

# Latest Trends in ● Mortgage and Real Estate Fraud

Brad Geary (ASAC)

Region 5

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# Common Myths

- Traditional Parallel Prosecution vs. Today's Parallel Prosecution
- Small Town Fraud?



Michael Locke

Milwaukee, Wisconsin

## WEATHER



Mostly cloudy skies,  
50 percent chance  
of rain, storms.

Full Report, A8  
68/88

# The Journal-Standard



## PULSE

## Cold or allergy?

Consequences of allergies can be far more serious than a bout of sneezing. **A3**

www.journalstandard.com

THURSDAY, JUNE 9, 2005

68 cents

# Twelve area residents indicted

## Alleged scam involved houses in Freeport, Lena, Winslow

BY GARY MAYS

The Journal-Standard

FREEPORT — Residents of several Freeport neighborhoods figured something wasn't right when they began to notice some unusual patterns in the sale of houses. In some cases, houses were sold to people whom the residents suspected couldn't afford them, while others, authorities say, were sold quickly for what seemed to the residents like inflated prices.

Those suspicions eventually prompted them to contact local police, launching a federal probe that culminated Monday in the indictment in federal court of 12 area residents. Some of those

named in the 61-count indictment are small business owners in Freeport, Lena and Winslow — all are accused of participating in a complex conspiracy to duped the U.S. Department of Housing and Urban Development into issuing bad loans that could eventually add up to losses in the \$1 million to \$2 million range, officials said.

Those loans and the "buyers" seeking them were allegedly supported by bogus letters of credit, false employment verifications, and other documents issued by area businesses owners. The alleged scam, perpetrated between 2000 and 2003, was detailed in a

## Conspiracy suspects weren't arrested

Though 12 suspects from Freeport, Lena and Winslow were accused of a combined total of more than 200 counts of white-collar federal crimes in an indictment detailed Wednesday, none were arrested and taken into custody, federal officials said.

All were notified of the charges against them, and most of them were ordered to appear for arraignment today at 2:30 p.m. in U.S. District Court in Freeport, Ill., for U.S. Magistrate Judge T. Michael Wilhoite, according to Assistant U.S. Attorney Scott A. Worsinger. Unlike many offenders

charged locally with drug and street crimes, officials said, the federal government has the option of either issuing an arrest warrant following a grand jury indictment — having warrants to do so in jail or court each bond — or a notice to appear on the charge.

"If they don't come in to court, we'll seek an arrest warrant," said Assistant U.S. Attorney John G. Winkler.

Officials said they don't anticipate any of the 12 conspiracy suspects to flee, though they have been proactive to make sure they don't happen.



KEVIN E. SCHMIDT / THE JOURNAL STANDARD

This house at 1434 South West Ave. was one of about 40 Freeport properties purchased as part of a loan conspiracy detailed Wednesday in a federal indictment.

