White Collar Crime Trends – Once a Ponzi, Always a Ponzi

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FBI - Cleveland

Federal Bureau of Investigation

- The Original Ponzi
- The Evolution of White Collar Crime
  - Schemes
  - Access to Victims
  - Duration of the Fraud
  - Law Enforcement Efforts
- Challenges faced by Law Enforcement
  - Technology

Mr. Ponzi

Carlo Pietro Giovanni Guglielmo Tebaldo Ponzi

- DOB – 3/3/1882 DOD – 1/18/1949
- An Artistry of Investment Schemes
  - 50% return in 45 days, 100% return in 90 days
- February 1920 - $5,000
- May 1920 - $420,000
- August 1920 - $20 million
- Key to success
  - Used new investor money to pay existing investors
- Consequences
  - Six banks failed with investor losses at $20 million.
  - Ponzi was sentenced to five years (and another 7 yrs on state charges)

Time and Time Again

Tom Petters
Joanne Schneider
Paul Burks – Zeek Rewards
Robert Allen Stanford
Scott Rothstein
Bernie Madoff
Peter Lombardi
Lou Pearlman
Russell Wasendorf
Dona Branca
William "520%" Miller
Joseph Forte
Gerald Payne and Greater Ministries International
MMM

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Time and Time Again

Tom Petters
- 1995 – 09/2008
- $3.65 Billion
- Sentenced to 50 years – 04/2010.

Bernie Madoff
- 1980s – 12/2008
- $65 Billion
- Sentenced to 150 years – 06/2009

Robert Allen Stanford
- 1990 – 02/2010
- $8 Billion
- Sentenced to 110 years – 06/2012

Russell Wasendorf
- Peregrine – Cedar Falls, Iowa
- 1990s - 2012
- $215 million losses
- Sentenced to 50 years – 01/2013

Gerald Payne and Greater Ministries International
- 1993 – 01/1999
- $500 million
- 18,000 victims
- Sentenced to 27 years – 08/2001

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Why the Increase in Frauds?

What has trended up since the 1900s?

- GDP
- Personal Income
- Net Worth
- U.S. Population

- **White Collar Crime**

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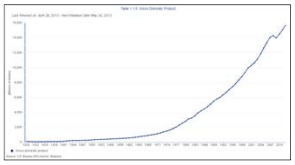
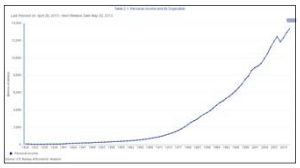
Why the Increase in Frauds?



U.S. GDP

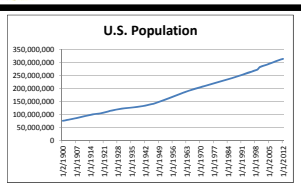
- 1929 – $103.6 billion
- 2012 - $15.7 trillion



U.S. Personal Income

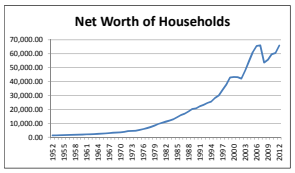
- 1929 – $84.9 billion
- 2012 - $13.4 trillion

Why the Increase in Frauds?



U.S. Population

- 1900 – 76.1 million
- 2012 – 314.3 million



U.S. Net Worth

- 1952 – $1.2 trillion
- 2012 - $66.1 trillion

Why the Increase in Frauds?

WEALTH & ACCESS! WEALTH & ACCESS!

Progression of Communication Mediums

- Snail Mail
- Telephone (anyone remember 4 digit numbers?)
- Cellular Telephones
- Internet
- Social Media

Progression of Financial Transfer Mediums

- Too many to list.

Adapting to the Times

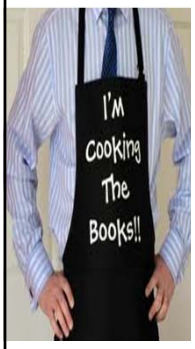
- Today's WCC Squad consists of :
  - SA, FOA, FA, IA, SOS, OST, CFI
- Our backgrounds
  - Accountants
  - Stock Broker
  - Attorneys
  - Teacher
  - Investment Banker
  - Engineer
  - Social Worker

Cyclical Nature of WCC

Evaluating/Identifying WCC Trends is Dependent Upon:

1. Business / Credit Cycles
   - Schemes can be more/less prevalent during certain economic periods.
2. Legislation / Regulation
3. Demographics
   - Our aging society.
   - Baby Boomers are retiring.
4. New Technology – Can LE still follow the money?
5. New Financial Products (ie. synthetic CDOs)

The (Not So) Intelligent Thief



'Amateur.'

An Incentive to Commit WCC

Crime That No Longer Pays
"Bank Robberies on the Decline as Criminals See Greater Rewards in Online Theft" WSJ 2/4/13

- Bank robberies have been cut nearly in half over the past 10 years.

U.S. Sentencing Guidelines
Base Offense Robbery – 33-41 months

Base Offense Theft/Embezzlement – 0-6 months

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Fraud or Incompetence?

"I was spreading some risk around, and apparently it all wound up in your portfolio."

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Where do we stand today?

1. The economy is chugging along just above stall speed.
2. Unemployment rate is persistently high.
3. Political and economic instabilities throughout the world could derail recovery efforts.
4. Negative equity will continue to plaque homeowners.
5. Foreclosures are still an issue.

So, people living on Main Street are not fully healed.

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What does Charlie Munger, Vice Chairman of Berkshire Hathaway, think about our banking environment today?

Regarding Cyprus:

"You can't trust bankers to govern themselves. A banker who is allowed to borrow money at X and loan it out at X plus Y will just go crazy and do too much of it."

"I do not think you can trust bankers to control themselves. They're like heroin addicts." CNBC 5/3/13

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Going forward, what factors will influence fraud schemes targeting the individual?

