

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

***United States Attorney
Laura E. Duffy***

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For Immediate Release

FOUR CHARGED IN \$11 MILLION LOAN ORIGATION SCHEME; RAMONA REAL ESTATE AGENT AND SEATTLE BUSINESSMAN ENTER GUILTY PLEAS

NEWS RELEASE SUMMARY - July 12, 2012

United States Attorney Laura E. Duffy and Federal Housing Finance Agency Inspector General Steve A. Linick announced that fugitive loan broker Mary Armstrong was arrested today in Las Vegas, Nevada. The indictment, which was returned on May 10, 2012 and unsealed today, charges Armstrong, an unlicensed mortgage loan broker, Ramona real estate agent Teresa Rose, and Armstrong's assistant William Fountain with devising and executing a mortgage loan origination fraud and kickback scheme.

As detailed in the indictment, the defendants carried out their scheme by recruiting "investors" through advertisements in the Los Angeles Times and online, and encouraging them to purchase homes in Ramona, California, and elsewhere. The advertisements offered investors who had good credit the chance to buy property with no money down, and the defendants falsely claimed they would make the mortgage payments on the investor's behalf using rental income they generated by renting and managing the properties. In reality, these so-called investors were nothing more than straw buyers who were promised

\$10,000 for each property purchased as part of the scheme. The defendants were able to secure mortgages for the properties by falsifying loan applications for the straw buyers. Among other things, the loan applications falsely claimed exorbitant income from fake employers and used sham companies to verify the borrowers' fabricated employment and rental histories. The defendants went so far as to include fake W-2s and pay stubs to support the income claims. The defendants used these loan applications to obtain mortgages with 100% financing – and thus avoided having to make any down payment on the properties.

The bulk of the profits the defendants made from the scheme resulted from their convincing sellers to inflate the purchase price of the properties by approximately \$100,000, which was allegedly to be used for construction to improve the properties. In fact, no construction work was ever performed and the funds were instead diverted (or “kicked back”) to bank accounts controlled by the defendants. The defendants pocketed this money, made few if any mortgage payments, and allowed nearly all of the properties to swiftly fall into foreclosure.

The indictment alleges that Armstrong, Rose and Fountain purchased at least sixteen properties in Ramona and in El Cajon, California and Washington state as part of this scheme. In total, the defendants secured over \$11 million in mortgage loans, skimmed over \$1.5 million in sham construction kickbacks, and earned hundreds of thousands of dollars in additional proceeds through commissions and fees listed as part of the closing costs for each transaction. As a result of the foreclosures and defaults caused by the defendants' failure to make the mortgage payments they promised, the defrauded mortgage lenders suffered losses of approximately \$5 million. The Federal National Mortgage Association, better known as Fannie Mae, purchased five of these fraudulently-obtained mortgages on the secondary market and suffered losses as a result of the defaults.

United States Attorney Duffy commented that these charges are the result of an active, ongoing criminal investigation. On April 18, 2012, a fourth defendant, Justin Mensen, pled guilty to participating in the conspiracy. As part of his plea, Mensen admitted that he aided his coconspirators by registering sham “construction” and “development” companies and opening several bank accounts – which were used to receive kickbacks (disguised as sham construction payments) in order to conceal from the mortgage lenders and sellers that the money was being funneled to the defendants. On May 30, 2012, Teresa Rose pled guilty to participating in the conspiracy, admitting that she represented both the buyers and the sellers in each Ramona sale, and arranged for inflated sales prices of the Ramona properties. William Fountain was arrested in Los Angeles on May 25, 2012, and has pled not guilty. His trial has not yet been scheduled.

United States Attorney Duffy emphasized that if anyone in the community has information relating to these charges, they are asked to contact the San Diego branch of the Federal Bureau of Investigation at (858) 565-1255 or the Federal Housing Finance Agency - Office of Inspector General hotline at (800) 793-7724.

An indictment is not evidence that the defendants committed the crimes charged. The defendants are presumed innocent until the Government meets its burden in court of proving guilt beyond a reasonable doubt.

DEFENDANTS

Criminal Case No. 12CR1848-JAH

Mary Armstrong
Teresa Rose
William Fountain

DEFENDANT

Criminal Case No. 12CR1458-JAH

Justin Mensen

SUMMARY OF CHARGES

Mary Armstrong, Teresa Rose, and William Fountain

Count 1: Title 18, United States Code, Section 371 -- Conspiracy to Commit Wire Fraud and to Launder Money -- statutory maximum sentence of 5 years custody, a maximum fine of \$250,000 or twice the gain derived from or loss caused by the offense, and \$100 special assessment.

Mary Armstrong

Count 2: Title 18, United States Code, Section 1343 -- Wire Fraud -- statutory maximum sentence of 20 years custody, a maximum fine of \$250,000 or twice the gain derived from or loss caused by the offense, and \$100 special assessment.

Counts 3-5: Title 18, United States Code, Section 1956(a)(1)(B)(I) -- Money Laundering -- statutory maximum sentence of 15 years' custody, a maximum fine of \$500,000 or twice the value of the property involved in the transaction, and \$100 special assessment.

Justin Mensen

Information: Title 18, United States Code, Section 371 -- Conspiracy to Commit Wire Fraud and to Launder Money -- statutory maximum sentence of 5 years custody, a maximum fine of \$250,000 or twice the gain derived from or loss caused by the offense, and \$100 special assessment.

AGENCIES

Federal Bureau of Investigation

Federal Housing Finance Agency - Office of Inspector General