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Testimony of Dennis M. Lormel, Chief, Financial Crimes Section, FBI Before the House Committee on Financial Services, Subcommittee on Oversight and Investigations February 12, 2002

Good afternoon Madam Chairman and members of the Subcommittee on Oversight and Investigations. On behalf of the Federal Bureau of Investigation (FBI), I would like to express my gratitude to the Subcommittee for affording us the opportunity to participate in this forum and to update the Subcommittee on what the FBI has learned since the September 11, 2001, terrorist attacks about the patterns of financing associated with Al Qaeda and global terrorist networks, and the extent to which U.S. anti-money laundering statutes provide the necessary tools to detect and disrupt those patterns.

As this Subcommittee is well aware, the FBI, in conjunction with law enforcement and intelligence agencies throughout the U.S. and the world, is engaged in the largest, most complex and perhaps the most critical criminal and terrorism investigation in our history. The FBI continues to dedicate considerable resources to this investigation and remains committed to 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 others, and bringing those responsible to justice. The investigation does not end at the events surrounding September 11th, our mission extends far beyond that in the FBI's key leadership role in the global war on terrorism. First and foremost among our priorities, however, is taking all possible steps to prevent the occurrence of any additional acts of terrorism.

The war on terrorism will be a long-term battle. It will not be won overnight nor will it be won without the highest levels of cooperation and coordination among law enforcement and intelligence agencies around the globe. Terrorism knows no borders or boundaries. The threat is not limited to any one region of the world. Law enforcement and intelligence agencies throughout the world possess tremendous resources and expertise. Allying these resources against the common enemy of terrorism is the key to dismantling these organizations and eliminating the threat they pose. Make no mistake about it, even with the combined resources and expertise possessed by law enforcement, the threat posed by terrorism is grave. Terrorists do not play by the rules of a civilized society, nor do they respect human decency. They will stop at nothing to commit acts of terror. Fighting the war on terrorism requires powerful tools. The FBI appreciates the powerful tools provided by this Subcommittee and all of Congress in enacting the USA PATRIOT ACT, including Title III enhancements, the International Money Laundering Abatement and Financial Terrorism Act of 2001, and believes they will play a key role in addressing terrorist financing matters.

Success in the war on terrorism cannot be measured merely in the form of assets seized or funds blocked, but in the ability of law enforcement to prevent future acts of terrorism. Whether it be through prosecution, disruption, blocking/freezing of funds, or allowing a funding mechanism to remain in place in order to further an investigation, prevention remains the overarching focus. Different circumstances demand different approaches. The best strategy in any given circumstances can only be determined from an overall perspective. It demands careful coordination with and the cooperation of all law enforcement and intelligence agencies involved in an investigation. The FBI and the Department of Justice (DOJ) have primary jurisdiction in all terrorism related investigations, whether they pertain to past terrorist acts, terrorist related intelligence investigations, or terrorist financing investigations. The acts of terrorism on September 11th highlighted the need for a comprehensive law enforcement response to international terrorism. With the help of Congress, the FBI had previously established joint

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terrorism task forces (JTTF) in key areas of the country which brought together the combined expertise and resources of other local, state, and federal law enforcement agencies. By the end of 2003, we expect to have a JTTF in each of the FBI's 56 field offices.

Identifying, tracking, and dismantling the financial structure supporting terrorist groups is critical to successfully dismantling the organization and preventing future terrorist attacks. As is the case in so many types of criminal investigations, identifying and "following the money" plays a critical role in identifying those involved in the criminal activity, establishing links among them, and developing evidence of their involvement in the activity. In the early stages of the investigation into the events of September 11, it was financial evidence that quickly established direct links among the hijackers of the four flights and helped identify co-conspirators.

