FBI in subprime crackdown

By Jeremy Grant in Washington

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The Federal Bureau of Investigation is investigating 14 companies for possible accounting fraud and insider trading offences related to **subprime** mortgages.

The development, another sign of fallout from the subprime mortgage crisis, comes as light regulation of the industry – in particular mortgage brokers – has been blamed for mis-selling and abuse of mortgage products.

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The Securities and Exchange Commission already has about three dozen different investigations into a range of subprime-related issues.

Bill Carter, an FBI spokesman, said the agency had been working “very closely” with the SEC, with some of the latest investigations moving “in parallel”. He declined to name the companies involved.

The number of mortgage fraud cases opened by the FBI jumped to 1,210 in fiscal 2007 from 436 in fiscal 2003, the agency said.

“We’ve been raising this issue since 2004,” Mr Carter said. “We view mortgage fraud as a significant and growing crime problem and an area of concern. Combating this is a priority given the housing market’s impact on the wider economy.”

In a report out last year, the FBI classified mortgage fraud into two broad areas. The first is fraud for property, involving “minor misrepresentations” by a mortgage applicant for the purpose of buying a property as a primary residence.

The second category – of most concern to the FBI and the mortgage industry – is “fraud for profit”. This often involves multiple loans and “elaborate schemes perpetrated to gain illicit proceeds from property sales”, the FBI report said.

It said such schemes usually involved “gross misrepresentations concerning appraisals and loan documents”.

The most common form of mortgage fraud is “illegal property flipping”, which involves false appraisals and other fraudulent

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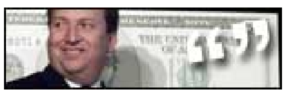

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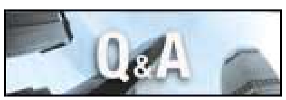

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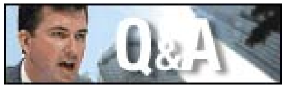
loan documents.

Some of the SEC's investigations are related to potential insider-trading, focusing on wider-than-expected writedowns unveiled recently by some large Wall Street banks. The way credit rating agencies rated the securities into which mortgages were repackaged is part of the effort.

John Nester, SEC spokesman, said: "We've drawn no conclusions in terms of whether securities laws were violated."

Attorneys general in New York and Connecticut are also conducting similar investigations.

On Tuesday, Democratic congressman Barney Frank said much of the money that made mortgage securitisation possible came from places other than depository institutions, which are regulated.



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