

**Testimony of Dennis M. Lormel, Chief, Financial Crimes Section, FBI
Before the House Committee on Financial Services
October 3, 2001
"Cutting off the Financial Lifeblood of the Terrorists"**

Good morning Mr. Chairman and members of the Committee on Financial Services. While I am pleased to appear today on behalf of the Federal Bureau of Investigation (FBI), I am deeply saddened by the tragic circumstances that have brought us together for this hearing. The terrorist acts of September 11 were among the most horrific crimes ever committed against the citizens of this Country. Of course it was not only the citizens of the United States that were victims of these unprecedented terrorist attacks, it has profoundly impacted people throughout the world.

As a preliminary matter, the FBI strongly supports the Money Laundering Act of 2001, which the Justice Department submitted to Congress on September 25th. Assistant Attorney General Chertoff's testimony discusses this legislation in detail. I will simply say that enactment of these proposals would greatly assist our efforts to fight terrorism, as well as a wide variety of financial crimes.

As you well know, the FBI, in conjunction with law enforcement and intelligence agencies throughout the U.S. and the world, is in the midst of the largest, most complex and perhaps the most critical criminal and terrorism investigation in our history. The FBI has dedicated all available resources to this investigation including over 4,000 Special agents and 3,000 support personnel. Nothing has a higher priority than determining the full scope of these terrorist acts, identifying all those involved in planning, executing and/or assisting in any manner the commission of these acts, and bringing those responsible to justice. First and foremost in our priorities is doing everything in our power to prevent the occurrence of any additional terrorist acts.

So while I wish none of us needed to be here today, circumstances sadly have made this hearing all too necessary. Therefore, I welcome the opportunity to work with this Committee and all members of Congress in our efforts to cut off the financial lifeblood of the individuals and organizations responsible for these terrorist attacks. Identifying, tracking and dismantling the financial structure supporting terrorist groups is critical to successfully dismantling the organizations and preventing future terrorist attacks. I thank this Committee for realizing the importance of the financial structure of terrorist organizations to their activities, and for calling this hearing to focus attention on cutting off the financial lifeblood to these organizations.

Given that the FBI is currently engaged in a highly complex and sensitive pending criminal investigation, I am limited in what I can discuss in an open hearing concerning aspects of the investigation, and in regards to specific strategies for identifying and taking action against those involved in financing the individuals and organizations involved in these terrorist attacks. I will of course make every attempt to accommodate any requests the Committee might have in these regards in a closed hearing/briefing or through written questions and responses. For purposes of today's hearing, I will speak in general as to the FBI's strategy to identify and take action against the financial structure of terrorist organizations, and vulnerabilities or high risk areas in the financial services sector that should be addressed.

In general, the FBI's strategy in the investigation of terrorist organizations emphasizes identifying and tracing funds used to finance and fund these organizations. As is the case in so many types of criminal investigations, identifying and "following the money" plays a key role in identifying those involved in criminal activity, establishing links among them, and developing evidence of their involvement in the activity. Locating, seizing and/or freezing assets tied to terrorist organizations plays a key role in cutting off the financial lifeblood of these organizations and in not only dismantling the organization, but in preventing future terrorist acts. Due to the international nature of terrorist organizations, these investigations require considerable coordination with foreign authorities as well as the CIA and the intelligence community to ensure that the criminal

investigation does not jeopardize or adversely impact sensitive national security matters. This requires careful adherence to restrictions separating criminal investigations from those involving national security and classified intelligence matters.

VULNERABILITIES OR HIGH RISK AREAS IN THE FINANCIAL SERVICES SECTOR

There are a number of vulnerabilities or high risk areas in the financial services sector that can be exploited by terrorist and other criminal organizations. These organizations rely heavily upon wire transfers to provide funds for terrorist cells. Tracing these transfers in a timely manner is critical in an investigation. Most often, law enforcement must subpoena information from each institution having a role in the wire transfer before the details of the complete transfer can be determined. This can cause significant delays in tracking the funds. Modifications to existing wire transfer rules have previously been proposed which would provide law enforcement with complete information about a wire transfer at any stage of the transfer upon receipt of a subpoena. Decreasing the time necessary to obtain this information would greatly enhance law enforcement's ability to track the funds and identify those involved in the transactions.

Correspondent banking is another potential vulnerability in the financial services sector that can offer terrorist organizations a gateway into U.S. banks just as it does for money launderers. As this Committee well knows, the problem stems from the relationships many U.S. Banks have with high risk foreign banks. These foreign banks may be shell banks with no physical presence in any country, offshore banks with licenses limited to transacting business with persons outside the licensing jurisdiction, or banks licensed and regulated by jurisdictions with weak regulatory controls that invite banking abuses and criminal misconduct. Attempts to trace funds through these banks are met with overwhelming obstacles. The problem is exacerbated by the fact that once a correspondent account is opened in a U.S. Bank, not only the foreign bank but its clients can transact business through the U.S. bank. As Congress has noted in the past, requiring U.S. banks to more thoroughly screen and monitor foreign banks as clients could help prevent much of the abuse in correspondent bank relationships.