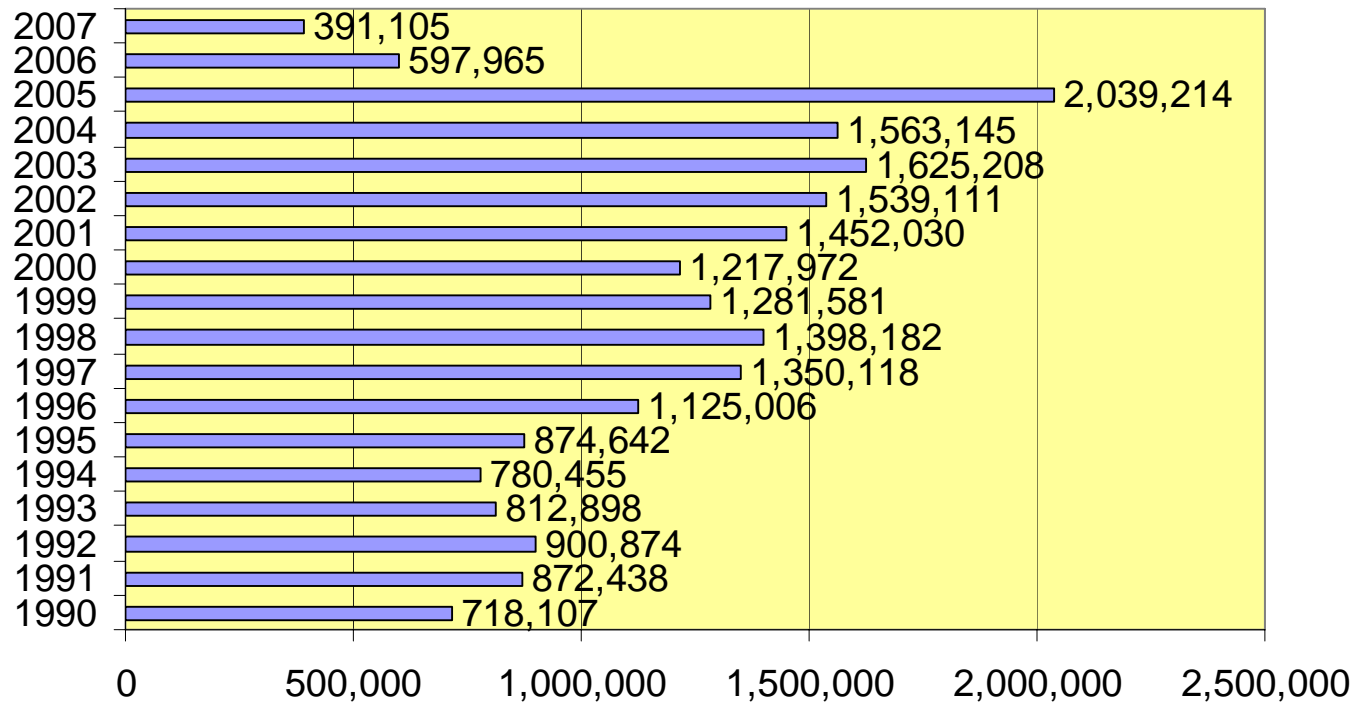
SEE 688A8

# Wisconsin/National Foreclosure Trend

- In 2005, Wisconsin had 5,121 foreclosures.
- In 2006, Wisconsin increased to 7,572.
- Year to date foreclosures for Wisconsin are 14,231, with Milwaukee accounting for 6,917.
- Nationally, foreclosures went up from 885,000 in 2005 to 1.2 million in 2006.
- According to RealtyTrack, foreclosures are expected to increase by 100% in 2007.

# Updated BK Info.

Total Non-Business Filings (1990 - 2nd Quarter 2007)



# Wisconsin BK Trend

- Between 2005 and 2006, Wisconsin had 49,000 bankruptcies filed in the state. Of that total, 33,000 were in the Eastern District.

# Basic Frauds

- Fraudulent Appraisals
- Rescue Fraud
- Flipping
- Equity Skimming
- Equity Theft