Financial Review Group

In order to provide a comprehensive analysis of the financial evidence, the DOJ and FBI established an inter-agency Financial Review Group (FRG) operating out of FBI Headquarters. Other participants in the FRG include representatives of the Central Intelligence Agency, National Security Agency, Defense Intelligence Agency, Drug Enforcement Agency, and components of the Treasury Department including the U.S. Customs Service, Internal Revenue Service, Bureau of Alcohol, Tobacco and Firearms, Office of Foreign Asset Control (OFAC), United States Secret Service and Financial Crimes Enforcement Network, U.S. Postal Inspection Service, National Drug Intelligence Center, the Federal Reserve, and the Inspector General Community. From the initial focus on the events of September 11th, the mission of the FRG has evolved into a broader strategy to investigate, prosecute, disrupt, and dismantle all terrorist-related financial and fund-raising activities. In the days immediately following September 11th, the FRG was formed with a two-fold mission. On one track, a comprehensive financial analysis of the 19 hijackers was conducted to link them together and to identify their financial support structure within the U.S. and abroad. Collateral to this was the development of a template for pro-active, preventive, and predictive terrorist financial investigations. The FRG has taken a leadership role in coordinating the financial investigative effort, and it is a comprehensive, far reaching effort. To accomplish our mission, the FRG has implemented, and continues to implement, strategies and initiatives to address all aspects of terrorist financing and explore all options. Among these are efforts to organize, catalog, and review vast amounts of personal and business records, develop linkage and time lines concerning terrorist cells and groups, facilitate Mutual Legal Assistance Treaty requests and Letters Rogatory, develop financial and investigative leads in support of terrorism investigations, identify criminally-related fund-raising activities by terrorist organizations, utilize the resources and expertise of the financial services community, develop a centralized financial database, and develop predictive analysis models. By bringing together participating agencies' databases and expertise, the FRG is focusing a powerful array of resources at the financial structure of terrorist organizations. Throughout this process, the FRG has worked closely with the Department of Treasury, which has primary responsibility for the blocking and freezing of terrorist assets.

Through the FBI's historical involvement with the intelligence community, the FBI and CIA quickly coordinated and further combined their resources to investigate terrorist funding mechanisms. This relationship facilitates a seamless interaction between the FBI and intelligence community, and is in addition to other key personnel the CIA and FBI each currently have assigned to the other's headquarters. The FBI in its intelligence capacity also obtains considerable intelligence information through Foreign Intelligence Surveillance Act orders. The FRG works closely with this aspect of the FBI's Counterterrorism program in assessing and applying proper utilization of such information, pursuant to Attorney General Guidelines and the orders of the Foreign Intelligence Surveillance Court.

The FRG has created and continues to develop a centralized terrorist financial database in concert with coordinating and assisting in the financial investigation of over 250 individuals and groups who are suspects of FBI terrorist investigations. To date, the FRG has cataloged and reviewed over 321,000 financial documents obtained as a result of numerous financial subpoenas pertaining to over 10,500 individuals and accounts. Over 104,000 of these documents have been verified as being of investigatory interest and have been entered into the terrorist financial database for linkage analysis. The FRG has obtained financial information from 54 FBI Field Divisions and 11 Legal Attache Offices, and has reviewed and documented over 66,000 financial transactions. These records include over 149 foreign bank accounts and over 5,300 foreign wire transfers.

The FRG is both an operational and coordinating entity with pro-active and reactive

responsibilities. There are any number of approaches that can be utilized in investigating these networks. Success lays in careful coordination of these approaches. By way of example, various FBI Field Offices have launched criminal financial investigative initiatives geared at fraud schemes with a potential nexus to terrorist financing. The FRG is coordinating these initiatives as I will discuss later in my statement. As an operational body, the FRG conducts national and international investigations from its headquarters in Washington, D.C., while collecting information and directing leads to the JTTFs located in each Judicial District, as well as leads to other FBI Field and Legal Attache Offices around the world.

