool available to the FBI to investigate mortgage fraud. According to the FBI's Financial Institution Fraud Policy Implementation Guide, some mortgage fraud investigations can be more effective with the use of proactive undercover operations (UCO), which include the use of Group I and Group II UCOs.¹⁵ According to FBI documents we reviewed, proactive investigative measures not only result in the collection of valuable evidence and intelligence, they provide an opportunity to apprehend criminals in the course of committing their crimes, thus reducing the potential loss to individuals and financial institutions.

¹⁵ A Group I UCO is defined as any FBI UCO which must be approved by FBI HQ because the contemplated undercover activity involves a reasonable expectation that one or more of the sensitive circumstances listed in the Attorney General's Guidelines for Undercover Operations (AGG-UCO) may occur. A Group II UCO is an investigation which does not involve any of the sensitive circumstances enumerated in the AGG-UCO and which does not require FBI HQ approval. A Group II UCO must be instituted whenever an undercover employee engages in more than five substantive contacts with an individual or organizational associates and/or members per investigation.

During FY 2011, the Financial Institution Fraud Unit developed a strategy to target ongoing loan origination mortgage fraud schemes by using a national platform UCO. In June 2011, the Financial Institution Fraud Unit sent an electronic communication (EC) to all FBI field offices informing them of the approval this operation. This UCO sought to lessen the administrative burden of initiating an undercover operation by streamlining the process.

According to Financial Institution Fraud Unit, the majority of their communications with the field are with field supervisors and program coordinators. The Financial Institution Fraud Unit provided several electronic communications which were disseminated to every field office with directions on how to utilize the platform UCOs. In addition, several secure video teleconferences were held with field offices regarding utilization of UCOs. However, during our review, we were told that there was inadequate coordination and communication between FBI headquarters and FBI field offices related to implementation and execution. Some Special Agents at the field offices we visited reported that mortgage fraud investigations did not easily lend themselves to UCOs, despite the push from the Financial Institution Fraud Unit to initiate mortgage fraud UCOs. According to several Special Agents, the Financial Institution Fraud Unit did not provide enough specific direction or training on how to commence a mortgage fraud UCO. In another instance, we learned that Special Agents assigned to investigate mortgage fraud were unaware of the operational platform.¹⁶

Based on the information we received at the field offices we visited it appears that the Financial Institution Fraud Unit provided guidance on initiating a mortgage fraud UCO to field supervisors and program coordinators; however, the Special Agents assigned to investigate mortgage fraud were unaware or uninformed. Therefore, we recommend that the FBI revisit its existing guidance on initiating a mortgage fraud UCO and ensure that this training reaches all levels within the field.

Target Intelligence Packages

In September 2009, the FBI established the Financial Intelligence Center (FIC) to provide tactical analysis of intelligence datasets and financial databases.¹⁷ The FIC used evolving technology and data exploitation techniques to create target intelligence packages (TIP) to identify the most egregious criminal enterprises and to enhance current criminal investigations. To create mortgage fraud TIPs, the FIC utilized approximately 24 unique databases which ranged from open source information, other government agency systems, and commercial sites. The FIC worked jointly with the Financial Institution Fraud Unit to assist FBI field offices by creating mortgage fraud targeting packages. In FY 2010 and 2011, the FIC produced and disseminated 61 mortgage fraud TIPs to the field offices.

¹⁶ The FBI's oversight of these mortgage fraud undercover operations (such as the approval process, accounting, and use of funds) were beyond the scope of this audit.

¹⁷ According to the FBI, in September 2012, the FIC was disbanded. It has been replaced by intelligence fusion cells within FBI's Criminal Investigative Division.

As part of this audit, we reviewed 15 of these TIPs, and based on our review, only 1 of the 15 TIPs that were disseminated to the field offices we visited resulted in the initiation of a mortgage fraud investigation. According to the former FIC Unit Chief, some of the TIPs did not result in investigations being opened by the FBI field offices that received them because of a lack of time and resources. This position was echoed by special agents and supervisors we interviewed in the field offices we visited, who stated that their offices already had a significant backlog of unaddressed and pending mortgage fraud investigations. We also learned that some TIPs either duplicated an already existing investigation in the field office or were not as monetarily significant as other existing investigations. The Chief of the FBI's Financial Crimes Section also acknowledged that many of the mortgage fraud TIPs did not result in the opening of investigations. While the TIPs did not often result in the opening of mortgage fraud investigations, the receiving field offices we interviewed believed that the TIPs were comprehensive and well-written.

At the conclusion of this audit we learned that due to limited resources, the FBI no longer produces TIPs for mortgage fraud. We believe this is a further indication that mortgage fraud is a declining priority for the Department.

EOUSA and USAO Prosecutorial Effort

Within DOJ, the 94 USAOs serve as the nation's principal litigators who are primarily responsible for prosecuting individuals who violate U.S. criminal laws. The Executive Office for U.S. Attorneys (EOUSA) acts as a liaison between DOJ and the U.S. Attorneys by forwarding direction and guidance from the Attorney General and Deputy Attorney General to the USAOs. The EOUSA provides management oversight and administrative support to the USAOs, which includes allocating resources and maintaining resource related and casework databases. However, each U.S. Attorney operates with a significant level of autonomy and EOUSA does not instruct individual USAOs how to focus or prioritize their prosecutorial efforts.

Within the EOUSA, the Office of Legal and Victim Programs provides the USAOs with legal and programmatic guidance and support in numerous program areas. Two AUSAs on detail to the Office of Legal and Victim Programs serve as the White Collar Crime Coordinators for EOUSA. The White Collar Crime Coordinators are responsible for assisting EOUSA and the USAOs in assessing and administering their white collar crime programs, which include mortgage fraud.

To enhance efforts in the areas of mortgage fraud, bankruptcy, affirmative civil enforcement, and white collar crime, Congress appropriated EOUSA and the USAOs with additional funds and manpower resources. The following chart shows the amount of funding appropriated, as well as new attorney positions and new non-attorney positions created for each fiscal year to address financial fraud.

EOUSA and USAO Financial Fraud Funding & Resources				
FY	2009	2010	2011	Total
Funding Received	\$12,400,000	\$7,500,000	\$0	\$19,900,000
New Attorney Positions	60	35	0	95
New Non-Attorney Positions	18	8	0	26

Source: EOUSA

Data on Mortgage Fraud Prosecutions

We sought to evaluate the number of criminal prosecutions that the DOJ had undertaken in light of the additional funding provided by Congress. EOUSA maintains the Legal Information Office Network System (LIONS), which is the case management and resource management system for the 94 USAOs, as well the U.S. Attorneys' Monthly Resource Summary Reporting System (referred to as the USA-5).

According to EOUSA officials, LIONS is a tool used to assist the USAOs in assessing staff caseloads and managing their offices. These EOUSA officials also stated that the LIONS system was not designed as a statistical system and therefore can be an imperfect tool for responding to specific, detailed inquiries seeking comprehensive, uniform nationwide data sought for purposes other than case management. Despite these limitations, EOUSA officials said that LIONS is frequently used to provide the data used for the Attorney General's Annual Report, the United States Attorneys' Annual Statistical Report, and numerous requests for statistical data from the Office of Management and Budget, Congress, and the public at large.

In a July 2008 EOUSA memorandum, it was noted that Congress, regulatory agencies, industry groups, and the general public, were increasingly interested in DOJ mortgage fraud prosecutions. The EOUSA memorandum stated that it had been difficult for DOJ to demonstrate the extent of USAOs' mortgage fraud activities and progress because mortgage fraud cases were not tracked separately in LIONS. Therefore, the memorandum announced the creation of a new mortgage fraud code in LIONS which covered all types of mortgage fraud schemes in order to more accurately track mortgage fraud prosecutions.

Nonetheless, during our review, AUSAs in every district we contacted informed us that the information provided in LIONS should not be considered a complete or reliable indicator of the work their offices had done to address mortgage fraud, adding that there were instances of underreporting and misclassification of mortgage fraud cases. It was explained that mortgage fraud cases are often coupled with other criminal activities, such as organized crime or identity theft. We were told that, when initiating a case file in LIONS, an AUSA may

fail to include the mortgage fraud code if it is not the leading charge in a case. In addition, several AUSAs said that in some instances active cases that originated prior to the creation of the mortgage fraud code might not have been re-coded.

According to EOUSA, AUSA's are required to certify the accuracy of their LIONS case information biannually. In addition, EOUSA officials told us that its Evaluation and Review Staff has a management standard addressing data entry into LIONS. This management standard is reviewed every three years during onsite legal evaluations. EOUSA told us at the conclusion of the audit that given these certification procedures, LIONS is a valuable measure of the Department's prosecution efforts for a wide array of cases, including mortgage fraud. While we think these safeguards are important, we note that the data entered into LIONS can be accurate while not necessarily being complete. In addition, as we describe above, EOUSA officials told us during the audit that the LIONS system was not designed as a statistical system and therefore can be an imperfect tool for responding to specific, detailed inquiries seeking comprehensive, uniform nationwide data sought for purposes other than case management.