IMPROVEMENTS

General Description		Foundation		Exterior Description		materials/condition		Interior		materials/condition	
Units <input checked="" type="checkbox"/> One <input type="checkbox"/> One with Accessory Unit	<input type="checkbox"/> Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls		CONCRETE		Floors	HDWD/REFINISHD				
# of Stories 3	<input checked="" type="checkbox"/> Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls		STUCCO/AVS		Walls	DRYWALL/AVG.				
Type <input checked="" type="checkbox"/> Det. <input type="checkbox"/> Att. <input type="checkbox"/> S-Det./End Unit	Basement Area 850 sq.ft.	Roof Surface		COMP SHLGS		Trim/Finish	WOOD/STAIN/AVG				
<input checked="" type="checkbox"/> Existing <input type="checkbox"/> Proposed <input type="checkbox"/> Under Const.	Basement Finish 0 %	Gutters & Downspouts		METAL		Bath Floor	CERAMIC / NEW				
Design (Style) 2 STY W/ATTIC	<input type="checkbox"/> Outside Entry/Exit <input type="checkbox"/> Sump Pump	Window Type		DOUBLEHUNG		Bath Wainscot	CERAMIC / NEW				
Year Built 1914	Evidence of <input type="checkbox"/> Infestation	Storm Sash/Insulated		STORM SASHES		Car Storage	<input checked="" type="checkbox"/> None				
Effective Age (Yrs) 11	<input type="checkbox"/> Dampness <input type="checkbox"/> Settlement	Screens		NO SCREENS		<input type="checkbox"/> Driveway	# of Cars				
Attic <input type="checkbox"/> None	Heating <input checked="" type="checkbox"/> FWA <input type="checkbox"/> HWBB <input type="checkbox"/> Radiant	Amenities		<input type="checkbox"/> Woodstove(s) #		Driveway Surface					
<input type="checkbox"/> Drop Stair <input checked="" type="checkbox"/> Stairs	<input type="checkbox"/> Other Fuel NATL GAS	<input type="checkbox"/> Fireplace(s) #		<input checked="" type="checkbox"/> Fence CHN LINK		<input type="checkbox"/> Garage	# of Cars				
<input checked="" type="checkbox"/> Floor <input type="checkbox"/> Scuttle	Cooling <input type="checkbox"/> Central Air Conditioning	<input type="checkbox"/> Patio/Deck		<input checked="" type="checkbox"/> Porch ENCLSD		<input type="checkbox"/> Carport	# of Cars				
<input checked="" type="checkbox"/> Finished <input checked="" type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool		<input type="checkbox"/> Other		<input type="checkbox"/> Att.	<input type="checkbox"/> Det.	<input type="checkbox"/> Built-in			
Appliances <input type="checkbox"/> Refrigerator <input type="checkbox"/> Range/Oven <input type="checkbox"/> Dishwasher <input type="checkbox"/> Disposal <input type="checkbox"/> Microwave <input type="checkbox"/> Washer/Dryer <input checked="" type="checkbox"/> Other (describe)		BUYER HAS OWN APPLIANCE									
Finished area above grade contains:		10 Rooms		5 Bedrooms		1.1 Bath(s)		2,416 Square Feet of Gross Living Area Above Grade			
Additional features (special energy efficient items, etc.). SUBJECT HAS INSULATED WINDOWS AND CEILING FANS, NO OTHER SPECIAL ENERGY EFFICIENT ITEMS WERE OBSERVED.											
Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.). HOUSE HAS NEW ELECTRICAL, PLUMBING WAS UPGRADED, SOME DRY WALL WAS REPLACED. HARDWOOD FLOORS ON FIRST & SECOND FLOORS WERE REFINISHED. KITCHEN HAS NEW CERAMIC FLOOR, A NEW FRONT DOOR AND BACK DOOR HAVE BEEN INSTALLED,. NEW INSULATED WINDOWS ON FIRST AND SECOND FLOORS, NEW CARPETING IN THIRD FLOOR BDRM AND STUDY, NEW CARPETING IN THE FAMILY ROOM..											
Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property?										<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, describe	
Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe											







# Rescue Fraud

- Distressed homeowner is approached by attorney, lender, investor.
- The homeowner is informed that he or she will sell their property to an investor. The investor will not make any required down payment, but will usually be compensated in cash for use of their name.
- The homeowner will be able to remain in the property and pay rent to the investor.
- The homeowner is informed that their equity will be retained in an escrow account and used within the next 1-2 years when it is time to repurchase the property from the investor.

# Rescue Fraud, Continued

- The homeowner is instructed to file bankruptcy, but not inform the trustee that their house was sold or that there was equity.
- The homeowner is allowed to rent back, but often times at double what their original mortgage because of the higher appraisal.
- When they can't make payments, eviction proceedings start.
- All previous equity has usually been deposited in one or more DBA or shell corporation accounts and is never repaid.

Illinois Residential Lease Agreement

THIS LEASE AGREEMENT (hereinafter referred to as the "Agreement") made and entered into this 29th day of December, 2004, by and between

(hereinafter referred to as "Landlord") and

WHEREAS, Tenant is desirous of leasing the Premises from Landlord on the terms and conditions as contained herein;

NOW, THEREFORE, for and in consideration of the sum of TEN DOLLARS (\$10.00), the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

an extend ←  
to 24 months if  
reed upon

1. TERM. Landlord leases to Tenant and Tenant leases from Landlord the above described Premises together with any and all appurtenances thereto, for a term of 12 months [specify number of months or years], such term beginning on 12-29-04 and ending at 12 o'clock midnight on 12-28-04.

