



# Department of Justice



## Office of the United States Attorney Western District of Wisconsin

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### **FEDERAL TAX CHARGES AND EXPANDED MORTGAGE FRAUD CHARGES BROUGHT AGAINST MADISON AREA TAX PREPARER AND OTHERS**

#### *Mortgage Fraud Charges Involve Approximately 50 Loans Totaling More Than \$8 Million*

Madison, Wis. - Stephen P. Sinnott, United States Attorney for the Western District of Wisconsin, announced that the following charges were filed on April 8, 2010:

A federal grand jury sitting in Madison returned a 47-count indictment charging Gail L. Mendez, 44, of Sun Prairie, Wis., and Amy B. Strait, 42, of McFarland, Wis., with bank fraud, making false statements in connection with loan applications, and conspiracy to obstruct justice. Gail Mendez was formerly employed as a tax preparer and did business in the Madison area as Mendez Connection. Amy Strait was formerly employed as a loan officer at Park Bank in Madison.

The superseding indictment also charges Gail Mendez with filing false tax returns, assisting others in the filing of false returns, and obstruction of an Internal Revenue Service (IRS) investigation.

In related charges, the United States Attorney today filed three informations against three individuals:

1. Carlos R. Solis, 33, of Morrisonville, Wis., a former Madison area real estate agent, is charged in a one-count information with engaging in the same bank fraud scheme.
2. Marty G. Mendez, 26, of Sun Prairie, formerly employed as a tax preparer at Mendez Connection, is charged in a one-count information with assisting in the filing of a false tax return. Marty G. Mendez is the son of Gail Mendez.
3. David H. Knickmeier, 45, of Madison, formerly employed as a tax

preparer at Mendez Connection, is charged in a one-count information with assisting in the filing of a false tax return.

Gail Mendez and Amy Strait, if convicted of the bank fraud and loan fraud charges, face a maximum penalty of 30 years in federal prison and a \$1,000,000 fine on each count. If convicted of the conspiracy to obstruct justice charge, they each face a maximum penalty of five years in federal prison and a \$1,000,000 fine.

If convicted of the tax charges, Gail Mendez faces a maximum penalty of three years in federal prison and a \$250,000 fine on each count. If convicted of the charge of obstructing an IRS investigation, Gail Mendez faces a maximum penalty of 20 years in federal prison and a \$1,000,000 fine.

Carlos Solis, if convicted, faces a maximum penalty of 30 years in federal prison and a \$1,000,000 fine. David Knickmeier and Marty Mendez, if convicted, each face a maximum penalty of three years in federal prison and a \$250,000 fine.

#### The Alleged Bank Fraud Scheme

The superseding indictment charges that during the period from February 2006 to October 2007, in the Madison area:

- (a) Gail Mendez worked as a tax preparer, doing business as Mendez Connection.
- (b) Amy Strait was employed as a mortgage loan officer at Park Bank, a federally-insured financial institution.
- (c) Carlos Solis did business as a real estate agent.
- (d) Park Bank had a mortgage loan program that allowed borrowers to apply for a loan using an Individual Taxpayer Identification Number (ITIN) instead of a Social Security Number. An ITIN is a nine-digit tax processing number issued by the IRS to aliens who are required to have a U. S. taxpayer identification number but are not eligible to obtain a social security number.
- (e) Under Park Bank's ITIN mortgage program, a borrower applying for an ITIN loan was required to submit to the bank copies of the borrower's income tax returns for the prior two tax years. Under the program, the bank did not check with the IRS to verify the income stated on a borrower's submitted federal tax returns. While the bank checked with a

borrower's employer to verify wages, the bank did not verify a borrower's stated self-employment income.

The superseding indictment alleges that during the period from February 14, 2006, to October 17, 2007, Gail Mendez, Strait, Solis, and others known to the grand jury, engaged in a scheme to defraud Park Bank and to obtain money owned by the bank and under its custody and control. In connection with approximately 50 ITIN loans totaling more than \$8 million, Gail Mendez, Strait, Solis, and their co-schemers allegedly fabricated and presented to Park Bank fake tax returns that falsely inflated borrowers' income and had not been filed with the IRS.

The superseding indictment alleges that at various times and repeatedly:

- (a) Solis approached Strait regarding a prospective borrower seeking a real estate purchase loan. Strait told Solis the amount of self-employment income required to be shown on tax returns in order for the borrower to qualify for the particular loan amount, knowing that Solis would use the information to obtain fake tax returns.
- (b) Solis caused the required income figure to be relayed to Gail Mendez.
- (c) Gail Mendez used the income figure to prepare fake tax returns by inflating the amount of self-employment income, knowing the fake returns would not be filed with the IRS. Gail Mendez forwarded the fake returns to Solis, knowing the returns would be relied on by Park Bank in its review of the loan application.
- (d) Solis caused the fake returns to be forwarded to Strait.
- (e) Strait placed the fake returns in the Park Bank loan file, knowing the returns falsely inflated the amount of the borrower's income and had not been filed with the IRS, and knowing the fake returns would be relied on by the bank in its review of the loan application.

