

Suspicious Activity Reports Detail Transactions in Mortgage Fraud Scheme

A federal judge has ordered more than 24 years of prison time for a former loan officer who was found guilty on all eight counts of an indictment charging conspiracy, bank fraud, wire fraud, and money laundering. Several financial institutions identified unusual transactions related to the defendant and filed SARs. These SARs proved very helpful during the investigation.

In addition to prison time, the judge ordered three years of supervised release and for the defendant to pay restitution of over \$5,000,000 as well as a monetary judgment of more than \$1.5 million.

The government's evidence at trial established that from 2002 to 2003 the defendant organized a conspiracy to "flip" over 30 residential properties, a scheme which netted over \$5 million for the defendant. The defendant worked as a loan officer for a lender and through this position submitted loan applications for straw buyers seeking approximately \$14 million in loans to purchase the properties. These loan applications falsely listed the straw buyers' assets, income, and other information.

The defendant paid a co-defendant to write dishonest appraisals falsely reporting the conditions of the properties and stating that the properties were renovated when, in fact, they were not. The co-defendant, who was not even a licensed appraiser, stole actual appraisers' names and licenses to write completely fabricated reports on the value of the houses. These fraudulently inflated appraisals caused the banks to loan inappropriately high mortgages. The codefendant pleaded guilty to conspiracy to commit bank fraud and received a prison sentence of 46 months.

In the beginning of the scheme, co-conspirators worked as underwriters at the lender employing the defendant. The co-conspirators approved loans that did not meet the banks' requirements and were paid by the defendant to do so.

By using the false loan applications, the inflated appraisals, and the fraudulently obtained underwriting, the defendant and the co-conspirators caused the banks to issue loans to the straw buyers in amounts that were much higher than the value of the underlying properties, thus creating a large amount of illegal proceeds when the properties were "flipped" to the buyers. Another co-conspirator purchased the properties, and, many times on the same day, quickly resold the "flipped" properties to the straw buyers at the price of the inflated appraisals. In this manner, a huge amount of money was generated for the co-conspirators. In one day, a single property could produce between \$150,000 and \$400,000 of cash for the conspiracy.

The defendant received the majority of the ill-gotten gains. At times this money was identified on the settlement statements as reimbursement for “rehab construction,” when, in truth, no renovations had been performed and little if any rehab was ever carried out on the properties. Instead, the defendant used the money to live a lavish lifestyle, to pay off the co-conspirators, and to fund the continuation of the conspiracy. The mortgages on all but one of the 32 properties defaulted and foreclosed or sold before foreclosure for a loss. The banks resold the properties (in a strong real estate market) but for less than the amount of the mortgage loans. After resale, the banks were left with a loss in excess of \$5 million.

In 2003, the parent company of the lender filed a SAR on the defendant noting a series of suspect mortgage loans. The SAR noted that 17 of 25 loans had common borrowers. In addition, the loans often included the same sellers, underwriters, and appraisers. Furthermore, the bank discovered that many of the so-called renovations were never done and that money allegedly paid for renovations was in fact sent to a corporation controlled by the defendant. A SAR filed in 2006 reports the loss on some of the loans that the defendant originated. Also in 2006, a bank filed a SAR alleging that the defendant stole the identity of a woman and used that information to buy several vehicles.

[Published in *The SAR Activity Review – Trends, Tips & Issues*, Issue 12, October 2007]