

## **Problem-Oriented Policing:**

### *The Perry Township Police and Mortgage Fraud Task Force*

#### **1. SUMMARY**

**Montgomery County** leads the state, and **Ohio** leads the nation, in home foreclosures. Mortgage fraud losses in **Ohio** have jumped into the millions of dollars over a two-year period in what has become one of the fastest-growing white-collar crimes in the nation. **Mortgage fraud is pervasive and growing.** The FBI identified **Ohio as one of the top 10 “hot spots”** in 2005 for mortgage and deed fraud.

Montgomery County Clerk of Courts Dan Foley gave testimony to the Ohio Senate Finance Committee on November 16, 2005 that Montgomery County experienced an increase of approximately 225% in the number of foreclosure filings from 1997 through the beginning of 2004 with foreclosures currently comprising 40% of all civil case filings in the county.

Mr. Foley indicated many of these foreclosures have been related to predatory lending and mortgage fraud schemes. His staff was one of the first to identify and analysis the problem locally.

Discussions took place as an informal task force assembled to address the problem. The only local law enforcement agency to offer assistance was the Perry Township

Police Department who has provided the task force director as well as investigative support.

In October 2005, Gregory Lockhart, U.S. Attorney for the Southern District of Ohio, publicly announced the **Miami Valley Mortgage Fraud Task Force**. This coincided with sentencing of 13 individuals pursuant to their guilty pleas on cases investigated by task force agencies working together.

In February 2006, the task force members moved into office space provided by the County Treasurer's Office to increase efficiency and pool resources. While the primary objective of the task force is criminal investigations, the identified problem is being attacked on a number of fronts including educating the public, police and financial institutions on how to identify mortgage schemes and new legislation purposed to address predatory lending. By raising public awareness, we can prevent, rather than respond to, mortgage fraud schemes.

Cases leading to indictment in November are successfully proceeding through the legal system as the Perry Township Police Department and other members of the Miami Valley Mortgage Task Force members focus on new prioritized targets.

## 2. Description

### Scanning

**Montgomery County leads the state, and Ohio leads the nation, in home foreclosures.** The number of home foreclosure cases comprised approximately 45% of all cases filed by the Montgomery County Clerk of Courts in 2005.

The problem began to surface in 2004 when the staff at the County Clerk of Courts determined that Montgomery County had a higher percentage of foreclosure cases as an overall percentage of their entire civil case volume, than any other county in Ohio. This created a sense of urgency about addressing the problem and caused questions to be raised as to why the foreclosures were so high.

While many foreclosures have no relationship to criminal activity, a significant number were identified as being structured by the same mortgage brokers, appraisers and title companies. It was not uncommon to find these individuals, or associates, selling and reselling the very same house, one foreclosure after another.

Mortgage fraud losses in Ohio have jumped into the millions of dollars over a two-year period in what has become one of the fastest-growing white-collar crimes in the

nation. These criminals are literally trying to steal the homes out from underneath unsuspecting citizens.

## **Analysis**

**Mortgage fraud is pervasive and growing.** Nationally, the Federal Bureau of Investigation reports that mortgage fraud losses jumped from \$429 million in 2004 to \$1 billion in 2005. The FBI identified Ohio as one of the top 10 “hot spots” in 2005 for mortgage and deed fraud.

Mortgage fraud can have a domino effect on the local housing market and the economy at large. The crime can take many forms, and combating it has become a priority at the local, state and federal level due to the current and potential impact. Not only does this fraud hurt lending institutions and ultimately the health of the U.S. economy, but also thousands of unsuspecting homeowners and investors every year. All consumers pay through increased interest rates and fees at banks. Property values and the appraisal process for an entire neighborhood are often skewed by the artificially inflated prices claimed by the scammers. The overvalued property can falsely inflate nearby home values while raising property taxes. When the scam, or sometimes referred to as property “flip” is uncovered, or homeowners defaults or both, values can just as easily plummet leaving other owners with over-valued homes

and “upside-down” mortgages. The flip becomes a “flop” as many of the houses are left unoccupied, not maintained, and often with broken windows or boarded up.