As a participant on the National Security Council's Policy Coordinating Committee (PCC) on terrorist financing, chaired by Treasury Department General Counsel David Aufhauser, the FRG continues to function in a leadership role in the efforts to target Non-Governmental Organizations (NGOs) believed to provide financial support to known Foreign Terrorist Organizations (FTO) and other affiliated terrorist cells. The FRG is currently actively involved in the coordination of twelve multi-jurisdictional NGO investigations. In order to disrupt the terrorist financing channels, the FRG has coordinated these and other FBI terrorist investigations with the terrorist designation and asset freezing efforts of the Department of Treasury's Office of Foreign Assets Control (OFAC) and Operation Green Quest. These efforts have resulted in the freezing of millions of dollars in foreign and U.S. bank accounts. Specifically, the joint efforts targeting Al-Barakaat, the Holy Land Foundation for Relief and Development, the Global Relief Foundation, and the Benevolence International Foundation have resulted in the execution of numerous search warrants and the disruption of the fund-raising and money remittance operations of these and other NGOs. Financial investigations of these entities have revealed that approximately \$200 million in contributions passed through these organizations each year. The FRG will also coordinate with the Department of the Treasury in its other initiatives in order to help ensure their success.

The FRG has conducted an aggressive national and international outreach initiative in an effort to share information regarding terrorist financing methods with the financial community and law enforcement. The review group has built upon long-established relationships with the banking, debit, credit and financial services communities in the United States and abroad. The international outreach initiative is coordinated through the network of FBI Legal Attache Offices located in 44 key cities worldwide, providing coverage for over 200 countries, territories, and islands. The FRG has become an international model for investigating the financial components of terrorism. As a result, the FRG has assisted several foreign countries in their efforts to establish a financial terrorist investigative component that mirrors the structure of the FRG.

A significant focus of the FRG is predictive/preventive analysis. In this capacity, the FRG conducts data mining and financial profiling to identify common characteristics of terrorist financing. The FRG has developed numerous data mining projects in order to provide further predictive abilities and maximize the use of both public and private database information. This information will be used to identify terrorist cells operating in the U.S. and abroad in an effort to prevent further terrorist acts. Through the FRG's aggressive national and international outreach and liaison efforts, appropriate information regarding patterns and profiling is shared and coordinated with appropriate private and public sector entities. For example, the FRG meets regularly with representatives from the banking community and the financial services industry to share such information and to jointly develop and refine methods to detect and identify potential terrorist and/or terrorist activity. The FRG is also reviewing and conducting additional financial analysis of prior terrorist acts in an effort to identify links and patterns that would complement current and future terrorism investigations.

The FRG directly supports the FBI's Counterterrorism Division through financial analysis of terrorism investigations. While the FRG plays a key role in the overall Counterterrorism effort, it is but one piece of the big picture. Accordingly, careful coordination at all times is critical to ensure financial investigations complement the overall strategy and do not adversely impact other efforts. Based on the FRG's role in the FBI's Counterterrorism Division, its international investigative abilities, and its close association with the intelligence community, the review group is in a unique position to coordinate anti-terrorism financial investigations domestically and internationally, and to ensure those investigations are in harmony with the overall goals and objectives of the United States' Counterterrorism program.

Anti-terrorism financial investigations represent a comprehensive labor intensive long-term commitment. It is anticipated that in order to prepare predictive analysis in support of this effort, tens of millions of financial documents (bank records, travel records, credit card, and retail receipts, etc.) will need to be collected, thoroughly analyzed, and placed in a central database for relevant financial evidence. This evidence can then be integrated with other terrorist evidence

collected by law enforcement and others. As I previously stated, the FRG has initiated a number of data mining projects in order to fully exploit the growing financial database and pro-actively identify and target potential terrorists and terrorist activity. This includes the use of predictive pattern recognition algorithms.

Given the enormity of the task and the long-term nature of the effort, I cannot sit here today or next week and tell you we have all the answers. It will take time to effectively and pro-actively address terrorism financing. This is not to say that progress hasn't been made. In conjunction with pro-active long-term efforts, the FRG continues to aggressively conduct intensive financial investigations as circumstances arise; dedicating necessary resources to react immediately to new information and evolving events. The FRG has made substantial progress in our efforts and I would like to offer this Subcommittee a brief summary of this progress, subject of course to restrictions related to the disclosure of information that might compromise or undermine ongoing criminal investigations.