USAOs utilize a form called USA-5 to record time spent by USAO personnel on various categories of matters or cases they have worked on. USA-5 does not have a category specifically for mortgage fraud. Instead, mortgage fraud time is captured in a broader category under financial institution fraud. This category encompasses several program areas, in addition to mortgage fraud. As a result, EOUSA was unable to determine and provide us information about how much attorney work time has been dedicated specifically to mortgage fraud. Furthermore, several AUSAs we spoke with cautioned us about the accuracy of USA-5 data because they did not believe that every USAO was properly attributing attorney time spent working on various program categories.

Until DOJ and EOUSA definitively address the shortcomings of these systems to adequately track mortgage fraud cases and the attorney time spent working on them, the data generated by these systems will continue to be suspect and the Department cannot accurately evaluate USAOs efforts and accomplishments in addressing this crime.

Number of New Mortgage Fraud Cases Filed

Recognizing the limited nature of the LIONS data, we requested from EOUSA the available data related to criminal mortgage fraud prosecutions opened from fiscal year 2009 through 2011. USAO criminal cases originate from various investigative agencies such as the FBI, the U.S. Department of Housing and Urban Development, Office of the Inspector General (HUD-OIG), the U.S. Secret Service, the U.S. Postal Service, and others. The data presented in the following table shows that from FY 2009 to FY 2010, new mortgage fraud cases filed increased by over 150 percent, a figure that the Department credited to greater resources dedicated to the program area. However, the number of new cases filed decreased in FY 2011. According to the AUSAs we interviewed, the FY 2011 decrease may be attributed to competing priorities and a shift in the type of mortgage fraud schemes.

Criminal Mortgage Fraud New Cases Filed by Fiscal Year	
FY	New Cases Filed
2009	248
2010	632
2011	486

Source: EOUSA

Of the five USAOs we visited, all five had an AUSA who was assigned to be the Office's mortgage fraud coordinator. We found that, in all but one office, AUSAs were not dedicated to prosecuting mortgage fraud and instead handled dozens of case that covered multiple program areas within their criminal section. According to many of the AUSAs we interviewed, several of the program areas they handled were at one time considered a priority, a current DOJ effort or initiative, or individual U.S. Attorney preference. These AUSAs reported that the result has been a priority fatigue.

Many of the AUSAs we interviewed told us, similar to what we had heard from FBI officials, that there has been a shift over the past decade in the most common type of mortgage fraud scheme, from loan origination to foreclosure rescue. The victims of loan origination fraud are almost always the lenders; however, in foreclosure rescue, the victims are innocent homeowners who have lost their homes or have been forced to file for bankruptcy as a result of these fraud schemes.

To target the perpetrators of foreclosure fraud, the FBI Financial Institution Fraud Unit developed a strategy for a national initiative, which started as a pilot in an FBI Field Office. In the initiative's strategy document, the FBI acknowledged the challenges in prosecuting this type of fraud by stating that foreclosure rescue schemes are severely hindered by the monetary thresholds established in each judicial district. The document continued to explain that these thresholds limit prosecutions of mortgage fraud cases to high dollar loss cases and therefore would

require that hundreds of victims be identified before an investigation targeting distressed homeowners would be prosecuted. Based on our interviews, none of the AUSAs we spoke with provided us with documentation supporting specific dollar thresholds. Some USAOs stated that they do not have dollar thresholds; although, their local FBI field offices believed that such thresholds were applied as reflected in the FBI national initiative document.

We believe that strictly applying monetary thresholds may not always be the best way to evaluate cases. Although distressed homeowner fraud cases may involve low dollar losses, we were told that they can cause significant harm to communities throughout the United States. While we understand that USAO thresholds are utilized on a case by case basis, because such thresholds are treated as a limiting factor by the FBI in pursuing fraud cases, we believe a consequence of these USAO thresholds could be a reduction in certain cases brought by the FBI or other law enforcement agencies. Accordingly, we recommend that, through EOUSA, DOJ direct all USAOs to periodically assess any monetary thresholds applied to mortgage fraud cases to ensure they are reasonably based upon the threat within their respective jurisdictions and adequately allow for non-monetary harms that result from mortgage fraud schemes, as well as ensure that law enforcement agencies in their respective districts have a clear understanding of any limiting factors being applied to such cases.

Tracking Prosecutorial Outcomes

As the following chart shows, in FY 2009 and FY 2011 USAOs reported an increase in both the number of defendants in terminated cases and the number of defendants with a guilty disposition. For the three fiscal years, the USAOs reported a guilty disposition rate of approximately 93 percent.

Criminal Mortgage Fraud Case Statistics by Fiscal Year				
FY	Cases Terminated	Defendants in Cases Terminated	Defendants with Guilty Disposition¹⁸	Guilty Disposition Rate
2009	100	245	227	92.7%
2010	284	536	497	92.7%
2011	419	832	770	92.5%

Source: EOUSA

¹⁸ In the chart on page 9, we present FBI data that shows that the FBI reported a greater number of mortgage fraud convictions in each FY for the same time period. We did not compare each case counted as a conviction by the FBI with the cases reported by EOUSA as having a guilty disposition because each component classifies mortgage fraud cases differently in their case management systems. However, we believe the discrepancies in the reporting between these Department agencies is further evidence that the Department currently does not have an accurate understanding of its overall mortgage fraud effort.

This disposition information does not identify the role of the defendants involved in these mortgage fraud cases. The data does show, however, that the number of defendants with a guilty disposition increased steadily over FY 2009 to 2011.

Mortgage fraud cases often involve a number of defendants with varying levels of complicity. Generally, mortgage fraud schemes require the participation, or at least acquiescence, of a number of players, such as straw buyers, real estate agents, appraisers, mortgage brokers, and closing attorney/agent. The LIONS database, which as discussed above was not intended to act as a data gathering tool, does not indicate whether mortgage fraud prosecutions were directed against the individuals responsible for organizing the fraud or against secondary actors, such as straw buyers.

Due to the importance of this issue and public interest in mortgage fraud, we believe that DOJ should take steps to track additional information on its mortgage fraud efforts, such as the position or business title of defendants. The U.S. Attorney for the Southern District of New York has testified before the U.S. Sentencing Commission that "mortgage fraud schemes cause greater harm, are more widespread, and more severely undermine the confidence of the public in the real estate and mortgage industry when industry professionals are involved. Real estate and mortgage professionals should be trusted gatekeepers of the system, not facilitators of fraud. As such, they should especially be deterred from using their insiders' knowledge to exploit weaknesses in the industry and vulnerabilities in the public." Therefore, capturing the position or level of an individual defendant would allow DOJ to better understand and assess the effectiveness of its mortgage fraud enforcement efforts and performance. Prosecuting higher level defendants may also deter further mortgage fraud on a broader organizational or industry-wide basis, rather than enforcement against individual straw purchasers.

With a better understanding of the overall effort and performance DOJ can better respond to requests for information and better educate the public about its efforts to combat mortgage fraud. For example, in March 2012, in a letter to the Attorney General, Senator Charles Grassley asked DOJ to provide specific information on its mortgage fraud cases, including the business title of the defendants convicted. While DOJ responded to the Senator's request, it was unable to provide information on the business title of the defendant convicted because of these system limitations. Accordingly, we recommend that DOJ and EOUSA develop a method to capture additional data that will allow DOJ to better understand the results of its efforts to investigate and prosecute mortgage fraud.

Local FBI and USAO Coordination

We found that in some of the locations we visited, communication and coordination between the local FBI field office and the USAO was lacking as it related to addressing, prioritizing, and collaborating to effectively combat mortgage fraud. For example, in one of the locations we visited, the FBI field office serves two different USAOs. During our visit, we determined that a strained relationship

existed between the FBI field office and one of the two USAOs regarding mortgage fraud cases. According to several FBI Special Agents we spoke with, they believed this particular USAO had not handled mortgage fraud cases in a timely manner and as a result, several of the field office white collar crime squads preferred not to refer cases to them. However, the Criminal Chief in this USAO provided a much different assessment and stated that he was unaware of any problem and that his office had no known coordination issues with the local FBI field office.

In contrast, officials from the same FBI field office reported that they had a good working relationship with the other USAO they serve. Yet, AUSAs from that USAO stated that their district had turned to other investigative agencies for mortgage fraud cases, citing the local FBI field office's lack of interest in investigating mortgage fraud.

In another location, an official from the USAO and an FBI official from the local field office readily admitted that the communication and the coordination between their offices on mortgage fraud and other matters had been difficult and needed improvement. The same USAO official also expressed concern about the lack of experience and expertise of the Special Agents handling mortgage fraud cases for the local FBI field office.

In contrast, one of the locations we visited appeared to be exemplifying good communication and coordination related to combating mortgage fraud. In this location the USAO and the local FBI field office are a part of the local Mortgage Fraud Strike Force.¹⁹ According to FBI and USAO officials from this location, this strike force has acted as a resource multiplier, enabling a dedicated staff of AUSAs, FBI Special Agents, as well as other investigative agencies, to communicate and coordinate mortgage fraud efforts jointly and frequently. As exhibited in the following chart the USAO with the strike force – USAO A – handled 164 mortgage fraud cases in FYs 2009 through 2011.

