

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA : CRIMINAL NO. _____

v. : DATE FILED: _____

PATRICK BALF : VIOLATIONS:
DONALD STONE : 18 U.S.C. § 1343
: (wire fraud – 10 counts)
: 18 U.S.C. § 7201
: (tax evasion – 1 count)
: 18 U.S.C. § 7203
: (failure to file income tax
returns – 4 Counts)
: 18 U.S.C. § 7206
: (filing false income tax
returns – 4 Counts)
: 18 U.S.C. § 2
: (aiding and abetting)
Notice of additional factors

INFORMATION

COUNTS ONE THROUGH TEN

THE UNITED STATES ATTORNEY CHARGES THAT:

At all times material to this Information:

THE DEFENDANTS

1. Defendant PATRICK BALF was employed as a real estate broker who managed and supervised a company known as “The Real Estate Center” (“TREC”). TREC was a real estate brokerage business located at 112 North 7th Street, Allentown, Pennsylvania. Defendant BALF’s duties and responsibilities included, among other things: a) matching sellers of real estate with buyers of real estate, b) assisting sellers in advertising their property for sale,

c) soliciting potential buyers for properties and providing them with information about the property, d) showing properties to buyers, e) assisting sellers and buyers in the execution of real estate sales contracts and documents, and f) providing buyers with suggestions as to how buyers may obtain financing (e.g., a mortgage loan) to pay for the property.

2. Defendant DONALD STONE was employed at the Mortgage Access Center, a mortgage brokerage company located in the same building as TREC at 112 North 7th Street, Allentown, Pennsylvania, upstairs from TREC. His duties and responsibilities included, among other things: a) assisting borrowers in completing mortgage loan application forms, b) gathering information about a borrower's income, employment history, assets, and financial obligations, and c) locating a mortgage lending company that would be willing to provide financing for the borrower. Defendant STONE, with another individual known to the U.S. Attorney, collected the financial and other information from potential buyers and compiled it into a loan application package which the Mortgage Access Center sent to mortgage lending companies for review. The mortgage lending company relied on the truthfulness and accuracy of the information provided by the Mortgage Access Center in the mortgage loan package, and used this information to determine whether it would provide financing to a particular borrower.

THE FRAUDULENT SCHEME

3. From in or about January 1998 through in or about September 2003, at Allentown, in the Eastern District of Pennsylvania and elsewhere, defendants

**PATRICK BALF,
DONALD STONE,**

and a person known to the U.S. Attorney, devised and intended to devise a scheme to defraud, a scheme to defraud, real estate buyers and mortgage lending companies, and to obtain money and property from those persons and entities, by means of knowingly false and fraudulent pretenses, representations, and promises.

It was part of the fraudulent scheme that:

4. Defendants knowingly misrepresented material facts to mortgage lending companies, with the intent to deceive, in the following manner, among others:

- a) falsifying mortgage loan documents submitted to mortgage lending companies;
- b) defrauding mortgage lending companies by misrepresenting that otherwise unqualified real estate buyers had actually qualified for mortgages for which they had applied;
- c) falsifying documents relating to the origin of the buyer's down payment;
- d) providing false W-2 forms for loan applicants;
- e) providing false employment documents for loan applicants; and
- f) falsely claiming that sellers were providing second mortgages to buyers.

5. Defendants obtained real estate appraisals to support the value the defendants placed on each particular home, which values were substantially higher than the price paid for the homes.

6. Defendant PATRICK BALF suggested and directed home buyers to the Mortgage Access Center, with whom defendant PATRICK BALF had established a relationship to obtain mortgage loans. Defendant DONALD STONE, with another individual known to the U.S. Attorney, prepared and submitted the false and fraudulent mortgage loan applications to mortgage lending companies on behalf of defendant PATRICK BALF's home buyers.

7. Defendants targeted a certain group of buyers characterized as “subprime” borrowers. “Subprime” borrowers are individuals with damaged credit who are unable to obtain financing from banks and other finance companies at the lowest market rates, leaving them with few options in the mortgage lending market. For example, one family purchased a house for \$67,000 only four months after the house had been bought for \$26,000. Their fifteen year mortgage rate was 13.013 %, with a balloon payment of \$46,233.97 at the end of the term. Another family purchased a house for \$65,000 two months after the house had been purchased for \$26,000. Their fifteen year mortgage rate was 12.467 % with a balloon payment of \$41,562.73 at the end of the term.

8. Defendants selected and targeted their fraudulent scheme to real estate in a limited area of downtown Allentown, Pennsylvania. The majority of the buyers targeted by the defendants were Hispanic. The scheme involved real estate transactions of more than \$1,500,000.