We have focused our financial investigations in four main areas: (1) mission specific terrorist cells such as the 19 hijackers, (2) so called "sleeper" cells that are more loosely organized but blend into communities easier through legitimate employment, (3) terrorist groups that fund their terrorist activity through fraud schemes, and (4) the funding of terrorist organizations through Non-Governmental Organizations (NGO) and charities. I would like to focus the remainder of my statement on describing what we are doing in these areas and what progress has been made.

Mission Specific Terrorist Cells

Through financial information, we have established how the hijackers responsible for the September 11 attacks received their money, details of their flight training, where they lived, and details concerning individuals associated with the hijackers. The 19 hijackers opened 24 domestic bank accounts at four different banks. The following financial profile was developed from the hijackers' domestic accounts:

ACCOUNT PROFILE

- Accounts were opened with cash/cash equivalents in the average amount of \$3,000 to \$5,000.
- Identification used to open the accounts were visas issued through Saudi Arabia or the U.A.E.
- Accounts were opened within 30 days after entry into the U.S.
- All accounts were normal checking accounts with debit cards.
- None of the hijackers had a social security number.
- They tended to open their accounts in groups of three or four individuals.
- Some of the accounts were joint accounts with other
- Addresses used usually were not permanent (i.e. mail boxes, etc.) and changed frequently.
- Hijackers would often use the same address/telephone numbers on the accounts. No savings accounts or safe deposit boxes were opened.
- Hijackers would open their accounts at branches of large well known banks.
- The majority of hijackers (12) opened accounts at the same bank.

TRANSACTION PROFILE

- Some accounts would directly receive/send wire transfers of small amounts to foreign countries - UAE, Saudi Arabia, Germany.
- Hijackers would make numerous attempts of cash withdrawals which often would exceed the limit of the debit card.
- High percentage of withdrawals were from debit cards vs. low percentage of checks written.
- Numerous balance inquiries were made.
- Hijackers would often travel domestically. There was a tendency to use Western Union to wire money.
- One deposit would be made and then the money would trickle out a little at a time.
- Account transactions did not reflect normal living expenses for rent, utilities, auto

- payments, insurance, etc.
- There was no normal consistency with timing of deposits/disbursements.
- Funding for normal day to day expenditures was not evident from transactions.
- Overall transactions are below reporting requirements.
- Funding of the accounts dominated by cash and overseas wire transfers.
- ATM transactions occur where more than one hijacker present (uninterrupted series of transactions involving several hijackers at the same ATM).
- Use of debit cards by hijackers who did not own affected accounts.

INTERNATIONAL ACTIVITY

- Three of the hijackers supplemented their financing by opening foreign checking accounts and credit card accounts at banks located in the UAE.
- While in the U.S., two of the hijackers had deposits made on their behalf by unknown individuals.
- Hijackers on all four flights purchased traveler's checks overseas and brought them to the U.S. These traveler's checks were partially deposited into their U.S. checking accounts.
- Three of the hijackers (pilots/leaders) continued to maintain bank accounts in Germany after moving to the U.S.
- Two of the hijackers (pilots/leaders) had credit cards issued by German banks and maintained those after moving to the U.S.
- It is suspected that other unknown foreign accounts exist that were opened by the hijackers to further supplement the financing of the September 11, 2001, attacks.
- One of the hijackers (pilot/leader) received substantial funding through wire transfers into his German bank account in 1998 and 1999 from one individual.
- In 1999, this same hijacker opened an account in the UAE, giving power of attorney over the account to this same individual who had been wiring money to his German account.
- More than \$100, 000 was wired from the UAE account of the hijacker to the German account of the hijacker in a 15-month period.

NON-FINANCIAL PROFILE

- Hijackers ranged in age from early 20s to mid 30s.
- Born in Middle Eastern country.
- Limited use of the English language.
- They mainly used bank branches located in high Muslim areas.
- Usually came into bank in groups to open accounts.
- Usually there was one spokesman for the group.
- May not want to deal with women bank personnel.
- Wanted to deal with one person at bank.