Another vulnerability in the financial services sector involves Money Service Businesses (MSB). These nonbank financial institutions are frequently employed by criminals engaged in sophisticated money laundering schemes. Terrorist organizations are also able to exploit this weakness in the financial system due to the previous lack of adequate regulation in this area. Proposed regulation for MSBs would require registration of these businesses, establish cash reporting requirements for certain threshold transactions, and require some of these businesses to file Suspicious Activity Reports (SARs). They would also have to provide FinCEN with information as to their ownership, geographic location, and operational details.

Finally, terrorist cells often resort to traditional fraud schemes to fund their terrorist activities. Prevalent among these are credit card fraud, identity theft, insurance fraud and credit card bust-out schemes. The ease with which these individuals can obtain false identification or assume the identity of someone else, and then open bank accounts and obtain credit cards, make these attractive ways to generate funds. The growing use of the Internet and the relative anonymity it provides make it even easier to open bank accounts and obtain credit cards on-line using an alias.

OBSTACLES THE FBI IS ENCOUNTERING IN OUR EFFORTS TO OBTAIN THE COOPERATION OF U.S. FINANCIAL INSTITUTIONS

The FBI has encountered no obstacles from U.S. financial institutions in our efforts to obtain their cooperation. The level of cooperation by U.S. financial institutions has been outstanding and nothing short of extraordinary. In all respects, the financial institutions have gone to considerable efforts to provide subpoenaed information as expeditiously as possible, and have done everything

possible within the legal framework to provide any cooperation requested. The response we have received from the financial services sector as well as other private sector entities has exemplified the patriotism and sense of duty America was built upon. From a law enforcement perspective as well as from the perspective of an ordinary citizen, it has been heartening to witness the unwavering support law enforcement has received from American companies and citizens.

THE DEGREE TO WHICH THE FBI AND OTHER LAW ENFORCEMENT AGENCIES ARE WORKING COLLABORATIVELY TO END TERRORIST FUNDING

The acts of terrorism on September 11 highlighted the need for a comprehensive law enforcement response to international terrorism. With the help of Congress, the FBI had previously established joint terrorism task forces in key areas of the country which brought together the combined expertise and resources of other local, state and federal law enforcement agencies. In the early stages of this investigation, it was financial evidence that quickly established direct links among the hijackers of the four flights and helped to identify a web of co-conspirators. In order to provide a comprehensive analysis of the financial evidence, the FBI has established a Financial Review Group to conduct this analysis and determine the source and movement of funds both within and outside the United States that supported these acts of terrorism. The Financial Working Group will strive to coordinate the financial investigative effort; organize, catalog and review personal and business records; develop linkage and time lines concerning the cells and groups responsible; facilitate Mutual Legal Assistance Treaty (MLATs) requests and Letters Rogatory; develop financial and investigative leads in support of this investigation as well as future terrorism investigations; and identify criminally-related fund-raising activities by terrorist organizations. Contributions from other law enforcement agencies are critical to the success of such a group. Accordingly, the group is comprised of representatives from the Department of Justice (DOJ), FBI Financial Crimes Section, FBI Counterterrorism Division, Internal Revenue Service (IRS) - Criminal Investigative Division (CID), United States Customs Service (USCS), FinCEN, United States Postal Inspection Service (USPIS), Office of Foreign Asset and Control (OFAC), the United States Secret Service (USSS), and the Inspector General community. Each of the participating agencies has unique skills and resources. Each agency immediately responded to the FBI's request for participation by detailing some of their best qualified personnel along with the pledge of whatever resources were needed. Combined, the Group is capable of focusing a powerful array of resources at the financial structure of terrorist organizations. The FBI considers this Financial Review Group to be an integral part not only of the response to the acts of terrorism of September 11, but of future terrorism investigations as well.

THE NATURE AND EXTENT OF INTERNATIONAL COLLABORATION ON LAW ENFORCEMENT

Terrorism is a global problem. No country is immune from its reach and terrorist groups are scattered throughout the world. By their nature, Terrorism investigations require significant collaboration on an international level. In order to subpoena records, utilize electronic surveillance, execute search warrants, seize evidence and examine it in foreign countries, the FBI must rely upon local authorities for assistance. The level of assistance and the timeliness of such assistance often varies from country to country. The FBI's Legal Attache Program provides critical contributions in these matters. The DOJ also plays a key role through its foreign liaison and participation in various international forums. The FBI and the DOJ must rely heavily upon the MLAT process and the use of Letters Rogatory to obtain information from foreign countries such as bank records. While the MLAT process works well for the most part with those countries that are participants in the Treaty process, it can at times be a slow and cumbersome method in which to obtain information. In this case, however, many of our treaty partners are speeding up the process and cutting through red tape. Our Legal Attaches have been working closely with their law enforcement counterparts in foreign countries to coordinate investigations involving the terrorist groups responsible for these acts of terrorism. The level of cooperation by foreign law

enforcement agencies has been unparalleled both in terms of its breadth and timeliness. We will work to maintain this level of cooperation as a model for future terrorism investigations.

CONCLUSION

Cutting off the financial lifeblood of the individuals and organizations responsible for the September 11 acts of terrorism is a vital step in dismantling the organization and preventing future terrorist acts. The FBI has placed a high priority on this aspect of the investigation and welcomes the opportunity to work with this Committee to ensure that law enforcement efforts can be most effective. With the assistance of Congress, the combined resources of the law enforcement community, and law-abiding people throughout the world, we are confident we can succeed in our mission. Thank you.