THE DEFENDANTS’ FRAUDULENT CREATIVE FINANCING

9. Defendants BALF, STONE, with another individual known to the U.S. Attorney, intentionally structured the transaction to make it falsely appear that the buyer met the criteria required by the mortgage lending company. Mortgage lending companies relied on this false information in their decisions to approve and provide mortgage loans to the buyers. Defendant BALF referred to this structure as “creative financing,” which was executed as follows:

(a) **FALSIFYING ORIGIN OF BUYER’S DOWN PAYMENT**

Defendant BALF misrepresented that buyers brought significant amounts of cash to the real estate closings to pay for their house, which allowed the mortgage lending company to provide a lower loan amount relative to the value of the mortgaged property, and reduce the risk to the mortgage lending company. Defendant BALF accomplished this by: fraudulent verifications of deposits and using so-called “circle checks,” which involved passing money from the seller’s side, to the buyer’s side, and then back again to the seller’s side, and thereby conceal from the mortgage lending company the actual source of the money.

(b) FALSE SELLER SECOND MORTGAGES

Defendant BALF misrepresented that the sellers had provided the buyers with second mortgages – “seller’s seconds” – to assist in the sale. The existence of a true “seller’s second,” like cash from the buyer, allows the mortgage lending company to provide a lower mortgage to finance the sale and thereby reduce the risk to the mortgage lending company. In order to make the mortgage lending companies believe that there was a “seller’s second” in a real estate transaction, defendant BALF or individuals acting at his direction prepared documents which falsely stated that the seller was lending money to the buyer in the form of a second mortgage.

(c) FALSE INCOME AND EMPLOYMENT DOCUMENTS

Defendant BALF falsified the income and/or employment histories of several real estate buyers, thereby making it appear that the applicants would be financially able to repay the loan. Defendant BALF falsely represented, both orally and in writing, that particular buyers worked for THE SPENCER FOUNDATION, an organization for which defendant BALF served as President, and created and caused to be created false and fraudulent Internal Revenue Service

W-2 forms in order to deceive mortgage lending companies into believing that particular buyers worked for THE SPENCER FOUNDATION and had income from this employment.

10. Defendant DONALD STONE, acting with another individual known to the United States Attorney, sought out and used mortgage lending companies whose loan products were susceptible to the fraudulent actions used by defendant BALF due to the mortgage companies' reliance on the integrity of the mortgage application documents submitted by the defendants.

11. Defendant DONALD STONE facilitated the fraudulent scheme by performing much of the work necessary to arrange financing for defendant BALF's real estate deals. Defendant STONE, acting with another individual known to the United States Attorney, would, among other things, prepare the papers for the mortgages, communicate with the mortgage lending companies about the mortgages, and provide false information about the borrowers to the mortgage lending companies.

12. From each of the transactions structured through the scheme, defendants BALF and STONE, and others, received fees and/or commissions, and in some of the transactions, defendants BALF and STONE received a portion of the proceeds and/or profits derived from the sale.

14. On or about each of the dates listed below, in the Eastern District of Pennsylvania and elsewhere, the defendants

**PATRICK BALF and
DONALD STONE**

and others, for the purpose of executing the scheme described above, and aiding and abetting its execution, caused to be transmitted by means of wire communications in interstate commerce the signals and sounds described below for each count, each transmission constituting a separate count:

COUNT	DATE	DESCRIPTION
1.	November 29, 1999	Loan fee description document sent by facsimile from Accredited Home Lenders, a mortgage lender in Rhode Island, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 905 North 6th Street, Allentown, Pennsylvania
2.	January 12, 2001	Verification of bank deposit sent by facsimile from The Real Estate Center, a real estate broker in Pennsylvania, to Chase Manhattan Bank, a bank in New York, regarding property located at 28 North 11th Street, Allentown, Pennsylvania
3.	January 15, 2001	Loan application document sent by facsimile from the Mortgage Access Center, a mortgage broker in Pennsylvania, to SLM Financial Corporation, a mortgage lender in New Jersey, regarding property located at 631 Park Street, Allentown, Pennsylvania
4.	January 17, 2001	Verification of bank deposit document sent by facsimile from Chase Manhattan Bank, a bank in New York, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 28 North 11th Street, Allentown, Pennsylvania

5.	January 25, 2001	Pre-approval for loan document sent by facsimile from SLM Financial Corporation, a mortgage lender in New Jersey, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 620½ Greenleaf Street, Allentown, Pennsylvania
6.	March 13, 2001	Income verification document sent by facsimile from Mortgage Access Center, a mortgage broker in Pennsylvania, to Joe Corbi Wholesale Pizza, a business in Maryland, regarding property located at 333 North 9th Street, Allentown, Pennsylvania
7.	March 15, 2001	Income verification document sent by facsimile from Joe Corbi Wholesale Pizza, a business in Maryland, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 333 North 9th Street, Allentown, Pennsylvania
8.	February 16, 2001	Loan application document sent by facsimile from the Mortgage Access Center, a mortgage broker in Pennsylvania, to SLM Financial Corporation, a mortgage lender in New Jersey, regarding property located at 129 South Jefferson Street, Allentown, Pennsylvania
9.	May 15, 2001	Pre-approval for loan document sent by facsimile from SLM Financial Corporation, a mortgage lender in New Jersey, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 534 Jordan Street, Allentown, Pennsylvania
10.	May 21, 2001	Employment verification document sent by facsimile from Shamrock Building Services, a business in Florida, to the Mortgage Access Center, a mortgage broker in Pennsylvania, regarding property located at 723 West Greenleaf Street, Allentown, Pennsylvania

All in violation of Title 18, United States Code, Sections 1343 and 2.