USAOs New Mortgage Fraud Cases Filed by Fiscal Year						
FY	USAO A	USAO B	USAO C	USAO D	USAO E	Total
2009	51	6	41	14	16	128
2010	66	12	35	24	25	162
2011	47	14	11	18	27	117
Total	164	32	87	56	68	407

Source: EOUSA

We believe that coordination and communication issues between local FBI field offices and USAOs, such as those described above, can hinder mortgage fraud investigations and prosecutions and that continued efforts should be made to improve lines of communication and coordination in these offices and throughout the country.

¹⁹ According to the Department, during the audit period USAOs and the local FBI field offices participated in over 90 working groups and task forces dedicated to combating mortgage fraud.

DOJ Civil Enforcement Effort

Criminal prosecution is not the only tool available to DOJ in its fight against mortgage fraud. Civil mortgage fraud cases filed by DOJ have led to the imposition of monetary judgments and fines against those who have committed mortgage fraud by defrauding the federal government. Civil tools and remedies, such as the False Claims Act or the *Financial Institution Reform, Recovery, and Enforcement Act of 1989* (FIRREA), provide DOJ with various options that can be used to pursue those responsible for mortgage fraud schemes and recover government funds.²⁰

One of the responsibilities of the DOJ Civil Division is bringing lawsuits on behalf of the United States to recoup money lost through fraud, loan defaults, and the abuse of federal funds. Within the Civil Division, the Commercial Litigation Branch, Fraud Section (Civil Fraud Section) works with USAO civil litigators nationwide to litigate cases involving financial fraud against the federal government. More recently, the Civil Division expanded the Consumer Protection Branch responsibilities to include consumer-focused mortgage fraud investigations and prosecutions. The Consumer Protection Branch, although within the Civil Division, works on both civil and criminal matters. These matters can include the full range of mortgage fraud schemes described throughout this audit, from origination fraud to foreclosure rescue schemes. The remedies that the Consumer Protection Branch would seek might include incarceration, criminal fines, forfeiture, restitution to victims, and reforms of an organization's operations.

In 2011, the then-Assistant Attorney General of the Civil Division told Congress that mortgage fraud was a top priority of the Department, because of the public dollars at stake. In speaking at an outside conference, the then-Assistant Attorney General added that the Civil Division increased its efforts to curb mortgage fraud through greater enforcement and increased prevention efforts to help educate consumers about mortgage fraud and how to avoid it.

In FY 2010, the Civil Division received additional funding and new positions to specifically address financial rescue schemes which are considered a form of mortgage fraud. The Civil Division did not receive any additional mortgage fraud related funding or new positions for FY 2011.

²⁰ 31 U.S.C. §§ 3729–3733 (rev. 2009) and Pub. L. No. 101-73 103 Stat. 183 (1989).

Civil Division Financial Rescue Funding & Resources by Fiscal Year				
FY	2009	2010	2011	Total
Funding Received	\$0	\$10,000,000	\$0	\$10,000,000
New Attorney Positions	0	87	0	87
New Non-Attorney Positions	0	31	0	31

Source: DOJ Civil Division

Civil Enforcement Data

Civil mortgage fraud cases are generally investigated by HUD-OIG, whose primary focus is the fraudulent underwriting of Federal Housing Administration (FHA) insured loans. The Civil Fraud Section, in conjunction with HUD-OIG, has coordinated several initiatives to recover misspent FHA insurance funds from lenders that acted with reckless disregard when underwriting loans guaranteed by FHA insurance. To achieve these efforts, the Civil Fraud Section has relied upon the investigative resources of HUD-OIG as well as their own limited investigative resources which include a handful of investigators and auditors.

In July 2011, Project High Default Lender was initiated by HUD in connection with the Civil Division and provided 84 USAOs with lender default data for potential civil investigations. A memorandum from the Acting HUD Inspector General, along with lender default data, and contact information for HUD-OIG personnel in each district, was provided to USAOs to allow them to determine from the data whether civil investigations should be opened. Approximately 40 civil investigations were opened as a result of this effort.

To better understand the results of this initiative as well as the overall civil efforts of the USAOs, we requested statistical data from the Civil Division and EOUSA. We received statistical data from the Civil Division about its mortgage fraud cases. All of this data reflected cases that were worked jointly by the Civil Division with the USAOs. We did not receive data from EOUSA because EOUSA does not specifically code cases that involve mortgage fraud. Rather, the LIONS case management system has a code for "Fraud" and a subcode for "Financial Institution Fraud," which the LIONS user manual states should be used in any civil action involving financial institution fraud, including mortgage fraud or foreclosure rescue schemes, as well as penalties involving financial institutions, whether affirmative or defensive.²¹ As a result, the Office of Legal and Victim Programs' Counsel told us that EOUSA cannot identify which civil cases were specifically mortgage fraud cases based solely on the use of this subcode.

²¹ Affirmative Civil Enforcement refers to filing civil lawsuits on behalf of the United States. The purpose of these civil actions is to recover government money lost to fraud or other misconduct. Defensive Civil Litigation refers to cases that defend the United States.

Without specific data related to DOJ's civil enforcement efforts, DOJ cannot easily understand and evaluate its overall civil efforts to address mortgage fraud. As we noted above, we believe that due to the high level of interest in DOJ's mortgage fraud efforts, DOJ should develop a method to better capture its overall mortgage fraud effort. Therefore, we recommend that DOJ and EOUSA develop a method to readily identify civil mortgage fraud cases.

Civil Enforcement Coordination and Resource Limitations

We were able to review civil mortgage fraud case data that was provided to us directly from the USAOs we visited. Overall, we found that two of the five district USAOs we visited did not file any civil mortgage fraud cases between FYs 2009 through 2011. The remaining three offices provided us with a summary of each mortgage fraud civil case filed along with other related information, including the amount recovered. From our limited review of these civil cases, approximately \$1.5 billion of fraudulently-obtained government taxpayer funds were recovered as a result of the efforts of these offices. We found that the USAOs that had filed multiple civil mortgage fraud cases had good working relationships with their local HUD-OIG office, and had other resources available in their offices such as an in-house auditor and contracted investigative assistance.

An April 2010 memorandum from the Assistant Attorney General for the Civil Division acknowledged that HUD-OIG is the most frequent investigative partner for civil mortgage fraud case work, but is not the only agency that can provide assistance. The memorandum encouraged U.S. Attorneys to consult with the FBI about potential civil mortgage fraud matters and investigative resources. However, while USAO officials we interviewed said that FBI investigative support would be beneficial, they recognized that the FBI's primary focus is national security and criminal investigations. According to several USAO officials, civil investigations and resulting referrals from the FBI are limited. FBI officials informed us that they do not actively pursue civil cases, but if a civil matter arises during an investigation it will be passed along to the appropriate authority.

During our review, we also learned that a number of AUSAs conduct their own investigations in addition to their principal duties as litigators. In some instances, USAOs have hired full-time auditors or paid outside experts to assist in data-mining and statistical efforts in an effort to generate civil casework. These USAO officials reported success in using such outside assistance, but they also continued to express the need for dedicated in-house investigators to assist with civil enforcement efforts.

In addition, the Civil Division Fraud Section worked with HUD-OIG to determine effective ways to address fraudulent loan origination and servicing practices in connection with the Direct Endorsement Lender Program administered by the U.S. Department of Housing and Urban Development (HUD), Federal Housing Administration, which insures single family mortgages.

FFETF and DOJ Mortgage Fraud Prosecution Initiatives

Since its creation, the FFETF's MFWG has organized and completed two national mortgage fraud initiatives: Operation Stolen Dreams and the Distressed Homeowner Initiative. According to the MFWG, these initiatives involved a coordinated effort by participating agencies to target particular mortgage fraud schemes. Operation Stolen Dreams, which occurred between March 1, 2010, and June 17, 2010, focused on criminal and civil enforcement activities involving a broad array of mortgage fraud schemes. The Distressed Homeowner Initiative, which was launched on October 1, 2011, targeted criminal activities that included foreclosure rescue fraud, loan modification fraud, and similar crimes that victimized distressed homeowners.

Each sweep culminated with a FFETF press release as well as a national press conference where the Attorney General highlighted the threat posed by mortgage fraud and demonstrated the success of the initiative by providing the sweeps' results. In connection with this audit, we reviewed the results of the Distressed Homeowner Initiative.

Distressed Homeowner Initiative

On October 9, 2012 the FFETF issued a press release and held a press conference, led by the Attorney General and joined by the Secretary of HUD, the FBI Associate Deputy Director, the Chairman of the Federal Trade Commission, and the HUD Inspector General, to publicize its most recent mortgage fraud initiative called the Distressed Homeowner Initiative.²² During the press conference, the Attorney General announced that the initiative, launched by the FBI on October 1, 2011, resulted in 530 criminal defendants being charged, including 172 executives, in 285 criminal indictments or informations filed in federal courts throughout the United States in the 12 month period between October 1, 2011, and September 30, 2012. According to the Attorney General's statements at the press conference, these cases involved more than 73,000 homeowner victims and total losses by the victims estimated at more than \$1 billion. The Attorney General also announced that 110 federal civil cases were filed against over 150 defendants for losses totaling at least \$37 million, and involving more than 15,000 victims. Similar information was included in the Department's press release.