The superseding indictment alleges that for each ITIN loan, Gail Mendez received payment from the borrower for preparing the fake returns, Strait received an incentive payment from Park Bank, and Solis received a real estate commission on the sale of the underlying property.

#### The Alleged Conspiracy to Obstruct the Bank Fraud Investigation

The superseding indictment also charges Gail Mendez and Strait with conspiring

together, and with Carlos Solis and other unnamed co-conspirators, to obstruct the investigation of the bank fraud scheme. The superseding indictment alleges that on October 17, 2007, Park Bank managers informed Strait that the bank had discovered evidence that false tax returns had been submitted in connection with some ITIN loans, and that Park Bank managers directed Strait not to discuss the investigation of the ITIN loans with anyone. It is further alleged that in late 2007:

- (a) Strait informed Solis of the bank's discovery of the scheme.
- (b) Strait purchased a prepaid mobile phone and used the phone to communicate with Gail Mendez and Solis and avoid being detected by authorities.
- (c) Gail Mendez asked Strait and Solis to prepare a list of the loans under investigation.
- (d) Strait and Solis prepared such a list and faxed it to Gail Mendez.
- (e) Strait went to Park Bank and tried unsuccessfully to get copies of some of the loan files for Gail Mendez.
- (f) Gail Mendez caused Mendez Connection employees to pull files involving tax returns prepared for Park Bank loans, purge from them any mention of Park Bank or Solis, print new clean copies of the tax returns, place them in new folders, and re-file the folders randomly in the Mendez Connection filing system.
- (g) Gail Mendez obtained a loan from another bank and paid off a Park Bank ITIN loan on her own residence.

#### Tax Charges Against Gail Mendez

The superseding indictment also charges Gail Mendez with assisting clients of Mendez Connection in the filing of false and fraudulent tax returns and alleges:

- (a) In order for a U.S. taxpayer to claim a dependent on a tax return, the claimed dependent is required to have either a Social Security Number or an ITIN. A claimed dependent is required to be a U.S. citizen, U.S. resident, U.S. national or a resident of Canada or Mexico.
- (b) In order for a U.S. taxpayer to claim a "child tax credit" based on a claimed dependent, the claimed dependent has to be a qualifying child.

To be a qualifying child, among other requirements, the child must have lived with the taxpayer for more than half of the year, and the taxpayer must have provided at least half of the child's support.

- (c) ITINs were issued by the IRS through certifying Acceptance Agents authorized by the IRS to assist individuals in obtaining ITIN numbers.
- (d) Gail Mendez was an IRS-authorized certifying Acceptance Agent.
- (e) When applying for an ITIN number, an applicant is required to present to the certifying Acceptance Agent original documentation establishing identity, such as a birth certificate, medical records, or school records, and the certifying Acceptance Agent is required to review the original documentation.
- (f) After reviewing the required documents, the certifying Acceptance Agent signs a completed Form W-7, certifying under penalties of perjury that the agent examined the application, including accompanying documentation and statements, and that to the best of the agent's knowledge and belief the application is true, correct, and complete.

The superseding indictment also alleges that on various dates from 2005 to 2008, Gail Mendez willfully aided and assisted taxpayers in filing U.S. Individual Income Tax Returns that falsely and fraudulently claimed dependents and child tax credits to which they were not entitled.

The superseding indictment also charges Gail Mendez with filing false applications for Individual Taxpayer Identification Number (Forms W-7) on behalf of taxpayer clients.

The superseding indictment also charges Gail Mendez with false statements in her own tax returns, based on her claiming dependents and child tax credits which she knew she was not entitled to claim.

The last count of the superseding indictment, which charges Gail Mendez with obstructing the IRS investigation in December 2007, alleges:

- (a) In 2006, Gail Mendez directed employees of Mendez Connection to review clients' files for previous tax years and to calculate whether filing amended returns adding dependents and claiming additional child tax credits would result in additional refunds. The employees followed Gail Mendez's instructions. When calculating a possible refund, the

employees often made a note in the file indicating how much of a refund the taxpayer could expect, depending on the number of child tax credits that were to be claimed on the amended return.

- (b) On December 7, 2007, Gail Mendez learned that the IRS was investigating the claiming of child tax credits on returns prepared at Mendez Connection.
- (c) Gail Mendez then directed her employees to go through the files and get rid of any of notes referring to child tax credits.
- (d) At Gail Mendez's direction, the employees removed such notes from clients' files, shredded the notes, and returned the client files to the Mendez Connection filing system.

These charges are the result of an investigation conducted by the Federal Bureau of Investigation and the Internal Revenue Service, Criminal Investigation. The prosecution of this case is being handled by United States Attorney Stephen P. Sinnott.

This case is part of President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

You are advised that a charge is merely an accusation and that a defendant is presumed innocent until and unless proven guilty.

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