



Department of Justice

"WHITE COLLAR CRIME: THE NATURE OF THE THREAT"

REMARKS

BY

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Most of you, I'm sure, have seen, if only on TV, one of my favorite Jimmy Stewart movies -- It's A Wonderful Life. Jimmy Stewart plays George Bailey -- president of Bailey Building and Loan -- a reluctant banker, who always plans to leave his hometown of Bedford Falls. But every time he starts to head out of town, he has to turn around and save it again. He even gives up his honeymoon, doling out \$2000 cash in hand to stop a run on the bank. Eventually he reaches a point of despair. His Uncle Billy has mislaid \$8000, and the bank examiner is due the day before Christmas. George is only kept from throwing himself off a bridge by the arrival of his guardian angel -- Clarence. "I wish I'd never been born," George moans. So Clarence -- a pretty bright angel, long overdue for his wings -- actually shows George what Bedford Falls would've been like if he hadn't lived -- a total sinkhole called Pottersville. And we're all very glad to see George rush back home to hug Donna Reed, safe and -- thanks to a basket full of money from the townspeople -- solvent again.

I recall George's banking career to you because -- for all that Forties' romance -- George Bailey is still how we believe bankers ought to behave. Bailey Building and Loan you will recognize as an important community institution. George's job was to help his community grow, in particular, to help families buy new homes. In fact, any sequel would have had George Bailey taking part in a genuine miracle even his guardian angel couldn't have foreseen -- the postwar housing boom. Imagine -- in the last fifty years, 70 million new homes have been built, three

quarters of the existing dwellings in this country. Bankers like George Bailey -- and some of you, I'm sure, here today -- loaned \$2.2 trillion in mortgage money, secured by a national housing stock worth \$4 trillion. The S & Ls underwrote that miracle, which let so many of us live, in reality, a Wonderful Life.

But in contrast, listen to what Shirley Lampel, a widow, had to say after losing \$30,000 -- her whole life savings, which she had been deceived into thinking were insured -- when the Lincoln Savings & Loan went belly up in 1989.

"It used to be that a person puts on a mask and goes in with a gun and robs a bank," said Mrs. Lampel. "Now we go into a bank and we get mugged. When did the bank become the crook?"

When did the bank become the crook?

This is only one of the reverberating questions, raised by the nation's S & L crisis. We know that any number of financial and fiduciary failings contributed to their massive collapse, but today I want to turn your attention to the moral failing, the criminality that also stands revealed. Attorneys from our Department of Justice Fraud Squad talk about an "epidemic of fraud" among the S & L's presently in default. Twenty-five to thirty percent, conservatively, of these "thrift failures" can be laid to wrong-doing by miscreant bank officials.

Only last week, at the Department of Justice President Bush and I assembled our 93 U.S. Attorneys from around the country to a day-long conference on how to step up the pressure upon those perpetrators of what we have come to call "crime in the suites".

The challenge is a substantial one, because these white-collar criminals are different.

They come not as threatening intruders or violent assailants, but in the very good company of those we implicitly trust. There are no gun shots, no blood-stained knives, no wailing police sirens at the scene of their crimes, but white-collar criminals still leave their victims -- such as Mrs. Lampel -- emotionally traumatized as well as economically destitute. Individual financial losses from their thievery far exceed the combined "take" from the more publicized thefts of robbery, larceny, and burglary.

For society as a whole, white-collar criminals undermine our faith in major institutions of business and finance. They can cause job loss, false pricing, deterioration of standards -- and coupled with failure to inspect, to report, to account, as in the case of the S & Ls -- a malaise of public anxiety and cynicism that is the bane of good government itself.

Finally, white-collar crime loads tremendous losses on the country's economy -- most to be borne by consumers and taxpayers. Total losses from the S & L collapse are estimated by some to be as high as \$500 billion. And the direct losses are compounded by an undermining of economic growth, the actual undoing of future chances for that Wonderful Life.

Those are some of the dire results of corrupt practices that too often plagued the nineteen eighties -- as opposed to the honest business done during that decade of unprecedented economic growth. Much activity came from old-fashioned hard work and entrepreneurial ingenuity, but too much of it slipped beyond legitimate risk into White Collar Crime. Our investigations have catalogued seven different and distinct types of white-collar criminals.