Concern Over the Accuracy of the Reported Statistics for the Distressed Homeowner Initiative

Shortly after the Department's October 9, 2012, press conference we requested a meeting to discuss the results of the Distressed Homeowner Initiative in greater detail with Department and FBI officials. We also requested any

²² See Appendix IV for the Attorney General's statement at the October 9, 2012, press conference on the Distressed Homeowner Initiative.

documentation that would support the statistics presented at the press conference by the Attorney General.

We were told that the FBI was responsible for soliciting, gathering, and collecting the data from the participants involved in the Distressed Homeowner Initiative, which included various federal, state, and local agencies. To collect the data, the FBI provided an electronic spreadsheet that contained multiple columns of requested data to each of the participating agencies to complete and return to the FBI. The FBI accepted the completed spreadsheets as submitted, and other than limited checking for possible data duplication, the FBI did not perform any additional vetting of the data. FBI officials stated that there was too little time and resources available to allow for vetting of the data. FBI officials told us that it trusted the various agencies to verify their information prior to submission and assumed that the agencies were accurate in their reporting of the information. Once all of the spreadsheets were submitted by the participating agencies, the FBI incorporated the raw data into a summary spreadsheet which tallied the results of the sweep. On October 5, 2012, 4 days before the FFETF press conference, the FBI submitted this summary spreadsheet to the Department through the Executive Director of the FFETF. The FBI officials we spoke with said that it did not provide any accompanying language regarding the information.

The Press Secretary in DOJ's Office of Public Affairs (OPA) who was responsible for issuing the press release related to the Distressed Homeowner Initiative told us that the Executive Director of the FFETF contacted her a few months before the end of FY 2012 to initiate plans for public disclosure of the sweep's outcome. After that initial contact, the Press Secretary participated regularly in meetings with the MFWG members, including the FBI, regarding the sweep. During those meetings, the participants agreed that that the Distressed Homeowner Initiative would only report on indictments that occurred during FY 2012 that were specifically distressed homeowner-related crimes.

According to the OPA Press Secretary, the FBI's summary spreadsheet, submitted on October 5, 2012, contained several data categories of information related to the Distressed Homeowner Initiative. These categories included: number of defendants, number of defendants categorized as executives, number of informations and indictments, number of victims, and estimated losses. The OPA Press Secretary inserted this information into a draft press release and then provided the draft to the MFWG participants for review. According to the OPA Press Secretary, in response, several of the participants provided additional language, edits, and comments on the press release, which were incorporated into the final version. The FBI officials we first spoke with stated that the FBI did not review the Department's press release prior to its issuance. However, the FBI later informed us at the conclusion of the audit that an FBI official did review the press release but did not propose any edits to the figures.

We were told that, following the Attorney General's press conference, DOJ officials became concerned with the accuracy of the reported statistics. The Department received multiple press inquiries asking for support for the statistics,

including a listing of the cases referenced in the press release and at the press conference. The OPA Press Secretary said she immediately attempted to obtain from the FBI a list of the cases that supported the spreadsheet that the FBI previously had provided to the Department, but was unable to do so for more than a month after the press conference. According to the OPA Press Secretary, the FBI indicated that it never intended to release a complete list of case names. At the conclusion of the audit, the FBI clarified and stated that the delay resulted from its understanding that the complete list would be publicly released, and therefore had to be redacted to ensure that law enforcement sensitive information (including names that would reveal ongoing undisclosed investigations) was not inappropriately disclosed.

The day after the press release was issued, the OPA Press Secretary participated in a conversation with FBI officials and the Executive Director of the FFETF regarding concerns that had been raised about the accuracy of the statistical information included in the press release. During this meeting, an FBI official stated that the information provided to OPA included the results of criminal enforcement actions that were filed prior to the beginning of FY 2012, which was contrary to the earlier agreement about the reporting of only FY 2012 indictments.

On November 13, 2012, the FBI provided a case list it had compiled for the sweep to the Executive Director of the FFETF and the OPA Press Secretary. The Executive Director of the FFETF and the OPA Press Secretary worked together in an attempt to verify a small sample of the cases but were unsuccessful. As a result, OPA and the FFETF determined that the listing of cases could not be provided to the media as requested.

Due to the inaccuracies found during their sample review of cases, the Executive Director of the FFETF, the OPA Press Secretary, and a small review team initiated a complete case review of all the data provided by the FBI and reported publically in the press release. Based on the results of that review, the Executive Director of the FFETF stated to us that numerous significant errors and inaccuracies existed with the information that was reported publicly. For example, multiple cases were found to be included in the reported statistics that were not considered distressed homeowner-related fraud. Also, the review found that a significant number of cases were included in the initiative with indictments prior to the FY 2012 timeframe. According to the Executive Director of the FFETF and the OPA Press Secretary, at this point they had no confidence in the figures reported at the press conference. Nevertheless, we found that the Department continued to cite these seriously flawed statistics in mortgage fraud press releases that it issued in the ensuing months.

We obtained the FBI's summary spreadsheet that was provided to the OPA for the development of the press release, as well as the supporting data gathered by the FBI from the agencies that participated in the Distressed Homeowner Initiative. Based on our review of the supporting data for the summary spreadsheet, we found what we believe to be inconsistencies with the supporting data and how that data was summarized. Specifically, we found that the electronic

spreadsheet that was sent to the MFWG participants included a column labeled "Executive?". The FBI officials we spoke with said that this term was not defined during data collection and what constituted an executive was subjective and left up to the discretion of the participating agency submitting the data. We found that MFWG participants included various responses for the column, which totaled to a sum of 172, and that OPA used that sum in the press release as representing the number of Executives prosecuted in connection with the initiative. However, we found that 98 of the 172 executives referenced in the Department's press release were actually labeled as "Other," "Unknown," or "N" (apparently indicating "No") in the spreadsheets.

Distressed Homeowner Initiative Raw Data Responses for Executive Column	
Participant Response for Named Executive	Total
Executive	26
President	25
Vice President	2
CEO	14
CFO	1
Board Member/Director	1
Controller	2
COO	1
General Counsel	2
Other	44
Unknown	16
"N"	38
Total	172

Source: FBI

Overall, we found significant breakdowns in the process used to develop the results of the Distressed Homeowner Initiative. We found that the FBI did not have a rigorous methodology for independently verifying the criminal mortgage fraud statistics provided by law enforcement agencies nationwide and announced during the press conference on October 9, 2012. The FBI did not clearly define for the participating agencies the data that it was requesting nor did it verify the data that was submitted. When providing the data to the FFETF, the FBI did not include supporting documentation for the summary data. We find this process to be disturbing, and it led the Department to report inaccurate information to the public about the claimed accomplishments of the Distressed Homeowner Initiative. Further, the inability of the Department to correctly identify its own mortgage fraud criminal prosecutions, which are part of a supposedly high-priority initiative, reinforces the concerns, identified previously, regarding the nature of the data contained in the LIONS system. We recommend that the Department improve its

methodologies for soliciting, collecting, reviewing, and reporting the results of its initiatives.

Revised Statistics for the Distressed Homeowner Initiative

After we first learned of the Department's concerns about the Distressed Homeowner Initiative statistics, we repeatedly followed up with Department officials about their efforts to correct the statistics in the months that followed. It was not until August 9, 2013, 10 months after the DOJ first recognized that its data was likely severely flawed, that the FBI released a memorandum to the FFETF MFWG members, which concluded that the statistics announced during the October 9, 2012, press conference overstated the number of defendants that should have been included as part of the Distressed Homeowner Initiative, as well as the corresponding estimated loss amount and number of victims²³. According to the memorandum:

...in response to questions raised about the statistics, an extensive review of the reported cases was conducted. This review concluded that the original figures included not just criminal defendants who had been charged in Fiscal Year 2012, as reported, but also a number of defendants who were the subject of other prosecutive actions – such as a conviction or sentence – in Fiscal Year 2012. In addition, last October's announcement included a number of defendants who were charged in mortgage fraud cases in which the victim(s) did not fit the narrow definition of distressed homeowner that the initiative targeted.

There are significant differences between the October 9, 2013, press conference numbers and the numbers in the August 9, 2013, FBI memorandum. As the following table shows, the criminal statistics originally reported were overstated immensely. In addition, the Department no longer includes the number of executives charged in its revised statistics.

²³ See Appendix V for the FBI Memorandum.

Comparison of Distressed Homeowner Initiative Statistics			
	October 9, 2012 Press Conference	August 9, 2013 FBI Memorandum²⁴	Difference
Criminal Defendants	530	107	-80%
Executives Charged	172	Not Included	
Criminal Victims	73,000	17,185	-76%
Criminal Loss Amount	\$1 billion	\$95 million	-91%
Civil Defendants	150	128	-15%
Civil Victims	15,000	19,198	28%
Civil Loss Amount	\$37 million	\$54 million	46%

Source: DOJ and FBI

The Department's October 9, 2012, press release and the transcript of the Attorney General's remarks at the Distressed Homeowner Initiative press conference, which can be found on the Department's public website, now include a disclosure citing the inaccuracy of the originally reported statistics; and the language in each has revised wording and statistics based on the FBI's August 2013 memorandum. However, as of August 15, 2013, we found that the FBI and USAOs continued to present on their public websites the seriously flawed October 2012 statistics because they also had been included in various mortgage fraud-related press releases that were issued by the Department in the ensuing 10 months. Therefore, we recommend that the FFETF ensure that all agencies update and acknowledge in online and other publicly available materials related to the Distressed Homeowner Initiative the corrections to the inaccurately reported statistics.

