

# From the Office of Florida's Chief Financial Officer

## A Weakening Economy Does Not Slow Down Crime

Recent events have created great concern on the part of Floridians and Americans alike about the safety and stability of our economic markets. Stock exchanges around the world are tumbling; home prices continue their descent and foreclosures remain at record levels. Unfortunately, while a weakening economy is a deepening concern for citizens throughout the country, it has sparked an increase in certain crimes which take advantage of, and in some cases have contributed to, this downturn.

On its most basic level, the "Mayors and Police Chiefs 124 Cities Report to the Nation" released on August 6, 2008, finds there is a strong correlation between a slumping economy and an increase in crime. As gas and food prices increase, the National Retail Federation reports that retail theft is also increasing nationwide. This increase in crime is occurring at the same time that local and state crime-fighting budgets are being crunched by the combination of a reduction in revenue and rising gas prices. The result is cutbacks in staffing and reduced police presence on patrol.

Law enforcement officials in Florida and throughout the country are finding a direct correlation between the slumping economy, rising gas prices and certain financial crimes.

As gas prices rise and the economy slumps, many people can no longer afford their car payments. In some cases the actual value of a car, truck or SUV may be less than the outstanding loan balance. As a result, many vehicles are being repossessed and others are the subject of questionable insurance claims by their owners.

As the National Insurance Crime Bureau (NICB) reported on August 28, 2008, some individuals are resorting to "owner give-ups." In order to avoid car payments in these hard economic times, owners are burning their cars, sinking them in lakes, or dumping them in remote areas and then reporting them stolen. The NICB reports that Florida is among the top four states nationally in this type of growing insurance fraud.

The deteriorating economy has also led to an unprecedented downturn in new home construction and home prices. This reduction, following as it did on the heels of a manic increase in prices, has created an ominous crisis in mortgage foreclosures. Seeing the price of homes increase annually at astronomical rates, people purchased expensive homes they could not afford. Adjustable and "Interest Only" mortgages became popular, and overextended homeowners fully expected they would be able to sell their homes at a profit before their mortgage payments ballooned. When the housing bubble burst, many

homeowners were left with increasing mortgage payments they could not afford and owing more than their homes were worth. A growing number of homeowners are simply "walking away" from their homes.

This problem was made even worse by corrupt real estate and title agents who used straw buyers to "purchase" homes with inflated prices and then promptly skimmed the money from the bloated mortgage loans.

The problem was further exacerbated by bankers who recklessly loaned large sums of money to homebuyers without verifying their income. These lenders were not worried about holding large numbers of risky loans because they were able to quickly sell them in bundles of mortgage backed securities to other financial institutions. The resulting demise of some of our country's most iconic financial institutions such as Lehman Brothers, Merrill Lynch and Bear Stearns has staggered the financial markets.

According to the Federal Bureau of Investigation's 2007 Mortgage Fraud report, suspicious mortgage activity increased nationwide 31 percent from the previous year. In 2007, the FBI reported 46,717 Suspicious Activity Reports related to mortgage fraud, compared to 35,617 in 2006 and only 6936 in 2003. The total amount of mortgage fraud is unknown.

Of the 46,717 suspicious mortgage activity reports that were referred to the FBI, damages have been calculated on approximately 7 percent of the claims and totaled \$813 million. According to Kenneth W. Kaiser, Assistant Director of the FBI Criminal Investigative Division, "the \$813 million loss denoted in this report is only the tip of the iceberg, reflecting only a small percentage of financial damage suffered by victims of mortgage fraud." The total cost of mortgage-related fraud is easily in the billions. Unfortunately, Florida ranks number one in this type of fraud.

The same FBI report states that more than 2.2 million foreclosure filings were reported nationally during FY 2007, up 75 percent from 2006. As properties are abandoned and foreclosed, they often fall into disrepair and breed other crimes such as burglary, vandalism and underage drinking. They also become sites for cultivating and using drugs, and become home to itinerants. The growing number of foreclosures continues a vicious cycle of declining home values and deteriorating neighborhoods which, in turn, contribute to an increase in crime.

It is not clear how long it will take for our economy to rebound. What is clear is that law enforcement agencies on the local, state and federal level will have to deal with new and growing crime trends that, in many cases, are made worse by the economic downturn. And they will have to do it in an environment of falling revenue, budget cutbacks and staff reductions.

As your chief financial officer, I oversee two law enforcement agencies, and we are facing all of these challenges. We must remain focused on our core mission – protecting our citizens. I will work to make sure that insurance agents, adjusters and bail bond agents who cross the line and break the law are put out of business, and I will make sure that individuals found to have torched or ditched their home or car are held accountable. And I will continue to promote a consumer helpline for individuals seeking help with a financial problem or who want to report a crime.

Maintaining security is fundamental to maintaining a sound economy, and I am committed to both. To that end, I will do all I can to provide the support our law enforcement agencies need and deserve. ■



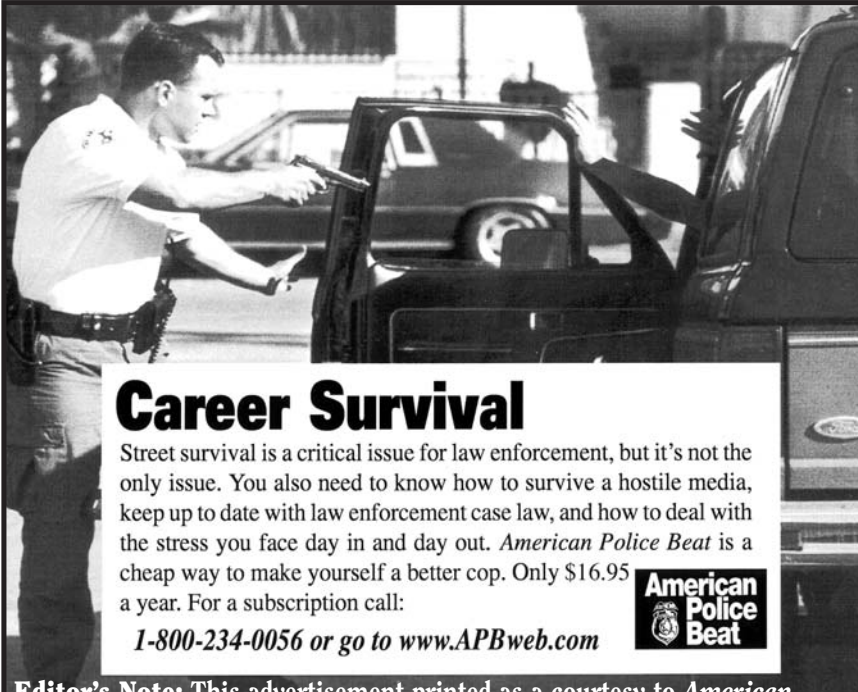
*Alex Sink*

*As a statewide elected officer of the Florida Cabinet, Chief Financial Officer Alex Sink oversees the Department of Financial Services, a multi-division state agency responsible for management of state funds and unclaimed property, assisting consumers who request information and help related to financial services, and investigating financial fraud. CFO Sink also serves as the State Fire Marshal.*

McHUMOR.com by T. McCracken



"A fuzz buster? Kind of optimistic, aren't ya?"



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A police recruit was asked during the exam, "What would you do if you had to arrest your own mother?"

He said: "Call for backup."