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News Release

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Minneapolis man pleads guilty to wire fraud, tax evasion

A 29-year-old Minneapolis man pleaded guilty today in federal court to wire fraud and tax evasion in connection with a mortgage fraud scheme.

Frederick Earle Deen, III, pleaded guilty to one count of wire fraud and one count of tax evasion. He entered his plea July 1 in St. Paul before United States District Court Judge Richard Kyle. Deen was charged on April 21.

According to Deen's plea agreement, he admitted that from September 2005 to July 2007 he, along with four unnamed individuals, knowingly and willfully engaged in a scheme to commit wire fraud.

Deen was a loan officer and part-owner of Legacy Lending, a mortgage brokerage company in Minnesota. The others involved in the mortgage fraud scheme include the co-owner of the mortgage brokerage company, a residential real estate appraiser, a real estate agent and someone who recruited individuals to act as "straw buyers" for real estate transactions in which mortgage loans were obtained for dollar amounts substantially in excess of the purchase price.

Deen admitted that payments from those mortgage loan proceeds were concealed and diverted to himself and his co-conspirators through the use of fraudulent underwriting and closing documentation which they submitted to lenders to induce the lenders to provide mortgage loans. The funds in excess of the purchase price were then misappropriated by the scheme's participants.

Deen also admitted that he acted as the loan officer on most of the transactions, causing fraudulent loan application documentation to be provided to potential lenders for purposes of loan underwriting. The fraudulent documentation misrepresented the true terms of the proposed transaction, such as falsely identifying the purchaser; falsely indicating that the property would be "owned-occupied;" inflated the borrower's income and/or assets; inflated the purchase price of the property; inflated the appraised value of the property; failed to disclose to the lenders that funds in excess of the actual purchase price would be misappropriated by the co-conspirators;

and concealed payments that were to be made from the loan proceeds to Deen and others.

The false representations and omissions were material because mortgage lenders rely on the actual purchase price paid by the buyer to assure that the loan is fully collateralized by a real property of a sufficient value. The fraudulent payments of loan proceeds to the co-conspirators were also concealed from the lenders.

Individual B owned the mortgage brokerage company through which most of the fraudulent mortgage transactions were conducted. In every transaction, in addition to the concealed payments, Deen admitted that he and Individual B received substantial fees for arranging the fraudulent transactions.

In order to support the falsely overstated purchase price, the conspirators obtained fraudulently inflated appraisals from Individual C, the real estate appraiser. As a result, Individual C was paid funds in excess of a standard appraisal fee.

Individual D acted as the buyer's real estate agent on multiple real property transactions, and knew that the documents submitted to the lenders falsely identified the straw buyers as the purchaser of the properties when in fact the actual purchaser was Individual E. Individual D was paid substantial commission payments on these fraudulent transactions.

Individual E recruited straw buyers and was paid a portion of the funds misappropriated by the scheme's participants.

Deen admitted participating in 27 separate fraudulent real estate transactions, worth approximately $18 million in total loan proceeds. There was at least $2 million made in fraudulent concealed payments.

In order to effect the scheme, Deen admitted that on Oct. 17, 2006, in furtherance of the scheme he knowingly transmitted by means of wire communications more than $575,000 in mortgage loan financing for the purchase of a residence in Otsego.

During tax years 2006 and 2007, Deen also admitted that he evaded his personal income taxes on approximately $200,000 in taxable income and owes more than $50,000 in income tax.

Deen faces a potential maximum penalty of 20 years in prison on the wire fraud count and five years on the tax evasion count. Judge Kyle will determine Deen's sentence at a future date.

This case is the result of an investigation by the Federal Bureau of Investigation and the Internal Revenue Service-Criminal Investigation Division. It is being prosecuted by Assistant U.S. Attorneys Timothy C. Rank and Christian S. Wilton.