COUNT ELEVEN

THE UNITED STATES ATTORNEY FURTHER CHARGES THAT:

On or about April 15, 1999, in the Eastern District of Pennsylvania, defendant

PATRICK BALF

willfully attempted to evade and defeat a large part of the income tax due and owing by him to the United States of America for calendar year 1998, by failing to make an income tax return on or about April 15, 1999, as required by law, to any proper officer of the Internal Revenue Service, and by failing to pay to the Internal Revenue Service this income tax and by concealing and attempting to conceal from all proper officers of the United States of America his true and correct income through various means, including, among other things, placing his assets in the names of nominees (e.g., his children).

In violation of Title 26, United States Code, Section 7201.

COUNTS TWELVE THROUGH FIFTEEN

THE UNITED STATES ATTORNEY FURTHER CHARGES THAT:

During the calendar years set forth below, in the Eastern District of Pennsylvania,
defendant

PATRICK BALF

had and received gross income substantially in excess of the minimum filing requirement, as set forth below, and that by reason of such gross income he was required by law, following the close of each calendar year and on or before April 15 of the following year, to make an income tax return to any proper officer of the Internal Revenue Service, stating specifically the items of his gross income and any deductions and credits to which he was entitled; that knowing this, he willfully failed to make an income tax return to any proper officer of the Internal Revenue Service, each failure constituting a separate count:

COUNT	YEAR	GROSS INCOME FILING REQUIREMENT
12.	1999	\$12,700
13.	2000	\$12,950
14.	2001	\$13,400
15.	2002	\$13,850

All in violation of Title 26, United States Code, Section 7203.

COUNTS SIXTEEN THROUGH NINETEEN

THE UNITED STATES ATTORNEY FURTHER CHARGES THAT:

On or about April 15 of the year following the calendar years set forth below, in the Eastern District of Pennsylvania, defendant

DONALD STONE

willfully made and subscribed United States income tax returns for the calendar years set forth below, which were verified by written declarations that they were made under the penalty of perjury and filed with an officer of the Internal Revenue Service, which defendant STONE did not believe to be true and correct as to every material matter, in that the returns reported taxable income set forth below, when in fact, as defendant STONE well knew, his taxable income was well above that reported, each return filed constituting a separate count:

COUNT	YEAR	FALSELY REPORTED TAXABLE INCOME
16.	1999	\$2,677
17.	2000	\$13,363
18.	2001	\$0
19.	2002	\$0

All in violation of Title 26, United States Code, Section 7206(1).

NOTICE OF ADDITIONAL FACTORS

THE UNITED STATES ATTORNEY CHARGES THAT:

1. In committing the offenses charged in Counts One through Ten of this Information, defendants

**PATRICK BALF and
DONALD STONE**

a. Committed offenses in which the loss exceeded \$850,000, as described in U.S.S.G. § 2B1.1(b)(1).

b. Committed offenses involving 50 or more victims, as described in U.S.S.G. § 2B1.1(b)(2)(B).

2. In committing the offenses charged in Counts One through Ten of this Information, defendant

PATRICK BALF

committed offenses in which the defendant was an organizer and leader of a criminal activity that involved five or more participants and was otherwise extensive, as described in U.S.S.G. § 3B1.1(a).

3. In committing the offense charged in Count Eleven of this Information, defendant

PATRICK BALF

committed an offense in which the defendant failed to report income causing a tax loss in excess of \$80,000, as described in U.S.S.G. §2T1.1(a)(1).

4. In committing the offense charged in Count Eleven of this Information, defendant

PATRICK BALF

committed an offense in which the defendant failed to report or correctly identify the source of income exceeding \$10,000 in any year from criminal activity, as described in U.S.S.G.

§ 2T1.1(b)(1).

5. In committing the offense charged in Count Sixteen of this Information, defendant

DONALD STONE

committed an offense in which the tax loss was less than \$2,000, as described in U.S.S.G. § 2T4.1.

6. In committing the offense charged in Count Seventeen of this Information, defendant

DONALD STONE

committed an offense in which the tax loss exceeded \$2,000, as described in U.S.S.G. § 2T4.1.

7. In committing the offense charged in Count Eighteen of this Information, defendant

DONALD STONE

committed an offense in which the tax loss exceeded \$2,000, as described in U.S.S.G. § 2T4.1.

8. In committing the offense charged in Count Nineteen of this Information, defendant

DONALD STONE

committed an offense in which the tax loss was less than \$2,000, as described in U.S.S.G. § 2T4.1.

PATRICK L. MEEHAN
United States Attorney