INCLUDES 3,173.76  
TAXES

2. RENT. The total rent for the term hereof is the sum of two thousand five hundred seven and 10/100 DOLLARS (~~\$2,507.70~~) payable on the 10 day of each month of the term, in equal installments of

# Bankruptcy lawyers charged

## Feds say 3 here stole clients' home equity

BY NATASHA KORECKI  
*Federal Courts Reporter*

Five current and former Chicago area bankruptcy lawyers have been charged with ripping off clients who faced mortgage foreclosure.

In all, 11 people were charged in the Chicago area and 78 nationwide in a series of unrelated bankruptcy fraud schemes.

Authorities said some homeowners who struggled to make mortgage payments were given a bailout offer hard to resist: Temporarily sell their homes to "investors," file for bankruptcy and improve their credit.

Homeowners were promised by their lawyers they'd get everything back. In the end, they lost out, the feds say.

"The reality is . . . the homeowners are stripped of their equity in the house," said David Glockner, criminal chief in the U.S. attorney's office. "They're left holding the bag with fraudulent bankruptcy cases."

The feds accused Chicago

bankruptcy lawyers Norton Helton, Edward Varga and Lori Westerfield of cheating their clients by telling them they'd be saved from foreclosure. Instead, the lawyers stole the equity in the homes.

"The bankruptcy regulations were set up to protect those individuals who find themselves in financial straits," said Ken Laag, chief postal inspector in Chicago. "They relied on these attorneys to help them; instead the attorneys milked them out of the equity in their homes."

### 'He's a hero'

Helton, 45, of Chicago, worked with Diamond Management of Chicago and advertised a "mortgage bailout" to homeowners facing foreclosure. Helton is accused of transferring the properties to investors, then filing fraudulent bankruptcy petitions for nine clients in which he allegedly didn't disclose \$400,000 in proceeds.

Helton's lawyer, Lewis Myers Jr., said his client would fight the charges.

"At the end of the day, we feel that he'll be vindicated," Myers said. "To some people, he's a hero. He bailed them out. He was very successful. Many

of these people, they were able to turn their lives around."

Westerfield, 41, of Chicago was charged with falsifying documents in bankruptcy cases. Westerfield is accused of buying her client's residence for \$153,000 and failing to disclose the transfer. She could not be reached for comment.

The feds say the public can report bankruptcy fraud at: [USTP.Bankruptcy.Fraud@usdoj.gov](mailto:USTP.Bankruptcy.Fraud@usdoj.gov).

[nkorecki@suntimes.com](mailto:nkorecki@suntimes.com)



# Feds crack down on bankruptcy fraud

By Lara Jakes Jordan  
The Associated Press

WASHINGTON — Nine lawyers and an electrician who bribed a former governor were among 78 people charged with bankruptcy fraud in the past two months, the Justice Department said Wednesday.

Eighteen of the arrests came this week, said Deputy Attorney General Paul McNulty, who outlined the nationwide crackdown on people trying to conceal more than \$3 million in assets.

"In the end, we all wind up paying for fraud, in the form of higher interest rates and fees from companies that offer credit and loans," McNulty said. Bankruptcy fraud often follows false claims on mortgages, banks and the mail, he said.

The arrests are on track to outpace last year's estimated total of 100 bankruptcy fraud cases, the FBI said.

Among those charged was Kurt Claywell, an electrical contractor who admitted giving former Connecticut governor John Rowland expensive champagne and Cuban cigars for access to state contracts. Authorities in New Haven, Conn., said the assets Claywell tried to hide included a boat, a rare book collection, 35 acres of land, \$35,000 worth of wine and a gun collection.

A dozen of the arrests came in the Chicago area, where federal prosecutor David Glockner described swindlers who used bankruptcy fraud in home-rescue schemes marketed to people desperate to hang on to their homes.

Under these schemes, homeowners facing foreclosure sell their homes to "investors," prosecutors said. They said the former homeowners then pay rent to the investors with the promise that they can get back both the homes and built-up equity when their finances are healthier.

Prosecutors said crooked attorneys then declare bankruptcy on behalf of the former homeowners, illegally hiding the sale from the bankruptcy court, paying off the mortgage and pocketing the equity.

# Housing Fraud Q & A

- What is the name of your lender? Is it FHA, conventional, VA?
- Where are your payments sent?
- How did you acquire the property?
- Are you the owner of record?
- If you rent the property, do you lease to a subsidized tenant through the local PHA?

# Summary/Conclusions