Operation Stolen Dreams

Operation Stolen Dreams was a FFETF mortgage fraud initiative that focused on criminal and civil enforcement activities from a broad array of mortgage fraud schemes that occurred between March 1, 2010, and June 17, 2010. According to a press release issued by the Department on June 17, 2010, Operation Stolen Dreams "involved 1,215 criminal defendants nationwide, including 485 arrests, who are allegedly responsible for more than \$2.3 billion in losses."

During our review of the data issued by the Department regarding the Distressed Homeowner Initiative, we were told that the FBI employed a similar methodology in obtaining statistics for Operation Stolen Dreams. Although we did not audit the reported results of Operation Stolen Dreams, we recommend that DOJ revisit the results of the data collection and public reporting to determine if corrective action is necessary.

²⁴ The OIG did not audit the revised figures presented in the FBI Memorandum on the Distressed Homeowner Initiative.

Conclusion

The Department has stated publicly that mortgage fraud is a high priority, and the creation of the MFWG was an attempt by the Department to more effectively coordinate and oversee the effort to address mortgage fraud. Additionally, the USAOs' and FBI's participation on more than 90 local task forces and working groups appeared to further support the fight against mortgage fraud. However, we also found that the FBI did not rank mortgage fraud among its highest ranked priority white collar crimes. We further found that, despite receiving significant additional funding from Congress to pursue mortgage fraud cases, the FBI in adding new staff did not always use these new positions to exclusively investigate mortgage fraud. Moreover, when we attempted to assess the effectiveness of the Department's efforts in pursuing mortgage fraud cases, we found that DOJ could not provide readily verifiable data related to its criminal and civil enforcement efforts. The DOJ's release of significantly flawed information at a highly publicized press conference in October 2012 regarding the purported success of the FFETF's and the DOJ's recent mortgage fraud initiative reflects the lack of accurate data maintained by the Department regarding its mortgage fraud efforts, as well as the Department's serious failure to adequately vet information that it was presenting to the public. Only days after the press conference the Department had serious concerns over the accuracy of the reported statistics, yet it was not until August 2013 when the Department informed the public that the October 2012 reported statistics were indeed flawed. Moreover, during those 10 months, the Department continued to issue press releases publicizing statistics it knew were seriously flawed. We believe the Department should have been more forthright at a much earlier date about this flawed information.

In this audit report, we provide seven recommendations to improve DOJ's approach and efforts to address and report on mortgage fraud.

Recommendations

We recommend that the Department of Justice, as the Chair of the Financial Fraud Enforcement Task Force:

1. Ensure that all agencies update online and other publicly available materials related to the Distressed Homeowner Initiative, acknowledge the corrections to the inaccurately reported statistics, and notify any key stakeholders of the changes.
2. Revisit the results of Operation Stolen Dreams to determine if corrective action on the publicly reported results is necessary.

We recommend that the Department of Justice:

3. Implement a methodology for properly soliciting, collecting, and reviewing information before publicly reporting results.

We recommend that the FBI:

4. Revisit its existing guidance on initiating a mortgage fraud UCO and ensure that this training reaches all levels within the field.

We recommend that the Department of Justice and EOUSA:

5. Direct all USAOs to periodically assess any monetary thresholds applied to mortgage fraud cases to ensure they are reasonably based upon the threat within their respective jurisdictions and adequately allow for non-monetary harms that result from mortgage fraud schemes, as well as ensure that law enforcement agencies in their respective districts have a clear understanding of any limiting factors being applied to such cases.
6. Develop a method to capture additional data that will allow DOJ to better understand the results of its efforts in investigating and prosecuting mortgage fraud and to identify the position of mortgage fraud defendants within an organization.
7. Develop a method to readily identify mortgage fraud criminal and civil enforcement efforts for reporting purposes.

STATEMENT ON INTERNAL CONTROLS

As required by the *Government Auditing Standards*, we tested, as appropriate, internal controls significant within the context of our audit objectives. A deficiency in an internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to timely prevent or detect: (1) impairments to the effectiveness and efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations. Our evaluation of internal controls was *not* made for the purpose of providing assurance on its internal control structure as a whole. The DOJ components involved with this audit are responsible for the establishment and maintenance of internal controls.

As noted in the Findings and Recommendations section of this report, we identified deficiencies in the Department's internal controls for collecting and reporting statistics related to mortgage fraud initiatives that we believe adversely affected the Department's ability to accurately track and report to the public on its mortgage fraud-related efforts and accomplishments.

Because we are not expressing an opinion on the internal control structure as a whole, this statement is intended solely for the information and use of the DOJ components and entities involved with this audit. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

STATEMENT ON COMPLIANCE WITH LAWS AND REGULATIONS

As required by the *Government Auditing Standards* we tested, as appropriate given our audit scope and objectives, selected statistics, procedures, and practices, to obtain reasonable assurance that various DOJ components and entities involved with this audit complied with federal laws and regulations, for which noncompliance, in our judgment, could have a material effect on the results of our audit. The various DOJ components and entities that were involved with this audit are responsible for ensuring compliance with applicable federal laws and regulations. In planning our audit, we identified the following laws and regulations that were significant within the context of the audit objectives:

- Government Performance and Results Act
- Fraud Enforcement and Recovery Act of 2009
- Executive Order 13519, Establishment of the Financial Fraud Enforcement Task Force

Nothing came to our attention that caused us to believe that the DOJ components were not in compliance with the aforementioned laws and regulations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Audit Objective

The objective of this audit was to assess the Department of Justice's approach and enforcement efforts to address mortgage fraud.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

To perform our audit, we interviewed officials at the Federal Bureau of Investigation (FBI), Executive Office for United States Attorneys (EOUSA), Office of the Deputy Attorney General, DOJ Criminal Division, DOJ Civil Division, Office of Justice Programs, Antitrust Division, Tax Division, and several United States Attorneys' Offices (USAO). We also interviewed personnel from non-DOJ agencies including the Department of Housing and Urban Development Office of the Inspector General, Federal Housing Finance Agency Office of the Inspector General, and the Treasury Department's Financial Crimes Enforcement Network. We conducted site visits at five USAOs and four FBI Field Divisions.

To accomplish our audit objective, we also analyzed documents and data using the scope of FY 2009 through FY 2012.

EOUSA/USAO – Mortgage Fraud Data

We requested that EOUSA provide us with mortgage fraud data for FYs 2009 through 2011 regarding the number of: (1) cases filed, (2) cases terminated, (3) defendants charged, (4) dispositions, and (5) funding and resource data.

As noted in our report, AUSAs in every district we contacted informed us that the information provided in LIONS should not be considered a complete or reliable indicator of the work their offices had done to address mortgage fraud due to instances of underreporting and misclassification of mortgage fraud cases. Accordingly, we did not test or verify the validity of the data provided by EOUSA, and our report does not contain conclusions that are based on solely on analyses of this data.

FBI – Mortgage Fraud Data

The FBI provided us data for FYs 2009 through 2011 concerning mortgage fraud for: (1) cases opened, (2) pending investigations, (3) convictions, (4) information/indictments, (5) Suspicious Activity Reports (SARs), (6) Target Intelligence Packets (TIPs), (7) undercover operations, (8) Administrative Time

Capture system (TURK) data, and (9) funding and resource data. We considered this data in performing our audit.

**EXECUTIVE ORDER 13519
FINANCIAL FRAUD ENFORCEMENT TASK FORCE**

Executive Order 13519 of November 17, 2009

Establishment of the Financial Fraud Enforcement Task Force

By the authority vested in me as President by the Constitution and the laws of the United States of America, and in order to strengthen the efforts of the Department of Justice, in conjunction with federal, state, tribal, territorial, and local agencies, to investigate and prosecute significant financial crimes and other violations relating to the current financial crisis and economic recovery efforts, recover the proceeds of such crimes and violations, and ensure just and effective punishment of those who perpetrate financial crimes and violations, it is hereby ordered as follows:

Section 1. *Establishment.*

There is hereby established an interagency Financial Fraud Enforcement Task Force (Task Force) led by the Department of Justice.

Sec. 2. *Membership and Operation.*

The Task Force shall be chaired by the Attorney General and consist of senior-level officials from the following departments, agencies, and offices, selected by the heads of the respective departments, agencies, and offices in consultation with the Attorney General:

- (a) the Department of Justice;
- (b) the Department of the Treasury;
- (c) the Department of Commerce;
- (d) the Department of Labor;
- (e) the Department of Housing and Urban Development;
- (f) the Department of Education;
- (g) the Department of Homeland Security;
- (h) the Securities and Exchange Commission;
- (i) the Commodity Futures Trading Commission;
- (j) the Federal Trade Commission;
- (k) the Federal Deposit Insurance Corporation;
- (l) the Board of Governors of the Federal Reserve System;
- (m) the Federal Housing Finance Agency;

- (n) the Office of Thrift Supervision;
- (o) the Office of the Comptroller of the Currency;
- (p) the Small Business Administration;
- (q) the Federal Bureau of Investigation;
- (r) the Social Security Administration;
- (s) the Internal Revenue Service, Criminal Investigations;
- (t) the Financial Crimes Enforcement Network;
- (u) the United States Postal Inspection Service;
- (v) the United States Secret Service;
- (w) the United States Immigration and Customs Enforcement;
- (x) relevant Offices of Inspectors General and related Federal entities, including without limitation the Office of the Inspector General for the Department of Housing and Urban Development, the Recovery Accountability and Transparency Board, and the Office of the Special Inspector General for the Troubled Asset Relief Program; and
- (y) such other executive branch departments, agencies, or offices as the President may, from time to time, designate or that the Attorney General may invite.

