

Is Loan Sharking a Casino Problem?

By Bill Zender

Most casinos and card rooms in North America don't perceive illegal lending of money as a problem until it's too late. Not until someone steps forward and talks to the local law enforcement agencies. Not until the Federal Grand Jury hands down the indictment. Not until the casino's regulatory agency is making daily visits to their casino, or worse yet, placing iron chain around the handle of the front door.

Loan sharking, the lending of unsecured funds by individuals who charge an extortionate fee to the borrower, is considered by many in the gaming business as a victimless crime. The money is borrowed willingly by the players, is accepted by those of an ethnic background that have a high propensity to gamble, and is looked upon by the casino or card room as a means of getting immediate gaming funds into the pockets of their gambling customers. To many casinos, loan sharks serve an acceptable function. They are a means for supplying money to high risk customer without the casino worrying about collection or the rate of bad debt. Is loan sharking really a threat to the casino industry, or a blessing?

Last summer in California, six persons, all Chinese Nationalist, were arrested by the State of California Department of Justice Bureau of Gambling Control for extortion and assault charges stemming from their loan sharking activities in the Sacramento area. Newspaper articles claim that the loan sharking ring was tipped off to the California DOJ by several people, all involved in borrowing money from the ring. One person claimed that he was in debt over \$400,000 due to extortionate interest fees while several individuals, all females, claimed to have been assaulted because they were unable to pay the required 10% weekly "juice" to keep their loans current. These allegations stemmed from incidents pertaining to activities in several major casinos in the Sacramento area. Where there is higher limit gambling, there will be a large number of gamblers desperate to secure temporary gambling funds...regardless of the charged interest fee.

Loan sharking is illegal and can't be legally condoned by the casinos. However, casino management has been known to turn a "blind eye" to the practice of loan sharking, even when it occurs within the walls of their establishment. Most casino operators know that it goes on to some extent. Many do little to discourage it. When asked about loan sharking and possible activity in his casino, one Nevada executive commented, "It's a casino isn't it. Of course there will be players who borrow money from illegal sources." What would his motivation be to discourage or proactively exclude money lenders or "juice people" from distributing funds to willing gamblers who accept the high interest rates so they can keep playing on the casino's tables? How does loan sharking actually hurt the casino?

In recent months, two San Francisco card room casinos were raided by the Federal government, and temporarily closed by the California DOJ, based on allegations of loan sharking, money laundering, and sales of narcotics. In addition, a Federal jury handed down indictments leading to the arrest of twelve persons including a number of employees from both clubs. The result of these indictments and arrest were nightmarish for the card rooms. Although none of the owners or members of senior management were involved, the incident resulted in fines, operational restrictions, and huge legal fees in order for the return of the card rooms gaming license. In addition, both card rooms lost millions of dollars due to the disruption of business which occurred with the temporary closure, and several months of gaming restrictions. In California, these kind of raids and regulatory punishments of wrong doing will not stop with only these two clubs. In the words of a Gambling Bureau agent, "We're just getting started". The problem of loan sharking is not only a California problem. I know of recent incidents of

illegal money lending that have occurred in Nevada, New Jersey, Louisiana, Pennsylvania, and in British Columbia, Canada. In addition, overseas the United Kingdom, Singapore, and Macau are experiencing their own problem. As you can see, loan sharking isn't limited to our continental boards.

Loan sharking can no longer be perceived as a victimless crime by the casino executives. Management needs to identify this problem and develop a plan to mitigate the effect of loan sharking within their casino walls. Following are several reasons why the casino management needs to take this situation serious;

