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Operation Gang Up

The **INSTITUTE** for

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WHITE COLLAR CRIME

This primer contains general information on organized street gangs' entrance into white collar crime across the globe.

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The Institute for Public Policy & Economic Development (The Institute) is a partnership of nine colleges and universities in the Scranton/ Wilkes-Barre/ Hazleton Metropolitan Statistical Area. The Institute’s managing partner is Wilkes University.

Research Team

Principal Investigator – Teri Ooms

Research Assistant – Kate Wassel

Intern Research Associate – Christian Gabucci

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Gang White Collar

Executive Summary

More and more frequently, street gangs are placing their guns aside and participating in white collar crimes. Known gangs like the Bloods, Crips, Latin Kings and Gangsters Disciples have been reported stealing identities, engaging mortgage fraud, counterfeiting checks, and selling counterfeit goods. White collar crime has major financial benefits, and is very difficult to track to a source. White collar crimes attract less attention than major street gangs and the legal ramifications are less severe. Street gangs view white collar crimes as low risk, high reward.

Selling counterfeit goods and mortgage fraud are the two popular white collar crimes among gang members. Gangs are purchasing properties with the intent to receive seller's assistance loans and end up keeping the proceeds from the loans or mixing illegitimate finances through mortgage payments. Mortgage fraud often reaches a high when the housing market is doing well and more loans are being issued.

Counterfeiting is also a low risk, but high reward crime that gangs often use to help fund their organizations. A street gang can make tens of thousands of dollars a month selling fake electronics, DVDs, handbags, and clothing — about the same amount as if they were selling a kilo of cocaine. Money received from selling counterfeit goods contributes to purchasing weapons, human trafficking, and all other gang activity.

White Collar Crime

Traditionally, gangs are known for drug trafficking, prostitution, and gun running, but are now beginning to expand their criminal activities into atypical crimes. White collar crimes are safer, in terms of estimated jail time, and supply a larger income stream for gangs. The money gained is used to purchase businesses to launder the organizations' dirty money, such as record labels, beauty shops, auto repair shops, law firms and medical offices. Street gangs believe that the rewards gained from these crimes are far greater than threat of jail time.

The National Gang Intelligence Center (NGIC) reported that the Bloods, Crips, Vice Lords, Latin Kings, Mexican Mafia, Sureños, Nortenos, La Nuestra Familia, Texas Syndicate, Aryan Brotherhood, Outlaw Motorcycle Gang and Asian gangs are all engaging in some type of white collar crime.

According to a National Public Radio interview with former Federal Bureau of Investigation (FBI) agent Jim Wagner, it is under suspicion that crimes such as fraud, identity theft, and counterfeiting were introduced to gangs in prison. Wagner believes that tougher gun laws and

sentencing guidelines have influenced the current trend of street gangs becoming involved in white collar crimes. Due to those laws, more criminals are sent to federal prisons, where they are required to separate gang members to prevent criminal organization from behind bars. As a result of the separation, street gangs were imprisoned with white collar criminals. The white collar criminals explained to gang members that they could make more money and do less jail time if they turned their attention to fraud in place of guns and drugs. This exchange, in combination with a booming housing market created the ideal situation for mortgage fraud. Wagner believes it was the interaction between inmates that inspired street gangs to learn and participate in white collar crimes.

Aside from the major financial benefits of white collar crimes, they also are considered to be safer. These crimes are less risky in terms of the potential punishment if caught. During an interview with DailyFinance.com, Jason Boone, a research associate for the National White Collar Crime Center, said "If you have the choice between charges for some kind of violence, murder, assault, armed robbery, things like that, and some sort of fraud, like larceny, gang organizations are thinking the potential consequences will be a lot less." For example a robbery could lead to a seven-year sentence when an identity fraud carries possibility of just a few months of jail time. Although street gangs believe these crimes are safer, it is not always the case. The amount of money stolen and prior convictions are factored in during sentencing.