The Attorney General shall convene and, through the Deputy Attorney General, direct the work of the Task Force in fulfilling all its functions under this order. The Attorney General shall convene the first meeting of the Task Force within 30 days of the date of this order and shall thereafter convene the Task Force at such times as he deems appropriate. At the direction of the Attorney General, the Task Force may establish subgroups consisting exclusively of Task Force members or their designees under this section, including but not limited to a Steering Committee chaired by the Deputy Attorney General, and subcommittees addressing enforcement efforts, training and information sharing, and victims' rights, as the Attorney General deems appropriate.

Sec. 3. *Mission and Functions.*

Consistent with the authorities assigned to the Attorney General by law, and other applicable law, the Task Force shall:

- (a) provide advice to the Attorney General for the investigation and prosecution of cases of bank, mortgage, loan, and lending fraud; securities and commodities fraud; retirement plan fraud; mail and wire fraud; tax crimes; money laundering; False Claims Act violations; unfair competition; discrimination; and other financial crimes and violations (hereinafter financial crimes and violations), when such cases

are determined by the Attorney General, for purposes of this order, to be significant;

(b) make recommendations to the Attorney General, from time to time, for action to enhance cooperation among Federal, State, local, tribal, and territorial authorities responsible for the investigation and prosecution of significant financial crimes and violations; and

(c) coordinate law enforcement operations with representatives of State, local, tribal, and territorial law enforcement.

Sec. 4. *Coordination with State, Local, Tribal, and Territorial Law Enforcement.*

Consistent with the objectives set out in this order, and to the extent permitted by law, the Attorney General is encouraged to invite the following representatives of State, local, tribal, and territorial law enforcement to participate in the Task Force's subcommittee addressing enforcement efforts in the subcommittee's performance of the functions set forth in section 3(c) of this order relating to the coordination of Federal, State, local, tribal, and territorial law enforcement operations involving financial crimes and violations:

(a) the National Association of Attorneys General;

(b) the National District Attorneys Association; and

(c) such other representatives of State, local, tribal, and territorial law enforcement as the Attorney General deems appropriate.

Sec. 5. *Outreach.*

Consistent with the law enforcement objectives set out in this order, the Task Force, in accordance with applicable law, in addition to regular meetings, shall conduct outreach with representatives of financial institutions, corporate entities, nonprofit organizations, State, local, tribal, and territorial governments and agencies, and other interested persons to foster greater coordination and participation in the detection and prosecution of financial fraud and financial crimes, and in the enforcement of antitrust and antidiscrimination laws.

Sec. 6. *Administration.*

The Department of Justice, to the extent permitted by law and subject to the availability of appropriations, shall provide administrative support and funding for the Task Force.

Sec. 7. *General Provisions.*

(a) Nothing in this order shall be construed to impair or otherwise affect:

(i) authority granted by law to an executive department, agency, or the head thereof, or the status of that department or agency within the Federal Government; or

(ii) functions of the Director of the Office of Management and Budget relating to budgetary, administrative, or legislative proposals.

(b) This Task Force shall replace, and continue the work of, the Corporate

Fraud Task Force created by Executive Order 13271 of July 9, 2002.

Executive Order 13271 is hereby terminated pursuant to section 6 of that order.

(c) This order shall be implemented consistent with applicable law and subject to the availability of appropriations.

(d) This order is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person.

Sec. 8. *Termination.*

The Task Force shall terminate when directed by the President or, with the approval of the President, by the Attorney General.

**DOJ COMPONENTS TASKED WITH COMBATING
MORTGAGE FRAUD**

Office of the Attorney General

Office of the Deputy Attorney General

Office of the Associate Attorney General

Executive Office for the United States Attorneys

United States Attorneys' Offices

Federal Bureau of Investigation

Criminal Division

Civil Division

Executive Office for United States Trustees

Office of Justice Programs

Tax Division

Antitrust Division

Civil Rights Division

**DISTRESSED HOMEOWNER INITIATIVE
PRESS CONFERENCE**

Attorney General Eric Holder Speaks at the
Distressed Homeowner Initiative Press Conference
Washington, D.C. Tuesday, October 9, 2012

Good morning. Today I'm joined by several key leaders in the federal government's ongoing work to combat financial fraud – and specifically, to prevent and punish the various types of mortgage fraud schemes that, in recent years, have devastated homeowners, families, and communities nationwide. Secretary Shaun Donovan, of the Department of Housing and Urban Development; FBI Associate Deputy Director Kevin Perkins; Chairman Jon Leibowitz, of the Federal Trade Commission; and HUD Inspector General David Montoya are here to help announce the results of a groundbreaking, year-long mortgage fraud enforcement effort – the first ever to focus exclusively on crimes targeting homeowners.

This national effort – known as the Distressed Homeowner Initiative – ran from October 1st, 2011, to September 30th of this year – and was led by members of the Mortgage Fraud Working Group of the Financial Fraud Enforcement Task Force. This landmark Initiative, spearheaded by the FBI, was launched to help streamline and advance investigations and prosecutions against fraudsters who allegedly targeted, and preyed upon, Americans struggling to keep their homes. And it's been a model of success. Over the past 12 months, it has enabled the Justice Department and its partners to file federal criminal charges against 107 defendants for allegedly victimizing more than 17,185 American homeowners – and inflicting losses in excess of \$95 million. On the civil side, as part of this Initiative, Mortgage Fraud Working Group Members have filed federal civil cases against 128 defendants for losses totaling at least \$54 million, and involving more than 19,000 victims. In addition, our Mortgage Fraud Working Group partners in the offices of state attorneys general also have filed civil and criminal actions with at least 3,000 additional homeowner-victims identified. And, demonstrating that we are taking significant steps to protect homeowners before they are victimized, the Treasury Department and SIGTARP shut down or forced into compliance more than 900 fraudulent or confusing websites and web advertisers that displayed the Treasury Seal – and key TARP housing program names – in an effort to dupe struggling homeowners looking for someone to help them. All told, in both federal and state criminal and civil cases, the Distressed Homeowner Initiative has identified – and worked to assist – more than 36,000 vulnerable victims.

Thanks to the leadership of the Mortgage Fraud Working Group; the hard work of our U.S. Attorneys' Offices and the Justice Department's Civil and Criminal Divisions; the dedication of FBI officials – including personnel from at least 32 Field Offices; the large volume of victim complaint information made available through FTC databases and other sources; and the commitment of experts, agents, and investigators from the FTC, HUD's Office of Inspector General, SIGTARP, the FHFA's Office of Inspector General, and a range of other federal and state agencies – this Initiative has had a tremendous impact.

For example, in July, five individuals were indicted in Texas for allegedly sending false military orders to lending institutions, claiming benefits entitled to servicemembers, and then leasing out the homes to collect rental payments. And over the last few months, in the greater Los Angeles area, a number of agencies have partnered with the local U.S. Attorney's Office to "surge" investigative and enforcement resources in order to combat increased threats to homeowners. Last month, their efforts resulted in an indictment against 11 individuals for their alleged roles in a loan modification scheme that victimized more than 4,000 financially distressed homeowners, many of whom lost their homes to foreclosure as a result. I'm pleased to announce that in the coming weeks, the Victims' Rights Committee of the Financial Fraud Enforcement Task Force, partnering with the Certified Financial Planner Board and the Foundation for Financial Planning – in an unprecedented event – will make financial consulting services available to these victims for free. And, in an effort to raise awareness about fraud crimes from coast to coast – and to keep homeowners from being victimized – today, the FBI is releasing a public service announcement featuring actor Tim DeKay, who portrays a special agent on the television show "White Collar." We'll play the spot after the press conference, and it will be online at "stopfraud.gov" as well.

But this is only the beginning. In addition to traditional mortgage fraud crimes, the federal government also has committed substantial resources to identify and prevent other schemes that can negatively affect fragile housing markets – including instances of fraud in the origination, securitization, and servicing of mortgage loans; foreclosure public auction bid rigging; and discriminatory lending practices. Under the Residential Mortgage-Backed Securities Working Group of the Financial Fraud Enforcement Task Force, our partners in the New York State Attorney General's Office recently filed a civil complaint against J.P. Morgan resulting from Bear Stearns' fraudulent representations concerning the due diligence undertaken to ensure the quality of the loans backing its securities. As you've heard, the Department provided substantial resources to this effort, and other investigations remain ongoing. Thanks to the Non-Discrimination Working Group and the Justice Department's Civil Rights Division, we've been relentless in investigating fair lending violations to ensure that lenders do not discriminate on the basis of race or color – and, in 2011 alone, settled or filed a record number of cases through the Division's Fair Lending Unit. And since the beginning of this year – in partnership with HUD and HUD's Inspector General – we've announced civil settlements totaling more than \$1.5 billion with a variety of financial institutions that engaged in mortgage origination abuses in violation of HUD-FHA requirements.