- Every dollar paid out to a loan shark in interest is a dollar less the customer has to spend in your casino. The "per week" fee the players paid the loan sharks can run from 5% on a same-day-paid-loan, to 20% for an "emergency" loan. The standard rate charged to most participants is 10% per week. This means that a player requesting \$1,000 from a loan shark will be required paying \$100 per week just to keep the loan current. Computed out over a year, a weekly rate of 10% is the same as an annual rate is 520%! It's not hard to see that players who utilize loan sharks probably spend half their gambling funds financing illegal loans.
- When players get deeply in debt to a loan shark, they tend to stay away from the casino where the loan shark is operating. The player knows that if he wins money, the money lender will be "muscling" him for the weekly fees, and possibly the full amount of the loan. To avoid such situations, players have been known to travel out of the area to gamble. Many of your casinos customers, ones indebted to loan sharks that frequent your casino, will be driven away until they settle their debt (if ever).
- In order to enforce the payment of the extortionate interest rates and the loan principle, loan sharks will use threats of violence, and in some instances will physically hurt borrowers that try to evade payment. Condoning loan sharking is in essence accepting the knowledge that management is placing their patrons at risk of physical harm. This could develop from a moral issue to a legal problem if left unchecked.
- Loan sharking requires the lender to have access to a large amount of cash. Much of this cash has been amassed through illegal means, and is usually connected to persons associated with organized crime gangs. Once members of crime gangs infiltrate the casino, a number of illegal problems can occur including extortion related to hiring, drugs in the workplace, incidents of money laundering, check and credit card fraud, and cheating. One day you have a safe and health operation, several months later your organization is rife with corruption.

As a casino executive, surveillance director, or head of security, what can you do about this situation? Loan sharking is not transparent, and it's very difficult to pinpoint the sources of illegal money lending inside your establishment. Following are some of the issues you should consider when addressing the problem of loan sharking from a procedural aspect:

- Do not allow employees to loan money to anyone. Past situations have shown that the loan sharks use employees to forward loan money to customers when the loan shark is unavailable. Even though the employees work for the casino, loaning money for the illegal money lender is an extension of loan sharking which now involves the casino. Although some card room casinos might wish to allow employees to "buy" meals for regular players out of their pockets, any

amount over \$20 should be prohibited. Any incident money lending by employees must be address through a disciplinary action.

- Do not allow employees to hold money for players. The main casino cage has procedures for the safe keeping of player funds. The employees need to advise the customers to use these approved methods. Previous situations indicate that loan sharks will enlist employees to collect and hold loan and interest money from indebted players. Holding loan money facilitates the act of loan sharking, and implicates the casino in the activities
- Limit electronic communication between employees and persons outside the organization while the employee is working on the casino floor. This means no use of cell phones, text messaging, or direct phone line to unnecessary areas. In the past, persons with illegal influence have contacted on duty employees, and directed them to loan money to specific customers. "Give such-and-such \$1,000, and I'll be down to the casino in a couple hours to make up the difference in your drawer". This is especially problematic when the employee has access to a cash bank or drawer. Management needs to insulate the employees from immediate outside contact.
- Provide training classes for your employees on the issue of money lending including the telltale signs that illegal money lending is occurring. Also provide them with proper steps and contacts for reporting any observed incidents.

These previous suggestions will suffice to limit loan sharking, but it's only a small step toward illegal lending elimination. Confirming the act of loan sharking isn't transparent. In order to confirm the transaction was intended to include an extortionate interest rate (falls under State and Federal Usury laws), the informing party would have to be privileged to the transaction directly, or indirectly through overheard conversation. If the casino wants to be proactive in their duties to eliminate loan sharking, then they need to understand the warning signs that a loan shark could be operating on their premises. These signs are:

- Customers that seem to "hang out" around the table games, especially high limit games such as baccarat. The loan sharks will make themselves available to the customers, and when the customer needs a loan he or she knows where to look for the lender.
- Most loan transactions take place either in the parking lot, down the street, or in the restroom where the transaction cannot be viewed by the cameras. However, some transaction will occur on the casino floor. Be aware of anyone loaning a "substantial" amount of money and/or chips to another player. It is wise to keep a log of these situations including the recording images of both the lender and the borrower for future reference.
- Watch for players who approach losing customers at the table. A common modus operandi of loan sharks is to watch table game players who are losing a good deal of money. When the player gets down to a few gaming chips, the loan shark (or an associate) will inform the player that a "temporary" loan is available if need be.

- Motivate all casino employees to report incidents of money lending and have the incidents investigated by surveillance and security. You don't have to contact the persons involved unless you have developed reasonable belief that they are involved in the business of lending money.
- If you suspect a customer might be illegally lending money to your customers, have surveillance conduct a special observation on that person(s). If the observations indicate more than a passive interaction with other customer, ask the suspected customer for identification, and pass the information along to your local law enforcement agency. If the word get around that your casino is actively "fishing" for loan sharks, the number of illegal money lending incidence will drop to nothing.