In addition to the S & L predators, they include:

- * Defense contractors who lied, bribed, and spied in committing procurement fraud.

- * Investment bankers, brokers, and traders who engaged in insider trading.

- * HUD contractors and consultants seeking to serve "the greedy rather than the needy."

* Money-launderers desperately trying to cleanse the blood stains from illegal drug proceeds.

* Price-fixers and others colluding in restraint of a free market through antitrust violations.

* And, finally, public officials who aid and abet all of the foregoing in their illegal undertakings.

You might notice one peculiar thing, as these white-collar criminals join the line-up. They each leave a lot of paper behind. That is frequently the only way we can catch white-collar criminals -- by picking up the damning paper trail that can corral an embezzler, or expose a penny stock fraud, or unravel a bogus transaction on the falsely balanced books of an S & L.

But this is easier said than done. Having spent a dozen years myself as a corporate lawyer -- before ever trying a criminal case -- I can attest to how complicated even legitimate business transactions can be. When shifty operators start to bend such transactions into illegitimate shape -- to hide fraud, pay-offs, kickbacks, etc. -- that deliberate tangle is even harder to unravel. It takes much more than the police breaking down the doors and seizing the evidence. It requires adept craftsmen who can break open false books to discover hidden

assets. Catching a white-collar criminal still demands the kind of investigative probing Judge Samuel Seabury of New York used in his famous prosecutions of the corrupt in the 1920s. As described by his biographer,

"Seabury's technique was to perform the unspectacular job of research where it hurt: income tax returns, bank deposit slips, savings accounts of the accused's family, brokerage statements, real estate and other filed papers."

"Research where it hurts." That is exactly what we have undertaken, for example, against the S & L rip-offs -- the white-collar crime that most concerns the country today. Still searching the paper trail for patterns of fraud, bribery, and corruption in the S & L industry, we continue to winnow carefully through some 21,000 allegations, major and minor, against the troubled institutions of American banking. This search has already allowed us to identify some twenty institutions -- mostly in Texas, or here in Southern California -- that are the top-priority targets in our effort to fix criminal responsibility for the S & L crisis.

So we are embarked on a growing series of investigations to clear up the criminal side of the S & L mess. We are using an additional \$50 million voted us by Congress late last year -- to double Justice Department personnel devoted to prosecuting the S

& L crooks in 27 cities, including Los Angeles, employing the specific model of our highly successful Dallas Bank Fraud Task Force.

That Dallas Task Force has a record, to date, of 77 indictments and 52 convictions, including the entire executive suite of the notorious Vernon S & L. Three quarters of those convicted in Dallas have gone to jail, including Woody Lemons, former Vernon CEO, now serving a 30-year prison term. And earlier this month, Vernon's top man -- Don Dixon -- was indicted on 38 counts for activities surrounding illegal contributions to political candidates. He is alleged to have even bribed a Texas bank official with a Kansas hunting trip. They bagged a brace of pheasant and a bevy of Dallas Million Dollar Saloon dancers.

This is all part of the anti-white-collar-crime drive we now have underway nationwide, thanks to President Bush's budget initiative, during the early weeks of his administration. And we would be further along in this drive, were it not for Congressional delays and funding shortfalls.

Less than three weeks after George Bush's inauguration, I appeared before the Senate Banking Committee to outline the gravity of the S & L situation, and to seek that \$50 million to beef up our anti-fraud efforts during fiscal year 1990. Shortly thereafter, we requested 36.8 million additional dollars to "jump

start" our anti-white-collar-crime drive during 1989. The result? Congress turned down flat our request for the \$36.8 million, and delayed the \$50 million until late last year.

Nonetheless, our drive is up and running. Last year we secured a total of 791 convictions in major -- that is, over \$100,000 -- financial institution fraud cases. And the FBI has 530 failed financial institutions under current investigation. President Bush's admonition to pursue "the cheats, the chiselers, and the charlatans" in the S & L industry will be honored in full by his federal prosecutors within the Department of Justice.

One further observation about the S & L's. We fully understand the deep feelings about hard times in the Southwest -- the economic troubles faced during the collapse of real estate prices -- and we are happy to see that situation start to turn the corner again. But we must be clear that much of the root problem among too many of the S & Ls was not the economy. The problem, in too many cases, was outright criminality, pure and simple.