Sleeper Cells

One pattern of terrorist financing that has emerged involves Al Qaeda cells in Europe. Financial investigation has identified cells that derive income from legitimate employment/businesses within the European country in which the cell exist. For example, one company run by cell members provided home repairs involving masonry, plumbing, electrical wire, etc., and hired mujahadin arriving from areas of conflict, such as Bosnia. Another enterprise operated by cell members purchased dilapidated automobiles, repaired them, and resold them. The cars were purchased in one European country and resold in the country where the cell was located. Other investigations have identified cell members transferring money between accounts with little attempt to hide the transactions. Accounts have been funded by salaries and government payments for students, and members of the cell were supported by family members to some extent. They appeared to be living day to day and not funneling funds through their accounts. Terrorist funds were deposited into the accounts either by cash or wire transfer. Most of the money went through one or two persons' accounts. Not all members of the cell were receiving monies. Money was spent from the accounts through ATM or other cash disbursements. The German terrorist cell operated in much this same fashion.

The FRG has conducted extensive analysis related to the Al Qaeda cell that was based in Germany which included among its members Ramzi Bin al-Shibh and hijackers Mohamed Atta and Marwin Al-Shehhi. This analysis was instrumental in linking the hijackers and their ties to Al Qaeda, determining the support it provided to the events of September 11th, and establishing other ties to the Al Qaeda organization. It also established links between the German cell, the hijackers and Zacarias Moussaoui that contributed to the indictment of Moussaoui for his role in the September 11th attacks. This analysis included tracing wire transfers from Bin al-Shibh to Moussaoui. FRG financial investigation has also helped establish links between Moussaoui and an Al Qaeda cell in Malaysia. Authorities in Malaysia have arrested and charged a number of the members of this cell. It should be noted that Bin al-Shibh was one of the five terrorists appearing in videos recovered from an Al Qaeda location in Afghanistan which were recently released by the DOJ. The videos appear to show Bin al-Shibh and the others discussing preparations to commit terrorist acts. The FRG is conducting financial investigations on the other four terrorists featured in the videos in order to help track them down.

In addition, the FRG is conducting financial investigations involving hundreds of subjects associated with terrorism investigations being conducted in various foreign countries in an effort to identify, track, and locate associates, funding sources, other cell members, etc.

Terrorist Funding Through Criminal Activity

Another pattern of terrorist financing involves funding of terrorist cell activities through various criminal activity. Al Qaeda has been known to encourage and instruct terrorist cells in terrorist training camps in Afghanistan in ways they can fund their terrorist activities through various criminal activity. For example, Ahmed Ressay, the Algerian extremist convicted in the terrorist plot to place bombs at Los Angeles International Airport among other locations, was instructed in these camps to engage in criminal activity such as bank robberies and fraud schemes to fund his terrorist activities. As another example, investigation has identified a terrorist cell based in Spain with ties to Al Qaeda that used stolen credit cards in fictitious sales scams and for numerous other purchases for the cell. They kept purchases below amount where identification would be presented. They also used stolen telephone and credit cards for communications back to Pakistan, Afghanistan, Lebanon, etc. Extensive use of false passports and travel documents were used to open bank accounts where money for the mujahadin movement was sent to and from countries such as Pakistan, Afghanistan, etc. In addition, the cell relied upon street crimes such as home burglary, car theft, and car burglary to fund their cell activities.

NGOs

The funding of terrorist organizations such as Al Qaeda and Hamas through NGOs and charitable organizations represents a significant challenge to law enforcement and is a prime focus of terrorist financial investigations. International radical fundamentalist terrorist organizations have increasingly utilized NGOs as fund-raising vehicles for their terrorist activities. NGOs may also offer terrorists logistical support in the form of cover employment, false documentation, travel facilitation, and training. Financial investigation conducted prior to September 11th and since identified the Holy Land Foundation for Relief and Development (HLFRD), a Texas based charity, as an alleged North American "front" for the terrorist organization Hamas. On December 4, 2001, the President, along with the Attorney General and the Secretary of the Treasury, announced the designation and blocking action against HLFRD. NGOs may be large international organizations which can be exploited by individual employees sympathetic to terrorist causes through local branch offices; they may be private NGOs which exist solely to support a militant cause; or they may be closely affiliated with a state sponsor of terrorism. One of the challenges in investigations involving terrorist fund-raising through NGOs is distinguishing terrorist fund-raising activities from legitimate or what may appear to be legitimate charitable fund-raising. The line is often blurred. It should be noted that it is illegal to knowingly provide any form of financial or material support to a group designated as a foreign terrorist organization, even if the provider intends such support to be used by the terrorist organization for non-terrorist purposes. Fund-raising on the part of terrorist groups which on the surface appear to be efforts to "help the poor" or fund-raising for charitable, humanitarian, or other legitimate purposes actually falls squarely in the realm of logistical support for terrorist activity. Another trend that has been identified involves the funneling and/or laundering of terrorist funds raised outside the U.S. through the U.S. on its way to the Middle East.