And the police, fire, and building inspectors are concerned, as we have seen in Dayton, the unoccupied homes become targets for other criminal activity from vandalism, drug abuse, and prostitution to arson. The mortgage fraud crooks are not just robbing lenders and individuals, they are robbing the neighborhoods - leaving homes abandoned, inviting crime and promoting urban blight. The Mortgage Fraud Task Force is one way we become the fix for the “broken window” theory of collateral crime.

With assistance from the computer techs, the foreclosures can be identified by zip code. This clearly delineated “hot spots” which were predominantly the lower income neighborhoods. The predators are targeting those who can least afford the loss and are most vulnerable. The criminal activity however is not isolated to these areas as the Mortgage Fraud Task Force has at least two cases involving properties exceeding four hundred thousand dollars.

## **Response**

In October 2005, Gregory Lockhart, U.S. Attorney for the Southern District of Ohio, publicly announced the **Miami Valley Mortgage Fraud Task Force**. This coincided with sentencing of 13 individuals pursuant to their guilty pleas on cases investigated by task force agencies working together.

The participating agencies of the Mortgage Fraud Task Force include:

- FBI
- IRS Criminal Division (IRS-CI)
- Office of Inspector General, Housing & Urban Development (HUD-OIG)
- Ohio Attorney General's Office, Consumer Fraud Division
- Ohio Department of Commerce (ODOC)
- United States Postal Inspection Service (USPIS)
- United States Bankruptcy Court
- **Perry Township Police Department**

Supporting agencies include the Montgomery County Treasurer's Office, Montgomery County Clerk of Court, and the Montgomery County Board of Commissioners.

In February 2006, task force agents moved into shared office space to increase efficiency and pool investigative resources. Daily operations are managed by **Task Force Director Terry Neely of the Perry Township Police Department** (retired Special Agent and Supervisor of Ohio Bureau of Criminal Investigations).

The lack of local law enforcement participation to date has been a result of several identified factors: (1) manpower shortages within the local agencies; (2) mortgage fraud is viewed as a "white-collar" crime and often not investigated by local law enforcement agencies, it is typically referred to the state or federal agencies; (3) competition for "bodies" – we have a DEA Task Force, Joint Terrorism Task Force, and a Major Case Task Force all operating in Montgomery County and departments often have to prioritize where to participate if they participate at all.

### **Assessment**

The Perry Township Police Department adheres to the "Broken Windows" Theory, strongly believing in this case that mortgage fraud schemes have a significant collateral effect on other crime and criminal activity.

***“As we establish with ever increasing certainty the prospect that corporate criminals will lose both their fortunes and their liberty, we will have gone a long way to restoring the integrity of the market and the confidence of the nation.”***

- Former Deputy Attorney General Thompson, explaining the goal of the [President's Corporate Fraud Task Force](#).-

While the above quote was made about corporate fraud, one might make a similar statement about mortgage fraud. They are both professional “white-collar” crime, both have been rampant, and both can make victims of us all. The FBI says 80 percent of mortgage fraud is done through industry insiders -- most often appraisers, but also bankers, lawyers, accountants and real estate brokers.

Mortgage fraud investigations often involve recovery of files stored on computers and detailed analysis of voluminous loan documents and financial records. These processes can be quite costly and take several months to complete. Prosecutions are also rather lengthy because mortgage fraud schemes typically involve multiple layers of transactions and large volumes of data, all of which must be presented through numerous witnesses.

And rarely do victims of mortgage fraud come eye to eye with the person trying to steal the property from right beneath their feet. The most widespread kind of mortgage fraud is the type of scam where cons use a combination of fraudulent



appraisals, doctored loan documents, inflated buyer incomes and the use of fake or "straw" owners who allow their identities or credit records to be used but have no real ownership in the house.

The Miami Valley Mortgage Fraud Task Force is comprised of some very knowledgeable and experienced investigators – most of which have investigated and successfully prosecuted these types of case previously.