Falling oil prices, the bad real estate market, the general downturn did not form the criminal intent of the S & L rip-off architects. Like all con artists and swindlers, they fantasized pyramiding riches that would save them from the consequences of their illegal excesses. Profits from wild-cat banking would grow

so large -- even if there were violations of the law -- that they would escape judgment, be seen as pillars of finance. As such future pillars, they surely deserved the best at present -- even if they had to slip themselves the best under the table, with a share to those willing to look the other way.

And that is also why we must exercise more than due diligence against all types of White Collar Crime. In the case of the S & Ls, we must exercise an overdue diligence -- to protect the market integrity, honest enterprise, and fair profits of the greatest free economy on earth.

There are, of course, other such masters of manipulation. Some make the daily headlines or the top of the six o'clock news . . . the Michael Milken, the Leona Helmsleys, the Jim and Tammy Faye Bakkers. But the more systematic wrong-doers with their nefariously hidden schemes have been our most important targets. To list just a few:

* Insider traders and stock manipulators such as Ivan Boesky, Dennis Levine, Robert Freeman and Paul Bilzerian -- all sentenced to jail terms -- and Drexel, Burnham, Lambert fined a total of \$650 million for illegal trading activities.

* Those fifteen pit traders on the Chicago exchanges,

caught defrauding their customers -- "stung" by undercover FBI agents in Operations Sour Mash and Hedgeclipper.

* "Robin HUD," who illegally diverted \$5.6 million in mortgage settlement funds -- only one of nearly 800 present investigations into HUD Scandals -- sentenced to nearly four years in prison last week.

* Over 7000 federal, state, and local public officials convicted of public corruption -- including twenty-two members of Congress -- prosecuted by the Department's Public Integrity Section, since I started it fourteen years ago as Assistant Attorney General in our Criminal Division.

But in all of this heightened effort to pursue white-collar criminals, one root matter sometimes gets curiously lost: why are we doing it?

There is always the wrong-headed charge that going after white-collar crime is anti-business. Clearly, it is not. In fact, I have always looked upon our actions against White-Collar Crime as pro-business -- designed to forestall actions that could well subvert our free enterprise system. We are seeking to protect the valued institutions of that system when we act against illegal insider-trading, public corruption, or corporate violations.

At the same time, we are also protecting our citizenry. We prosecute white-collar crime for the sake of all our citizens, especially those who are most hard-pressed to pay the prices that are fixed artificially high, or the taxes that go only toward further abuse of the public trust. And in the case of money laundering, most especially those whose very futures are most threatened by high-profit drug-trafficking.

The President has directed that we make this a priority because we -- that is, the Feds, the Department of Justice -- are often the only ones with the investigative manpower and prosecutorial capacity and legal scope to handle the cases. White Collar Crime can't be effectively addressed by private suit or the local constabulary when it involves sophisticated conspiracies to defraud or complicated money laundering schemes reaching across international borders.

Our responsibility to prosecute White-Collar Crime is especially awesome during a time when so many elsewhere -- in Russia, and Eastern Europe, and indeed, the world over -- are looking to the United States for institutional wisdom. How can we advise others how to move toward democracy and free-market capitalism if we do not make every effort ourselves to preserve our institutions from reckless subornation? We must bolster and secure our system and the world's most exemplary exchange -- our

free marketplace -- against any depredation by those who would subvert their integrity.

In other words, even globally, we are in this for all the right Jimmy-Stewart reasons. We believe in George Bailey's approach to the banking business. Even more, we believe in protecting the values of institutions like Bailey Building and Loan, protecting them from fraud and manipulation and looting -- that serial run of white-collar crimes -- because upon such values depends the integrity of the whole system. We are helping protect George Bailey's customers, his depositors, his mortgage-holders, so that they too can enjoy the full fruits of their labor, the honest increment of their savings, and the real prospect for a Wonderful Life.

What I've really described for you today are Seven Deadly White-Collar Crimes -- much like the seven deadly sins of old -- though these slip by in more modern guise, more dissembling of purpose. I've given you their lineup for the last decade -- the 1980s. For this decade ahead -- the 1990s -- I can assure you they will be the focus of a renewed and aggressive federal law enforcement effort to help preserve prospects for that Wonderful Life for all Americans.