Mortgage and Identity Fraud

Mortgage fraud is one of the most common white collar crimes that gangs have been participating in over the past several years. The FBI's 2010-2011 Financial Crimes Report describes mortgage fraud as a scheme that employs some type of material misstatement, misrepresentation, or omission relating to a real estate transaction. Some of the schemes include:

- Commercial real estate loans
- Loan modification schemes
- Foreclosure rescue schemes
- Equity Skimming
- Home equity conversation mortgage
- Air loans
- Builder bailout/condo conversion
- Illegal property flipping

According to National Public Radio, gangs are purchasing properties with the intent to receive seller's assistance loans, and end up keeping the proceeds from the loans or they mix

illegitimate finances through mortgage payments. In Chicago, between 2007 and 2011, the Black Disciples gang participated in mortgage frauds that brought in almost \$70 million, while the Vice Lords' mortgage scams totaled more than \$80 million. The Guardian news site explained how mortgage scams work. Gangs purchase a property in a large development at an inflated price. Once the purchase is final, it will later be used as a comparative in nearby property appraisals. The gang is now able to file inflated mortgage applications on more homes. Gangs also hire a solicitor and a surveyor to assist them in the process.

The Mortgage Bankers Association is finding that simpler mortgage schemes are becoming more difficult to track. Gang members also target very qualified appraisers and steal their identity to illegally approve appraisals. They have even created their own companies with fake paperwork, identifications, pay stubs, W-2s and fictitious employees. All of the paperwork created could be used to receive loans.

Identity theft happens through theft of credit card and social security records through the mail, a third party, or through computer technology. According to the Wisconsin based law firm of Gimbel, Reilly, Guerin and Brown, LLP (authors of the Milwaukee Criminal Lawyer Blog) women are being recruited to street gangs to assist with identity theft crimes. Gang members will force their girlfriends to work as receptionists or they will search for women who work in offices and businesses where they have access to personal identifying information. The women steal the information and pass it onto other gang members. Gangsters are also purchasing credit card numbers from restaurant and clothing store employees. Gangs are also recruiting women and other untraditional gang members to assist in their white collar crimes.

Selling Counterfeit Goods and Cashing Counterfeit Checks

Counterfeiting is another low risk, but high reward crime gangs are getting involved in. According to ABC News, gangs sell counterfeit products as another revenue generator. They sell counterfeit clothing, handbags, and electronic items to name a few. Sometimes these products are in legitimate businesses or they can be on the street. ABC's investigators say cutting off the demand from shoppers can cut down on crime as a whole. The sale of some counterfeit products has been linked funding to murder and extortion, human trafficking and insurance fraud. The NGIC reported in April 2010 that members of the East Coast Crips were arrested for selling counterfeit goods from a clothing store the gang owned. Police also confiscated over 800 items from the store, worth more than \$43,000.

According to Chron.com, gang members are stealing rent checks from apartment buildings or paychecks from small businesses with the intent to counterfeit the checks and cash them. They are chemically washing and changing names issued on each check and they then recruit people to cash their checks. Gangs are targeting local homeless shelters to find people willing to cash their fraudulent checks. They even created a system where a homeless person would receive

\$50 for every \$500 check cashed and \$100 for every \$1,000 check cashed. Police reported that a particular Houston gang targeted hundreds of apartments and stole as much as \$5 million from rent check boxes.

Summary and Conclusion

Organized gangs (national and local) are more engaged in white collar crime, including counterfeit (money, electronics, and clothing), mortgage fraud, identity theft, credit card fraud, bank fraud and fencing of stolen goods. They are using both legal and illegal fronts to launder money, and in some cases those fronts are international.

As a result of the “new” crimes, gang membership will diversify. A skilled and educated gang member will emerge that can provide the services needed for this white collar crime – bankers, lawyers, accountants and business owners. Membership will cross socio-economic boundaries, as well as gender and racial/ethnic lines. Consistent with their tactics of identifying at-risk youth for recruitment for street crimes; gangs will begin to target high school students more likely to go to college. Gang recruitment and membership will be the topic of another white paper to be published in spring 2013.

With the ever evolving and increasing sophistication of gangs, vigilance is most important. From the neighborhood crime watch level to local, state and federal policing, educated and skilled law enforcement is crucial. This comes at a time when most local governments are struggling to maintain levels of public safety.

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