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## Fraud Files—April 2011

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### COLONIAL BANK AND TBW DRAGGED DOWN BY FARKAS

On April 20th 2011 Lee Bentley Farkas was convicted for his role in an almost \$3 billion fraud scheme that contributed to the failures of Colonial Bank as well as TBW, two of the largest banks and mortgage lending companies in the United States, respectively. Farkas was found guilty of one count of conspiracy to commit bank, wire and securities fraud; six counts of bank fraud; four counts of wire fraud; and three counts of securities fraud. Farkas faces a maximum of 305 years in prison for all of his combined convictions, so he will most likely spend the rest of his days behind bars. Farkas and his co-conspirators engaged in a scheme that misappropriated over \$1.4 billion from Colonial Bank's Mortgage Warehouse Lending Division in Orlando, and roughly \$1.5 billion from Ocala Funding, a mortgage lending facility controlled by TBW. This money was misappropriated mainly to cover TBW's operating expenses. The investigation was very complex and involved thousands of hours of work by investigators, forensic accountants and analysts to make sense of all the documents. The scheme began in 2002 when Farkas and his co-conspirators ran overdrafts in TBW bank accounts at Colonial Bank so they could cover TBW's shortage of cash. Money was transferred between accounts at Colonial to hide the overdrafts, and once the overdrafts grew too large they were covered up by causing Colonial Bank to purchase from TBW over \$1.5 billion in worthless mortgage loan assets. Farkas diverted cash from Ocala Funding to TBW to cover its operating losses, and in doing so created significant deficits in the amount of collateral Ocala Funding possessed to back the outstanding commercial paper. To cover this up false information was sent to Deutsche Bank, BNP Paribas Bank and others to lead them to believe that they had sufficient collateral backing the commercial paper they had purchased. Colonial BancGroup applied for over half a billion dollars in taxpayer funding from a subprogram of the Troubled Asset Relief Program once things went south and they were actually approved. Colonial BancGroup never actually received any of this money, however, because they were caught before receiving it. Farkas personally misappropriated over \$20 million to

support his lavish lifestyle. The conviction of these criminals is part of efforts by the Financial Fraud Enforcement Task Force.

Former Chairman of TBW Convicted in Connection with \$2.9 Billion Fraud Scheme, 21 April 2011; available at: [http://7thspace.com/headlines/379911/former\\_chairman\\_of\\_tbw\\_convicted\\_in\\_connection\\_with\\_29\\_billion\\_fraud\\_scheme.html](http://7thspace.com/headlines/379911/former_chairman_of_tbw_convicted_in_connection_with_29_billion_fraud_scheme.html), accessed 21 April 2011.

### HUSBAND AND WIFE TEAMS CAUGHT IN STICKY SITUATION

Three husband and wife teams and another individual were arrested in connection with an \$8.8 million mortgage fraud scheme. The individuals arrested were Craig and Lynne Hudson, David and Melissa Barile, William and Stephanie Bolton and Eric Rivero. The investigation centered on 50 fraudulent mortgage applications involving 33 properties purchased from April 2003 to December 2007. All of the buyers sold properties amongst themselves except for Melissa Barile, who owned the mortgage company where several of the arrested individuals worked and prepared fraudulent forms. The buyers executed the plan by simultaneously applying for several mortgages with different lenders, which allowed them to be eligible for lower interest rates as well as other advantages given to buyers of homesteaded property. Each individual was arrested for racketeering and given bails of \$700,000. A large amount of the fraudulent mortgages were the personal loans of the people arrested. The group prepared 50 fraudulent applications and other papers and submitted them to mortgage lenders convincing them to loan them money on homes. Twenty two of the properties were taken back by lenders in foreclosure, which resulted in \$4.2 million in final judgments. The investigators uncovered the scheme when they noticed the title company was closing deals for her husband's company.

Seven arrested in \$8.8 million mortgage fraud investigation, 20 April 2011; available at: <http://www2.tbo.com/content/2011/apr/20/201922/five-arrested-in-88-million-mortgage-fraud-investi/>, accessed 21 April 2011.