This task force commences investigations from a number of sources:

- Consumer complaints
- Referrals from public agencies such as the Clerk of Courts, County Recorder's Office, Banking and Lending Institutions, Mortgage Brokers, Real Estate Agents, police departments, and each of the participating task force agencies
- Intelligence Development by the Task Force

Potential Investigations are divided between two teams within the task force and reviewed regularly with the U.S. Attorney's Office. Analysis and in-depth investigation, including the interviewing of witnesses and the subpoenaing of documents often lead to the issuance of a search warrant. Further analysis and investigation may lead to indictment, followed by additional trial-prep and presentation of the prosecution's case in a court of law.

To stop this epidemic of fraud, swift and sure enforcement action is necessary. That means making arrests, successfully prosecuting the wrongdoers, sending those convicted to jail and seizing ill-gotten assets. Keeping this criminal activity in the media "spotlight" will raise public awareness and hopefully keep people from becoming victims in the first place. While steps are being taken in the administrative and legislative areas as means of fraud prevention, there are those who have, are, and will continued to circumvent the laws.

The mission of the task force is to do what single agencies cannot on their own, note construction the task force: local law enforcement, county records, state investigators for licensing and consumer affairs, postal inspection, HUD, the FBI and IRS.

The assessment of the Perry Township Police Department and involvement with the Mortgage Fraud Task Force is an on going "work in-progress." Of the 13 indictments announced in November, all have proceeded successfully. The local media has kept the public informed on the issue and the Governor has signed new legislation that becomes effective January 1, 2007.

We have established objectives and baselines for our police department as it relates to the Mortgage Fraud Task Force:

Project Objectives for the Perry Township Police Department

OBJECTIVE	PERFORMANCE INDICATOR	BASELINE NUMBER
Attendance and Participation on the Mortgage Fraud Task Force	Employee Time Sheets and related Documentation	Average to exceed 30 hours per week for Perry Township personnel
Provide Successful Management of the Task Force	Keep task force together, focused and moving toward goals and objectives; maintain facility and equipment	7 agencies continuing participation throughout year; enforcement action taken (indictment) on more than 8 individuals and 25 effected properties
Identify the Properties in the Miami Valley involved in Fraudulent Mortgage Activity	Investigative Records including Charts & Files; documented progress of cases	Enforcement action taken on more 25 effected properties
Identify the People in the Miami Valley involved in Fraudulent Mortgage Activity	Investigative Records including Charts & Files; movement toward indictment or prosecution of criminals	Enforcement action (indictment) on more 8 individuals
Locate and Identify Evidence of Criminal Activity	Investigative Records including Charts & Files; preparation and execution of search warrants	Prepare and Execute more than 3 search warrants at business or other property locations
Keep this epidemic crime in	Coverage by local print and	3 media releases during the

the public spotlight and see that legislation is improved in Ohio to prevent mortgage fraud and predatory lending	electronic media; action by state legislature	year; 1 new statute enacted addressing mortgage fraud and predatory lending.
Significant Reduction of Mortgage Fraud in the Miami Valley	Educating individuals and businesses of the crime and its impact	10% Reduction in the number of mortgage foreclosures in Montgomery County from previous year based upon stats from the Clerk of Court; 10% reduction in the number of complaints and identified victims based upon stats from the Attorney General's Office or FBI

Projected Timeline & Activities

January            1 Search Warrant, Enforcement Action on 2 Individuals (indicted) effecting 6 properties

May                1 Search Warrant, Enforcement Action on 2 Individuals (indicted) effecting 6 properties

September      1 Search Warrant, Enforcement Action on 2 Individuals (indicted)  
effecting 6 properties

December      Enforcement Action on 2 Individuals (indicted) effecting 7  
properties

Totals:      3 Search Warrants executed; enforcement action on more than 8  
individuals and more than 25 effected properties

### Organization Capacity

While the Perry Township Police Department is a small law enforcement agency and operates on the smallest budget of any full-time law enforcement agency in Montgomery County. We do actively seek outside funding sources such as the Goldstein Award for Excellence in Problem-Oriented Policing, grants, and shared assets from task force participation. Perry Township has a history of active involvement in regional law enforcement task forces since 1994. Participation has

included the US DEA Dayton Task Force, the former CANE Drug Task Force, and five separate Organized Crime Task Forces. We are currently participating in the Mortgage Fraud Task Force, a separate Organized Crime Task Force, and one traffic enforcement task force.