1. The American population is getting older with the Baby Boomers starting to retire.
2. The wealth of this country primarily belongs to those who are retired or will soon retire.
3. Who needs lessons on hacking when we are giving criminals the path to our identifiable information, habits, and location. (ie. Facebook)

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Going forward, what factors will influence fraud schemes targeting businesses?

1. The human element – preying on vulnerable positions with access to funds.
   - Disguising email communications targeting accounts payable clerks.
2. The human element – the longtime employee still experiencing stresses inside and outside the workplace. (Remember the fraud triangle – Opportunity, Incentive/Pressure, Rationalization)
3. YOY Performance – External Pressures will mount

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No Surprises - The Uptick in WCC

- Crimes reported today are a result of conditions from years ago.

Duration of Fraud Based on Position

Position	Median Months to Detect
Employee	12
Manager	24
Owner/Executive	24
Other	10

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Duration for other categories of fraud are oftentimes notably longer (ie. Madoff).

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Corporate Fraud Trends

Current Trends:

- Increase in Insider Trading Matters
- Steady caseload of accounting frauds and embezzlements
- Mortgage Fraud is still occurring
- FBI Corporate Fraud & Securities/Investment Fraud caseload increased by 37% from FY 2007 TO FY 2011

Issues:

- Prime environment for increased internal accounting frauds
- Tough Economy --- More incentive for fraud
- Still feeling impact of Legislation (Dodd Frank, etc.)
- Role of IT/Cyber Crimes/Intrusions

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Mortgage Fraud Threats

What is a Mortgage Fraudster to do in current environment?

1. Foreclosure Rescue Fraud
   a) Bankruptcy Fraud
2. Loan Modification / Debt Relief Fraud
3. Short Sale Fraud
4. Rental Fraud
5. Reverse Mortgages
6. Occupancy Fraud (Cash for Keys)
7. Identity Theft – HELOCs, False Liens, Theft of Title

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The Obstacles

1. Technological challenges have grown
   a) Email
      1. The dreaded CC: - How many emails do you simply delete and not actually read?
      2. The hacker: Did you actually see the individual send the email?
      3. Context: Is it possible that an email viewed individually would distort its meaning?
   b) Information Overload
      1. Searching through Gigabytes of information for the smoking gun.
   c) Voice over Internet
   d) Instant Messaging

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The Obstacles

The challenges with investigating and prosecuting WCC have grown.

2. The Global Economy
   - Greater amount of cases with International nexus
3. Complexity of the cases
   - The more of it, the greater the challenge in presenting a case to a jury.
4. Duration of Investigation & Resources Required

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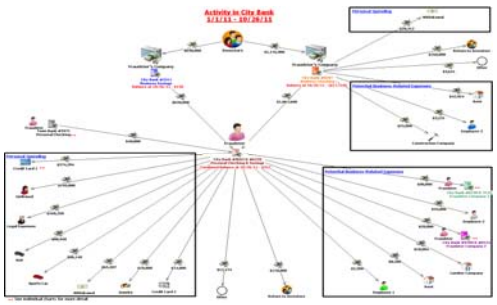
Financial Exhibits



UNCLASSIFIED

U.S. vs John Keenan, et al

Tip of the Iceberg – Use of the Internet for Raising Capital

- John Keenan and Anzelle Whitsett operated numerous entities under assumed names.

Easy Money

- Online Advertising as a lender
- Required an Advance Fee for providing loans

Summary

- April 2007 – October 2011
- 50 Victims
- >$2 million losses

Results

- 63 Months for Keenan
- 46 Months for Whitsett

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U.S. vs Lubos Arnold

PolyOne Corporation – Victim

The Fraud

- Lubos Arnold, Area Sales Representative (PolyOne CR S.R.O.) embezzled $2.3 million from June 2009 through June 2011.
  - False vendor accounts
  - False statements to US headquarters
  - Did not distribute qualified audit report for subsidiary

The Motive

- Believed to receive $15,827,400 inheritance, held with Homeland Security Department and had to pay "duty fees".

The Outcome

- 09/2011, arrested at Cleveland Hopkins Airport
- 10/2011, Guilty Plea.
- 12/2011 – Sentenced to 30 months in prison.

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U.S. vs. Kevin Moore

Bank Managers Still Embezzling

- Kevin Moore managed a Huntington National Bank branch in Mansfield.
- From August 2008 to November 2010, Moore stole $1.7 million from HNB. Moore also stole $360,000 in a phony investment fraud scheme.

The M.O.

- Cashing out customer Certificate of Deposits

The Why and How did it work?

- CD only customers did not receive a monthly statement.
- Moore's clients trusted him and only conducted business personally with Moore.

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U.S. vs. Kevin Moore

The Why and How did it work?

- Moore would entice customers to renew the CDs with an inflated interest rate allowing him to perpetuate the fraud.
- Robbed Peter to pay Paul when CDs were cashed out.

Motivation – No surprises here:

- GAMBLING

That Investment Fraud Scheme?

- Swindled those who trusted him - A member of his father's church where Moore served as an Assistant Pastor).

The Pitch

- A business investment he learned about in Las Vegas. The four year trading program (with lulling payments).

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U.S. vs. Kevin Moore

One After Another

- Embezzlement of proceeds from client CDs
- Investment fraud scheme

Defrauded Key Bank (while employed as a manager)

- Moore established a personal signature loan ($15k) and a LOC ($70k) under the name of his friend who at the time was unaware.
- Moore maxed out the lines.
- He went on to falsify deposits to the LOC account in order to access additional funds.

March 26, 2013 – Sentenced to 51 months in prison and ordered to pay $2.1 million in restitution.

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Questions?

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