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## DEALING DIRTY: SANCHEZ AND JONES CONVICTED

On Thursday April 21st, Former County Judge Luther Jones and former District Clerk Gilbert Sanchez were found guilty by a federal jury on two counts each of conspiracy to commit mail fraud and deprivation of honest services. The two men face up to 20 years in prison on each count. Jones was accused of conspiring with Sanchez to steer a county contract to Altep in 2003 and 2004. The contract was never awarded to any company, however. The U.S. Attorney's Office stated after the guilty verdict that it was a victory and they hope it will restore honor and serve as a warning for politicians in the Borderland. U.S. Attorney Laura Gregory said that it was clear by the communication between Sanchez and Jones, which involved numerous incriminating emails, that they knew of the plan to steer a digitization contract for the district clerk's office toward Altep. Fernando Parra, Sanchez's former office manager testified during the trial that Sanchez and Jones made shady, corrupt deals. Parra stated that Sanchez, Jones, and the leaders of Altep would meet and joke about the shady deals that they were making together. Altep hired Jones in 2004 to handle a proposal for a potential multi-million dollar contract with the county to digitize records. Sanchez and Jones met with Altep employees and plotted how to steer the contract towards Altep. Sanchez proposed the idea that the company had to be within 15 miles of the courthouse, in case a judge needed a document immediately. Altep was located mere steps away from the courthouse. Numerous employees stated that they were offered money and pay increases as long as they would go along with the schemes.

Corruption Trial: Jones, Sanchez Both Found Guilty On All Counts, 20 April 2011; available at: <http://www.kvia.com/news/27614791/detail.html>, accessed 21 April 2011.

## NO REASON TO REJOYCE

Todd Joyce of Hurricane, West Virginia, was sentenced to 18 months in prison on federal mortgage fraud and tax evasion charges. Joyce pled guilty in September 2010 to a two-count information charging hi with making a false statement to a banking institution and tax evasion. Back in 2006 Joyce applied for an \$800,000 loan to build a home in a wealthy subdivision in Hurricane. To support his loan he sent United Bank a tax return that indicated he had earned roughly \$450,000 in 2005. One month later he filed a return to the IRS stating that he had made \$0 in income in 2005. Joyce eventually defaulted on the loan and was ordered to pay United Bank \$420,000 in restitution. In 2007 Joyce and his wife, Deborah received over \$500,000 in loans and filed a tax return that stated they only earned a combined \$34,000. They both eventually admitted to filing a false tax return that grossly underreported their actual income. Deborah was recently sentenced to 46 months in prison for her role in a \$2.3 million mortgage fraud scheme in the same subdivision in Hurricane where the couples' initial housing loan was supposed to be applied. The case was investigated by the FBI and the IRS, Criminal Division.

West Virginia Man Sentenced on Mortgage Fraud and Tax Evasion Charges, 20 April 2011; available at: [http://7thspace.com/headlines/379776/west\\_virginia\\_man\\_sentenced\\_on\\_mortgage\\_fraud\\_and\\_tax\\_evasion\\_charges\\_.html](http://7thspace.com/headlines/379776/west_virginia_man_sentenced_on_mortgage_fraud_and_tax_evasion_charges_.html) accessed 21 April 2011.

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### UP IN SMOKE FOR STONER AND CLAU

49-year-old Gayle D. Claus admitted to participating in a mortgage fraud scheme involving at least 200 properties, mainly in north Minneapolis, and mortgage proceeds of approximately \$35 million. She pleaded guilty in federal court in Minneapolis to conspiracy to commit mail and wire fraud. From 2004 through 2007 Claus prepared false loan applications to help so called investors qualify for the loans by showing inflated incomes. She also received \$17,500 for the properties she bought herself. The schemes two masterminds were sent to prison in 2009 for a combined 15 years. The fraudulent scheme was uncovered when neighborhood group members detected mass foreclosures, which left blocks full of vacant and deteriorating houses. In a very similar scheme in Minneapolis Andrew Paul Stoner pleaded guilty to participating in a mortgage fraud scheme that involved seven fraudulent transactions with the owners of Invescorp. He pleaded guilty to one count of conspiracy to commit wire fraud. Stoner built houses and paid Invescorp a sum of money following each closing in return for the owners of Invescorp providing him buyers for the homes. Invescorp received over \$800,000 from these fraudulent dealings. Stoner faces up to 5 years in prison for his crimes.