Terrorist financing methods range from the highly sophisticated to the most basic. There is virtually no financing method that has not at some level been utilized by terrorists and terrorist groups. Traditionally, their efforts have been aided considerably by the use of correspondent

bank accounts, private banking accounts, offshore shell banks, Hawalas, bulk cash smuggling, identity theft, credit card fraud, and other criminal operations such as illegal drug trafficking. We are optimistic that provisions of the USA PATRIOT Act enacted by this Congress will significantly erode the effectiveness of many of these methods.

One of the means by which terrorists and terrorist organizations seek to avoid detection is by operating in a manner that does not raise red flags, thereby falling below the financial radar screen. The FRG has assumed a leading role in coordinating the efforts of the financial services industry to assist in the terrorism investigations. The FRG has built upon long-established relationships with the banking, debit, credit, and financial services community in the U.S. and abroad. The level of cooperation by U.S. financial institutions has been outstanding, and nothing short of extraordinary. These institutions possess considerable resources and expertise. In all respects, they have gone all out to provide subpoenaed information as expeditiously as possible, and have done everything possible within the legal framework to provide cooperation. In return, the FRG has utilized our aggressive national and international outreach initiative in an effort to regularly share information regarding terrorist financing methods with the financial community. This has provided new red flags and patterns of which the financial community should be aware.

Another example reflecting the significantly expanded FRG role involves terrorists' attempts to fund their terrorist activities through fraud schemes. Recognizing that terrorist cells may fund terrorist activity through various fraud schemes and that such activity could potentially fall beneath the financial radar screen, a number of FBI Field Offices have launched comprehensive initiatives to address this threat. These initiatives, which are being coordinated and assisted by the FRG, seek to target fraud schemes being committed by organized groups having a potential nexus to terrorist financing. Targeting this type of activity and pursuing the links to terrorist financing will likely result in the identification and dismantlement of previously unknown terrorist cells. Prior to September 11, and the formation of the FRG, this type of terrorist financing often avoided law enforcement scrutiny. No longer. The FBI and FRG will leave no stone unturned in our mission to cut off the financial lifeblood of terrorists.

U.S. authorities possess powerful tools to detect and disrupt terrorist financing, aided considerably by the provisions of the USA PATRIOT Act. While we are optimistic the provisions of the Act will have strong impacts, it is too early to judge their full usefulness at this stage. Eagerness to utilize the new tools provided in the Act must be tempered by the need for law enforcement and the DOJ to gain a complete understanding of the provisions, develop guidelines and protocols for their appropriate use, and educate investigators and prosecutors. In addition, many of the provisions require the Department of Treasury to issue new regulations and rules. While all of this is being done as expeditiously as possible, the full impact of the tools provided by the PATRIOT Act are yet to be seen. In regards to any remaining loopholes in our statutory and regulatory regimes, the FBI will defer to our colleagues from the DOJ.

CONCLUSION

Cutting off the financial lifeblood of individuals and organizations responsible for acts of terrorism is a vital step in dismantling the organization and preventing future terrorist acts. The FBI is leading law enforcement efforts to accomplish this mission. The USA PATRIOT Act has provided law enforcement with powerful new tools to assist in accomplishing this mission. The FBI welcomes the opportunity to work with this Subcommittee and others to ensure that law enforcement efforts can be the most effective. I would welcome any questions you may have at this time. Thank you.