Put simply, these comprehensive efforts represent an historic, government-wide commitment to eradicating mortgage fraud and related offenses across the country. And the results obtained by the many dedicated attorneys, experts, agents, and investigators who stand on the front lines of this work prove that our approach is working; that progress is possible; and that – as long as we continue to partner with a range of committed allies and engage the help of an informed public – there is good reason for confidence in where our anti-fraud efforts will take us from here.

At this point, I'd like to turn things over to another critical leader, and partner, in this work, Secretary Shaun Donovan.

FEDERAL BUREAU OF INVESTIGATION MEMORANDUM

MEMORANDUM

Subject: Distressed Homeowner Initiative	Date: August 9, 2013
To: Mortgage Fraud Working Group Members	From: Federal Bureau of Investigation Co-Chair, Mortgage Fraud Working Group

On October 9, 2012, members of the Mortgage Fraud Working Group announced the results of the year-long Distressed Homeowner Initiative. This nationwide effort targeted fraud schemes that preyed upon vulnerable homeowners. In order to protect struggling homeowners who may become targets and increase the number of criminal enforcement actions, the Initiative focused on existing investigations involving vulnerable homeowners and generated new investigations using victim complaint data. It included sophisticated investigative techniques, such as undercover operations, as well as a surge of several law enforcement agencies in southern California, where many foreclosure rescue scams were concentrated. The Initiative was a collaborative effort involving participation from numerous federal agencies including: the Federal Bureau of Investigation, the Office of the Inspector General of the Department of Housing and Urban Development, the Federal Housing Finance Agency's Office of the Inspector General (FHFA-OIG), the Special Inspector General for Troubled Asset Relief Program (SIGTARP), the Internal Revenue Service - Criminal Investigation, the U. S. Postal Inspection Service, the United States Secret Service, the Department of Justice's U.S. Trustee Program, the Federal Trade Commission, and the Consumer Financial Protection Bureau. This targeted approach resulted in the successful filing of many criminal and civil cases across the country, but regrettably, the statistics reported in October included cases that fell outside the specific parameters of the Initiative.

After the results of the Initiative were reported, in response to questions raised about the statistics, an extensive review of the reported cases was conducted. This review concluded that the original figures included not just criminal defendants who had been charged in Fiscal Year 2012, as reported, but also a number of defendants who were the subject of other prosecutive actions – such as a conviction or sentence – in Fiscal Year 2012. In addition, last October's announcement included a number of defendants who were charged in mortgage fraud cases in which the victim(s) did not fit the narrow definition of distressed homeowner that the initiative targeted. For example, some of the defendants included in the original statistics were involved in loan origination schemes and other such schemes that did not specifically target and victimize distressed homeowners. As a result, the public announcement overstated the number of defendants that should have been included as part of the Distressed Homeowner Initiative, as well as the corresponding estimated loss amount and number of victims.

Following this detailed review, the updated numbers are: 107 criminal defendants were charged in Fiscal Year 2012 in federal distressed homeowner prosecutions in U.S. District Courts across the country. Those cases had an estimated 17,185 homeowner victims and an estimated total loss amount, including losses to homeowners and other victims of the fraud schemes, of more than \$95 million. In addition, cases were filed against a total of 128 civil defendants in federal courts from coast to coast, with an estimated total loss amount of \$54 million and 19,198 victims. While all of the cases originally reported were part of our collective efforts to ensure stability and fairness in our financial and housing markets, these updated numbers reflect the subset of cases targeted by the Fiscal Year 2012 Distressed Homeowner Initiative. Please be sure to update any online materials posted by your agency to reflect these changes.

DEPARTMENT OF JUSTICE RESPONSE TO THE DRAFT AUDIT
REPORT



U.S. Department of Justice

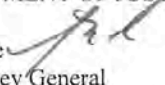
Office of the Deputy Attorney General

The Deputy Attorney General

Washington, D.C. 20530

February 21, 2014

MEMORANDUM FOR MICHAEL E. HOROWITZ
INSPECTOR GENERAL
U.S. DEPARTMENT OF JUSTICE

FROM: James M. Cole 
Deputy Attorney General

SUBJECT: Response: Audit of the Department of Justice's
Efforts to Address Mortgage Fraud

We appreciate the audit undertaken by the Department of Justice (DOJ or the "Department"), Office of the Inspector General (OIG) regarding efforts by the Department, particularly the Federal Bureau of Investigation (FBI), U.S. Attorneys' Offices, Criminal Division, and Civil Division, as a part of the Attorney General's Financial Fraud Enforcement Task Force (FFETF), to address mortgage fraud generally between fiscal years 2009 and 2011. As part of its work, OIG inquired into the policies and practices concerning how case data was collected and reported regarding mortgage fraud. The OIG report contains seven recommendations related to that inquiry. We agree with these recommendations, although we note here several points that deserve further emphasis.

As an initial matter, the Department has focused successfully on mortgage fraud violations. As the FBI data in the audit report itself reflects, the number of mortgage fraud convictions more than doubled from FY 2009 to FY 2010, *i.e.*, from 555 to 1,087 convictions, and then increased further in FY 2011 to 1,118 convictions.



Further, and as the FBI data in the audit report also reflects, mortgage fraud indictments nearly doubled from 873 indictment in FY 2009 to 1,565 indictments in FY 2010, and then leveled off at 1,230 indictments in FY 2011. This set of statistics reflects a rapid mobilization of Department resources to combat mortgage fraud during this period, and provides strong indicators of DOJ's success in investigating and prosecuting mortgage fraud.

The Department also added significant infrastructure as a part of its mortgage fraud efforts. As a part of its audit, OIG visited five U.S. Attorneys' Offices and found that all five offices had an Assistant U.S. Attorney (AUSA) who was assigned to be that office's mortgage fraud coordinator. These coordinators play an important role in helping AUSAs stay updated on developments in mortgage fraud enforcement, investigative techniques, and prosecutorial strategies, and they have expanded the ability of DOJ to build and prosecute mortgage fraud cases. Similarly, the audit report also makes reference to the approximately 90 multi-agency task forces and working groups dedicated to mortgage fraud. These groups exist throughout the country and act as a resource multiplier, enabling a dedicated staff of AUSAs, FBI Special Agents, and investigators from other agencies to communicate and coordinate mortgage fraud efforts.

During the audit period, the Department also held specialized training programs in mortgage fraud. For example, in March 2010, the FFETF's Mortgage Fraud Working Group brought together federal and state enforcement attorneys for a three-day training to cover the operation of mortgage fraud task forces, federal-state cooperation and coordination in combating mortgage fraud, civil tools, state tools, case studies, and discovery issues. This was the first training of its kind and included approximately 130 attorneys. See *First Year Report for the Financial Fraud Enforcement Task Force* § 4.10 (2010), available at <http://www.stopfraud.gov/docs/FFETF-Report-LR.pdf> ("*First Year Report*"). Later in 2010, and again 2011, the Department held follow-up trainings and seminars covering mortgage fraud.

On top of training and conferences, the Mortgage Fraud Working Group also held regional summits around the country during the audit period in Miami, Detroit, Phoenix, Columbus, Fresno, and Los Angeles. See *First Year Report* § 3.5. During those summits, the public came together to hear from law enforcement, victims, housing counselors, industry experts and others to discuss and assess mortgage fraud issues in that community. *Id.* The regional summits also included closed sessions with regional law enforcement authorities to discuss strategies, resources, and initiatives to successfully combat mortgage fraud. *Id.*

In conducting its audit, OIG identified issues with the Department's data collection and reporting process, focusing in particular on the policies and practices surrounding the data cited in the Department's October 9, 2012 announcement associated with the Distressed Homeowner Initiative (DHI). On August 9, 2013, the Department released revised statistics to correct the numbers previously released. Indeed, when questions were raised regarding the correctness of the statistics, the FBI, the Executive Office of U.S. Attorneys (EOUSA), and the U.S. Attorneys' Offices began working to determine the source of the error and to determine the correct data. While it took some time to fully verify the set of data, we issued corrections approximately six months ago and took steps to modify press releases and other public statements to reflect the correct statistics. While the errors associated with the data in the initial DHI announcement were related to the unique nature of that effort, the Department has committed to putting robust measures in place to help ensure correct reporting of future data in press releases and conferences.

In any event, the DHI reporting does not detract from the successes that the Department achieved during the audit period of 2009 to 2011. Indeed, in addition to the high overall charging and conviction rates listed above, the Department has brought significant criminal and civil enforcement actions against company officials for conducting mortgage fraud resulting in significant losses. For example, in the criminal enforcement context, the Department secured a conviction in 2011 against Lee Bentley Farkas, the former chairman of a private mortgage lending company, Taylor, Bean & Whitaker, for Farkas's role in a more than \$2.9 billion fraud scheme that contributed to the failure of Colonial Bank, one of the 25 largest banks in the United

States in 2009. In the civil context, the Department and 49 state Attorneys General reached a \$25 billion agreement with the nation's five largest mortgage servicers in February 2012 to address mortgage loan servicing and foreclosure abuses. This package of agreements, which was proposed as the result of investigative work in 2011, was the largest federal-state civil settlement ever obtained. Under the settlement, the mortgage servicers agreed to pay \$5 billion in cash, and committed to provide \$20 billion in consumer relief to struggling homeowners. The mortgage servicers also agreed to implement tough new servicing standards designed to protect consumers from future abuses. *See also First Year Report*, §§ 4.10-4.15 (providing additional criminal and civil enforcement examples).