Two plead guilty in separate mortgage fraud schemes, 18 April 2011; available at: <http://www.startribune.com/local/minneapolis/120058509.html> accessed 21 April 2011.

### NO LONGER SO CHIPPER

Chip Skowron, the former Frontpoint Partners portfolio manager was charged April 14th with conspiracy, securities fraud and obstruction. Skowron obtained illegal information from an insider about hepatitis C drugs that enable Frontpoint to avoid over \$30 million in losses. Skowron is directly linked to the case brought against Dr. Yves Benhamou, an expert in hepatitis drugs and a former adviser for Human Genome Sciences Inc. Benhamou provided Skowron with insider information whenever necessary in return for roughly \$15 thousand in cash as well as hotel rooms and other perks. Benhamou pleaded guilty to four counts, including conspiracy, securities fraud, conspiracy

to obstruct justice and making false statements to the FBI during their investigation of the expert networking scheme. Skowron is the 47th person to be charged in the last 18 months for insider trading as a part of the U.S. Probe of hedge funds and expert networkers. This case is the latest for the FBI's New York office involving their "Perfect Hedge" investigation, which uses court-authorized wiretaps, consensually-recorded calls, analysis of phone and other records as well as witnesses. Skowron was in charge of FrontPoint's investments in publicly-traded drug companies involved in the development of treatments for hepatitis C. Benhamou, is an expert in the field and participated in many hepatitis drug trials, giving him access to non-public information about the failure of the drugs in the Albuferon trials. Skowron arranged telephone calls with Benhamou to obtain insider information regarding the results of the trials. Benhamou repeatedly shared information with Skowron he obtained while working for HGSI. In the third stage of the Albuferon trial a patient died and another developed a serious lung disease. Benhamou alerted Skowron that the drug trials might stop and within the next several days Frontpoint sold almost 3 million, or 47 percent of its Human Genome shares. About a month later HGSI recommended that the Albuferon trial be stopped. Skowron was tipped by Benhamou and Frontpoint sold about 600,000 shares of HGSI at an average price of \$10.37. The following day HGSI issued a press release about their stoppage of the Albuferon trial and their stock plunged to \$5.62. Due to the charges against Skowron and the related probe, FrontPoint closed its health-care funds last year. FrontPoints hedge fund had \$7.5 billion under management before the allegations; it now manages \$3 billion.

FrontPoint Partners' Skowron Is Charged With Securities Fraud, Obstruction, 14 April 2011; available at: <http://www.bloomberg.com/news/2011-04-13/frontpoint-partner-chip-skowron-surrenders-to-fbi-in-new-york-u-s-says.html>, accessed 21 April 2011.

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## **THE SPILLAN'S TEAM TO TAG 38**

Michael Spillan and his wife, Melissa pleaded guilty on charges of conspiracy to commit securities, mail and wire fraud that duped 38 individuals out of almost \$20 million. Michael also pleaded guilty to single counts of securities fraud, wire fraud and mail fraud. Based on their plea agreement Mr. Spillan would be sentenced to 11 ½ years in prison and Mrs. Spillan would be sentenced to three years. They would also be forced to pay \$19 million in restitution. If the plea is not agreed upon than Mr. Spillan could be sentenced to a maximum of 65 years in prison and a \$1 million fine while his wife could get five years and a \$250,000 fine. The Spillans were arrested in September at their home by the FBI. The charges brought against the couple involve a group of lending companies they owned and operated. The Spillans would offer loans through their companies to clients, who put up publicly traded stock they owned as collateral. The couple then promised to return the stock when the loan was paid off. The scheme ran for five years, from 2003 to 2008 and involved individuals all over the country. The Spillans were forced to pay over \$3 million in penalties for the scam in as part of a separate 2008 civil lawsuit. That suit was filed by the SEC and forced their companies to shut down and froze and liquidated their assets to repay victims of the scheme.

Husband-wife con artists guilty of fraud \$20 million scam involved selling stock held as collateral, 22 April 2011; available at: [http://www.dispatch.com/live/content/local\\_news/stories/2011/04/22/husband-wife-con-artists-guilty-of-fraud.html?sid=101](http://www.dispatch.com/live/content/local_news/stories/2011/04/22/husband-wife-con-artists-guilty-of-fraud.html?sid=101) accessed 22 April 2011.