### Collaboration Boards

The creation and daily operation of this task force is a collaborative effort of many contributing organizations. Participating agencies provide investigators, equipment, and other resources. Supporting agencies provide assistance such as financial support, equipment, information, and access.

The director/CEO of each agency, or designee, has input regarding the work of their investigator(s) individually as well as the task force collectively.

Additionally, the Ohio Attorney General's Office and the U.S. Attorney's Office provide legal assistance on case investigation and court preparation.

Those involved in guidance for the Mortgage Fraud Task Force include all of the following:

- FBI
- IRS Criminal Division (IRS-CI)
- Office of Inspector General, Housing & Urban Development (HUD-OIG)

- Ohio Attorney General's Office, Consumer Fraud Division
- Ohio Department of Commerce (ODOC)
- United States Postal Inspection Service (USPIS)
- United States Bankruptcy Court
- **Perry Township Police Department**

### **3. Agency and Officer Information**

The Perry Township Police strives to get all of our full-time law enforcement officers experience with a task force at some time in their career. It is our belief that the task force participation satisfies a personal desire of nearly all police officers, it provides unique experience for officer development, and it helps the officer grow individually and the department collectively.

The Perry Township Police Department is a small agency comprised of 4 full-time officers, 8 part-time officers, and 15 reserve (non-paid officers). The mortgage fraud task force is being worked on by four of our officers (1 exclusively and 3 with shared duties with other assignments).

Perry Township is a rural, agricultural community covering 36 square miles. It is immediate adjacent to four municipalities and the effects of urban spiral are

increasingly present. We have approximately 1,300 homes and 4,000 residents in the unincorporated areas (approximately 7,000 with the incorporated areas included). Perry Township is Montgomery County's "largest green space community" which can be described as predominantly urban or metropolitan.

The investigation of mortgage fraud schemes is not familiar type of crime for local law enforcement and therefore, each officer continues to learn more with each investigation. While we did have a brief amount of classroom style training from the FBI and IRS on mortgage fraud schemes, most training is "hands on" working with other state and federal investigators (i.e. FBI, IRS, HUD-OIG) who have prior experience investigating these cases.

The Perry Township Police Department would have found it very difficult to participate in this or other task force operations without seeking financial assistance from outside sources. There were two financial hurdles in particular to mention with this project: one with the police department and another with the task force in general.

The Perry Township Police Department agreed to provide the Director for the Task Force which is Terry Neely, a retired Special Agent from the Ohio Bureau of Investigations, who had come to work part-time for the Perry Township Police Department. We sought a Byrne Memorial Grant through the Ohio Criminal Justice Council and received partial funding for 2006 in the amount of fifteen thousand



dollars. We have already reapplied for 2007 and hope for increased funding. We supplement the expenditures from our Law Enforcement Trust Fund, which is in-turn, is the recipient fund of any assets seized and court-ordered forfeited during investigations.

To get the task force formally operational, took several months and a cooperative effort across the board. Getting each of the participating agencies to dedicate personnel and agree to operational terms contained in a Memorandum of Understanding (MOU) took several months as the investigators continued to work together informally. The County Treasurer is an avid supporter of this initiative and has paid the rent on our office space for all of 2006. The Ohio Attorney General's Office (Consumer Fraud Division and Organized Crime Commission) provide operational supplies and funds to hire an administrative assistant. Each participating agency, some of which are non-law enforcement, is responsible for the cost and expenses of their own employee. We also receive technical support from the County Clerk of Court and guidance from the U.S. Attorneys Office. It is indeed a team effort.

**Project Contact Person**

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*\* task force operates out  
of a covert location*