To address its concerns regarding data collection and reporting, OIG has made seven recommendations. We concur with each recommendation, and for ease of review, each recommendation is followed by the Department's response.

Recommendation No. 1 to the Department of Justice, as the Chair of the Financial Enforcement Task Force: "Ensure that all agencies update online and other publicly available materials related to the Distressed Homeowner Initiative, acknowledge the corrections to the inaccurately reported statistics, and notify any key stakeholders of the changes."

Response: Concur. The Department has conducted a review of all actions to date, and all components have updated or deleted any inaccurate information regarding DHI. Given that the corrective actions necessary to resolve this recommendation have been taken already, this recommendation should be closed.

Recommendation No. 2 to the Department of Justice, as the Chair of the Financial Fraud Enforcement Task Force: "Revisit the results of Operation Stolen Dreams to determine if corrective action on the publicly reported results is necessary."

Response: Concur. In conjunction with the FBI, the Department will review the methodology used to collect the results of Operation Stolen Dreams, which were released publicly to determine if corrective action is necessary. If corrective action is necessary, the Department will work with the FBI to ensure any public records that contain material discrepancies are corrected.

Recommendation No. 3 to the Department of Justice: "Implement a methodology for properly soliciting, collecting, and reviewing information before publicly reporting results."

Response: Concur. The Department will issue and implement a set of best practices for soliciting, collecting, and reviewing information before publicly reporting results.

Recommendation No. 4 to the FBI: "Revisit its existing guidance on initiating a mortgage fraud UCO [undercover operations] and ensure that this training reaches all levels within the field."

Response: Concur. The FBI will review its existing guidance and ensure necessary training reaches all levels of investigative personnel responsible for mortgage fraud investigations.

Recommendation No. 5 to the Department of Justice and EOUSA: "Direct all USAOs to periodically assess any monetary thresholds applied to mortgage fraud cases to ensure they are reasonably based upon the threat within their respective jurisdictions and adequately allow for non-monetary harms that result from mortgage fraud schemes, as well as ensure that law enforcement agencies in their respective districts have a clear understanding of any limiting factors being applied to such cases."

Response: Concur. The Department has already directed USAOs to assess prosecution thresholds for both violent and white collar crime, consistent with the Attorney General's *Memorandum on Federal Prosecution Priorities*, dated August 12, 2013. As a part of implementing the Attorney General's policy, we will also assess any money thresholds applied to mortgage fraud cases.

Recommendation No. 6 to the Department of Justice and EOUSA: "Develop a method to capture additional data that will allow DOJ to better understand the results of its efforts in investigating and prosecuting mortgage fraud and to identify the position of mortgage fraud defendants within an organization."

Response: Concur. While the Department already has a good understanding of the results of its efforts in addressing mortgage fraud, the Department will continue to evaluate and reassess its existing data collection mechanisms for allowing the Department to better understand the results of its efforts in investigating and prosecuting mortgage fraud and to identify the position of mortgage fraud defendants within an organization. Indeed, EOUSA has already begun considering the addition of a LIONS field for "occupation" in financial fraud and mortgage fraud cases.

Recommendation No. 7 to the Department of Justice and EOUSA: "Develop a method to readily identify mortgage fraud criminal and civil enforcement efforts for reporting purposes."

Response: Concur. The Department will review existing data collection procedures to improve upon the current system of identifying mortgage fraud cases for reporting purposes. We note that the Department already has methods to readily identify mortgage fraud criminal and civil enforcement efforts for reporting purposes, including LIONS in

the U.S. Attorneys' Offices and the Automated Case Tracking System (ACTS) in the Criminal Division. Indeed, ACTS contains a separate program category known as "MF" to target mortgage fraud cases being investigated and prosecuted in the Criminal Division, and LIONS also has a code associated with mortgage fraud cases. With respect to civil cases, as the audit report acknowledges, the Department's Civil Division already tracks civil mortgage fraud cases nationwide. Nevertheless, the Department will aim to improve upon its current system by considering the implementation of additional procedures, including, for example, reminders to prosecutors to promptly input and check numbers for mortgage fraud cases.

cc: Tony West, Associate Attorney General
Mark Guiliano, Federal Bureau of Investigation
Mythili Raman, Criminal Division
Stuart Delery, Civil Division
Brian Fallon, Office of Public Affairs
Marshall Jarrett, Executive Office for United States Attorneys
Benjamin Wagner, U.S. Attorney's Office for the Eastern District of California

**OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY
OF ACTIONS NECESSARY TO CLOSE THE REPORT**

The OIG provided a draft of this audit report to the Department of Justice (Department). The Department's response is incorporated in Appendix VI of this final report. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation:

- 1. Ensure that all agencies update online and other publicly available materials related to the Distressed Homeowner Initiative, acknowledge the corrections to the inaccurately reported statistics, and notify any key stakeholders of the changes.**

Resolved. The Department concurred with our recommendation. In its response, the Department stated it conducted a review of all actions to date, and all components have updated or deleted any inaccurate information regarding DHI. Based on this response the Department believes that this recommendation should be closed.

This recommendation can be closed when we receive evidence that all Department components have updated their online and publically available materials related to the Distressed Homeowners Initiative.

- 2. Revisit the results of Operation Stolen Dreams to determine if corrective action on the publicly reported results is necessary.**

Resolved. The Department concurred with our recommendation. In its response, the Department stated that in conjunction with the FBI, it will review the methodology used to collect the results of Operation Stolen Dreams, which were released publicly, to determine if corrective action is necessary. If corrective action is necessary, the Department stated that it will work with the FBI to ensure any public records that contain material discrepancies are corrected.

This recommendation can be closed when we receive evidence that the Department and the FBI have reviewed the results of Operation Stolen Dreams and confirmed whether material discrepancies were found. If material discrepancies are found, the recommendation can be closed when the necessary public records are corrected.

- 3. Implement a methodology for properly soliciting, collecting, and reviewing information before publicly reporting results.**

Resolved. The Department concurred with our recommendation. In its response, the Department stated that it will issue and implement a set of best

practices for soliciting, collecting, and reviewing information before publicly reporting results.

This recommendation can be closed when we receive evidence that the Department issued and implemented a set of best practices for soliciting, collecting, and reviewing information before publicly reporting results.

4. Revisit its existing guidance on initiating a mortgage fraud UCO and ensure that this training reaches all levels within the field.

Resolved. The Department concurred with our recommendation. In its response, the Department stated that the FBI will review its existing guidance and ensure necessary training reaches all levels of investigative personnel responsible for mortgage fraud investigations.

This recommendation can be closed when we receive evidence that the FBI reviewed its existing guidance and ensured that necessary training reached all levels of investigative personnel responsible for mortgage fraud investigations.

5. Direct all USAOs to periodically assess any monetary thresholds applied to mortgage fraud cases to ensure they are reasonably based upon the threat within their respective jurisdictions and adequately allow for non-monetary harms that result from mortgage fraud schemes, as well as ensure that law enforcement agencies in their respective districts have a clear understanding of any limiting factors being applied to such cases.

Resolved. The Department concurred with our recommendation. In its response, the Department stated that it has directed USAOs to assess prosecution thresholds for both violent and white collar crime, consistent with the Attorney General's *Memorandum on Federal Prosecution Priorities*, dated August 12, 2013. Also, as a part of implementing the Attorney General's policy, USAOs will assess any money thresholds applied to mortgage fraud cases.

This recommendation can be closed when we receive evidence that monetary thresholds applied to mortgage fraud cases were assessed as part of the Department's implementation of the Attorney General's *Memorandum on Federal Prosecution Priorities*, dated August 12, 2013.

6. Develop a method to capture additional data that will allow DOJ to better understand the results of its efforts in investigating and prosecuting mortgage fraud and to identify the position of mortgage fraud defendants within an organization.

Resolved. The Department concurred with our recommendation. In its response, the Department stated that it will evaluate and reassess its existing data collection mechanisms for allowing the Department to better understand

the results of its efforts in investigating and prosecuting mortgage fraud and to identify the position of mortgage fraud defendants within an organization.

In addition to an evaluation and reassessment of its existing data collection mechanisms related to the investigation and prosecution of mortgage fraud cases, this recommendation can be closed when we receive evidence that the Department has developed a method to capture additional data related to identifying the position of mortgage fraud defendants within an organization.

7. Develop a method to readily identify mortgage fraud criminal and civil enforcement efforts for reporting purposes.

Resolved. The Department concurred with our recommendation. In its response, the Department stated that it will review existing data collection procedures to improve upon the current system of identifying mortgage fraud cases for reporting purposes and will aim to improve upon its current system by considering the implementation of additional procedures, including, for example, reminders to prosecutors to promptly input and check numbers for mortgage fraud cases.

This recommendation can be closed when we receive evidence that the Department has developed a method to readily identify mortgage fraud criminal and civil enforcement efforts for reporting purposes.