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5 INDICTED IN ARIZONA REAL ESTATE FRAUD CASE

Catherine Reagor, The Arizona Republic

March 9, 2007 – A group of former housing counselors, loan officers and an escrow agent has been indicted on fraud and conspiracy charges in one of the biggest real estate fraud cases in Arizona since the housing crash of the late 1980s.

The group is accused of defrauding the Department of Housing and Urban Development of \$1.9 million through a pre-foreclosure scam that targeted dozens of first-time homeowners across the Valley from 2001 to 2003, according to a grand-jury indictment filed in federal court late Wednesday.

The indictment comes a year and a half after Eddie Carrillo Jr. of Scottsdale-based Sahara Investments was convicted of fraudulent schemes in a case relating to the pre-foreclosure scam. Carrillo is named as a co-conspirator in the indictment but not one of the five defendants.

According to the indictment, Carrillo and the defendants sought out homeowners who had defaulted on mortgages insured by the Federal Housing Administration, a division of HUD, and offered to buy their homes.

The group is accused of submitting documents to HUD making it appear the houses were worth less than they were, then turning around and selling the homes for much more. Because HUD insures the mortgages, the federal agency was left to satisfy the debt with the lender.

HUD's pre-foreclosure program was set up to help struggling homeowners avoid foreclosure by working out a structured deal to get their properties appraised, then sell them to pay off as much of their mortgage as the market would allow.

At least 65 homes throughout the Valley were purchased in the scam. Homeowners who sold their homes lost out on any potential equity they could have gotten on a sale.

The investigation into the pre-foreclosure scam began before a recent wave of mortgage and real estate fraud in metropolitan Phoenix. Several other fraud investigations are under way.

Mortgage fraud is often hard to prosecute because it typically involves long paper trails, and the people in question can be hard to find because many are not licensed and they tend to move from firm to firm.

Legislation has been introduced to make mortgage fraud a felony and, therefore, easier to prosecute.

The five defendants indicted Wednesday are Trudy Peters, a former American Title Insurance Agency of Arizona escrow officer; John Soto and Larry Smith, former Wells Fargo Home Mortgage of California loan officers; Maria Felix, a former ACORN Housing counselor; and Tony Vasquez a former Chicanos Por La Causa housing counselor.

Carrillo is serving a five-year prison term for a scam in which he took money from investors to buy pre-foreclosure houses but failed to return the money when he didn't go through with the purchases. He was sentenced in Maricopa County Superior Court last year and ordered to pay \$1.1 million in restitution to numerous victims and serve seven year's probation.

According to the indictment, the pre-foreclosure scheme linked to Carrillo and the five defendants involved the following fraudulent acts:

- * The Wells Fargo loan officers gave Carrillo the names and addresses of borrowers who had defaulted on their FHA loans.
- * The escrow agent supplied Carrillo with information on the Federal Housing Administration properties with equity left. Carrillo and the other defendants then contacted the homeowners and offered to purchase their properties through the FHA's pre-foreclosure program. The homeowners sold their homes for less than what they were worth.
- * Carrillo and the two housing counselors signed false counseling certification showing the homeowners received the required guidance from a HUD-approved counselor. Vasquez and Felix were HUD-approved counselors.
- * Vasquez negotiated with mortgage firms to purchase the properties and misrepresented himself as a HUD employee. He received \$70,000 from Carrillo as part of the scheme. Vasquez left Chicanos Por La Causa in August 2004.
- * Felix signed documents listing her as the buyer and seller of the homes to hide that it was really Carrillo. Felix received \$102,000 for her part in the conspiracy.
- * False appraisals showing inflated values were sent to the Wells Fargo loan officers. Soto accepted \$41,000 for his part. Smith got \$30,000.
- * Peters falsified loan documents so second and third mortgages on the homes weren't disclosed. The properties wouldn't have been eligible for HUD pre-foreclosure program with the additional loans. Peters accepted \$23,000 from Carrillo for her part.

The defendants were to be notified by mail of the indictment.

Few would comment on the case.

"As a matter of corporate policy, we cannot comment on pending litigation or share information concerning current or former team members," said Marjorie Rice, vice president of Wells Fargo Regional Banking Communications.