



Department of Justice

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MORE THAN 400 DEFENDANTS CHARGED FOR ROLES IN MORTGAGE FRAUD SCHEMES AS PART OF OPERATION "MALICIOUS MORTGAGE"

Two Senior Managers of Failed Bear Stearns Hedge Funds Indicted Today in Separate Mortgage-Related Securities Fraud Case

WASHINGTON – The Department of Justice and Federal Bureau of Investigation (FBI) announced today a national takedown of mortgage fraud schemes, the culmination of substantial coordinated efforts during the last three and a half months to identify, arrest, and prosecute mortgage fraud violators through the United States. Operation Malicious Mortgage highlights the strong enforcement response undertaken by the Department of Justice and its law enforcement partners to combat the threat mortgage fraud poses to the U.S. housing industry and worldwide credit markets.

From March 1 to June 18, 2008, Operation Malicious Mortgage resulted in 144 mortgage fraud cases in which 406 defendants were charged. Yesterday, 60 arrests were made in mortgage fraud-related cases in 15 districts. Charges in Operation Malicious Mortgage cases were brought in every region of the United States and in more than 50 judicial districts by U.S. Attorneys' Offices based upon the law enforcement and investigative efforts of participating law enforcement agencies. The FBI estimates that approximately \$1 billion in losses were inflicted by the mortgage fraud schemes employed in these cases.

In addition to fraud directly related to individual mortgages, the Department is committed to investigating and prosecuting cases of mortgage-related securities fraud. Today, the U.S. Attorney's Office for the Eastern District of New York announced an indictment against two senior managers of failed Bear Stearns hedge funds, charging Ralph Cioffi and Mathew Tannin with conspiracy, securities fraud and wire fraud. Cioffi was also charged with insider trading. The indictment alleges that the managers marketed the two funds as a low risk strategy, backed by a pool of debt securities such as mortgages. The indictment alleges that by March 2007, the managers believed the funds were in grave condition and at risk of collapse, but made misrepresentations to stave off investor withdrawal. The funds subsequently collapsed in the summer of 2007 resulting in approximately \$1.4 billion in losses to investors.

"Mortgage fraud and related securities fraud pose a significant threat to our economy, to the stability of our nation's housing market and to the peace of mind of millions of American homeowners," said Deputy Attorney General Mark R. Filip. "Operation Malicious Mortgage and our other mortgage-related enforcement actions demonstrate the Justice Department's commitment and determination to combat these criminal schemes, hold their perpetrators accountable and help restore stability and confidence in our housing and credit markets."

“Operation Malicious Mortgage is a concerted, joint law enforcement and prosecutorial effort aimed at disrupting individuals and groups engaged in mortgage fraud,” said FBI Director Robert S. Mueller, III. “This operation is an example of our unified commitment to address this significant crime problem. The FBI will continue to direct investigative and analytic resources towards mortgage fraud and corporate securities fraud that threaten our nation’s economy.”

Operation Malicious Mortgage represents the joint collaborative efforts of the FBI, U.S. Postal Inspection Service, Internal Revenue Service-Criminal Investigation Division, U.S. Immigration and Customs Enforcement, U.S. Secret Service, U.S. Trustee Program, Department of Housing and Urban Development Office of the Inspector General, Department of Veterans Affairs Office of the Inspector General, and Federal Deposit Insurance Corporation Office of the Inspector General. Operation Malicious Mortgage is the most recent coordinated sweep in an ongoing law enforcement effort to combat mortgage fraud, which also included Operation Continued Action in 2004 and Operation Quick Flip in 2005.

Mortgage frauds employ a variety of tactics including misrepresentations, deceit and other criminal abuses to fund, purchase or insure mortgage loans. Operation Malicious Mortgage addresses primarily three types of mortgage fraud schemes: lending fraud, foreclosure rescue scams and mortgage-related bankruptcy schemes. Lending fraud frequently involves multiple loan transactions in which industry professionals construct mortgage transactions based on gross fraudulent misrepresentations about the borrower’s financial status, such as overstating the borrower’s income or assets, using false or fictitious employment records or inflating property values. Foreclosure rescue scams involve criminals who target legitimate homeowners in dire financial circumstances and fraudulently collect fees for foreclosure prevention services or obtain ownership interests in residential properties. Both of these fraudulent mortgage schemes may be furthered by filing bankruptcy petitions that automatically stay foreclosure.

The President’s Corporate Fraud Task Force, chaired by Deputy Attorney General Filip, is also responding to issues raised by mortgage fraud in the corporate sector. Created in 2002 to investigate and prosecute significant financial crimes, the Task Force includes representatives from ten federal departments, commissions and agencies, in addition to seven U.S. Attorney’s Offices and two Divisions within the Department of Justice, combining the experience of thousands of investigators, attorneys, accountants and regulatory experts. Since July 2002, the Department of Justice has obtained nearly 1,300 corporate fraud convictions, including the convictions of more than 200 chief executive officers and corporate presidents, more than 120 corporate vice presidents and more than 50 chief financial officers.

An indictment is not evidence of guilt. All persons charged with a crime are presumed innocent until proven guilty beyond a reasonable doubt.

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