

**Economic Crime and Globalisation –
New Challenges for the Police**

BKA Autumn Conference from 12 to 14 November 2008

Cases related to Subprime Mortgage Fraud

Summary of the presentation given by

Michael C. Mines

FBI

“The Federal Bureau of Investigation’s Response to the Collapse of the Sub-Prime Mortgage Market and its Impact on World Financial Markets”

Overview of the Presentation by

Michael C. Mines

Deputy Assistant Director

Criminal Investigative Division

Federal Bureau of Investigation

US Department of Justice

Media reporting in recent months ascribes not only the rise in the U.S. home mortgage foreclosure rate to 5%, but also the current “economic crisis” in the U.S., as manifested by the failure of financial institutions, the decline in the stock markets, and the tightening in the credit markets, to the collapse of the “Sub Prime Mortgage” market. As you are aware, European commercial and investment banks, as well as institutional and individual investors, have purchased investments comprised of or backed by U.S. “sub prime mortgages”. In recent weeks, media reporting has reflected that some European banks required an infusion of capital to stave off their failure.

When real estate values declined and mortgage interest rates rose in the U.S., borrowers with little or no equity in their homes or real estate investments and with mortgages with balloon payments that came due or with adjustable interest rates that reset higher, were unable or unwilling to re-finance their home or real estate investments, resulting in “distress sales” and foreclosures, further depressing real estate values. The depressed real estate values and the Securities and Exchange Commission (SEC) “mark to market” rule resulted in the mortgage holders being under-collateralized and under-capitalized, limiting their ability to extend new loans, further negatively impacting the credit market. Investors found their “investment vehicles” composed of “sub prime mortgages” to be either worth pennies on the dollar or difficult to accurately value.

This presentation will address what “sub prime mortgages” are, how they came into being, and how they were marketed as well as what precipitated that market’s collapse. I will address how the Federal Bureau of Investigation (FBI) became involved in the

matter as well as its jurisdiction and response thereto. The presentation will cover the FBI's findings with respect to the criminal activity pertaining to the origination of the mortgages, their packaging, and sale as investments as well as the criminal violations associated with "corporate fraud" related to the decline in the market value of said mortgages and associated "investment vehicles". I will describe the partnerships and task forces that have been formed to leverage investigative and prosecutive expertise and resources and, in summation, share the "law enforcement lessons learned" to date.