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THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

'If you are still making money selling drugs, you are an informant or about to be busted. Mortgage fraud is the thing to do now'

By David Jackson | Tribune staff reporter

A white-collar crime wave is raking Chicago's poorest communities, robbing vulnerable families of their homes and draining billions of dollars from the U.S. economy.

During the last five years, as home loans became easier than ever to get and identity theft blossomed, mortgage fraud surged.

FBI officials say it now threatens to become a national financial epidemic. Gang members call it "the new street hustle."

"If you are still making money selling drugs, you are an informant or about to be busted. Mortgage fraud is the thing to do now," said convicted identity thief Christopher Scott in a prison interview.

Mortgage swindlers buy buildings dirt-cheap or use brazen cons to gain control of people's homes. They apply for hefty mortgage loans, take the cash, then disappear, leaving empty buildings and destitute victims in their wake.

PART 1

David Shank's broad face flushes with shame as he says, "I was taken for a ride."

The mentally disabled 46-year-old lost the house he owned free and clear after a fraud-laced $94,000 mortgage was orchestrated by Scott and a home loan executive who had served prison stints for rape and truck hijacking.

Blending face-to-face scams with computer forgery, fraud crews typically include home loan executives, appraisers and scouts who troll for victims.

Drug-dealing gangs, including Chicago's Black Disciples, have adopted the financial crime, the Tribune found. Mortgage swindling helped that gang solidify its control over street corners, launder money and gain safe houses to launch operations.

And giant lending companies, including the market-leading CitiFinancial, a division of the global bank Citigroup, found themselves embroiled in massive fraud schemes.

In federal and state cases filed since 2000, the Tribune identified 524 Cook County homes used by swindlers. Those homes—which prosecutors say represent only a fraction of the frauds that actually took place here—were intensely clustered in low-income and minority communities, the paper found.

In the 41 Chicago census

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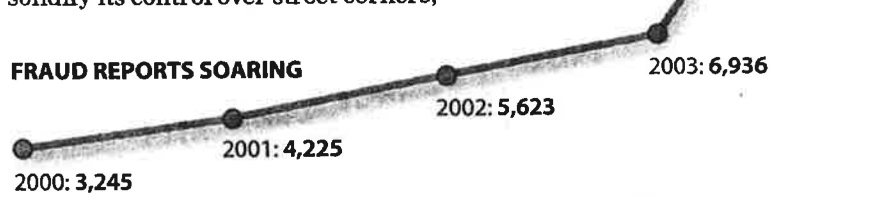
FRAUD REPORTS SOARING



FBI mortgage fraud investigators have fielded a growing number of suspicious activity reports. The crime is widely underreported, investigators say, and many reports are handled by local and state authorities.

Source: FBI

David Shank used to own this bungalow.

He hoped he would always live in it. Then Shank ran into three people he thought he could trust:

The mortgage broker with a dollar sign tattoo.

The broker's right-hand man, who flashed an impish smile.

And the nurse who took Shank for a Caribbean cruise . . .

Anatomy of a swindle, Page 22.

HUSTLE:

Mortgage fraud losses $1 billion so far in '05

CONTINUED FROM PAGE 1

tracts hit hardest by mortgage fraud, 39 percent of the residents lived in poverty, nearly twice the citywide rate, and 96 percent were African-American.

Economic ripples spread out inexorably when even a single bungalow is taken by a swindling crew.

Buildings often fall vacant as they wind through foreclosure court, and the empty shells can become magnets for criminals. In turn, city agencies are forced to spend extra for police patrols, board-up, demolition and litigation.

Landowners across the region must pony up the lost property tax revenues. Many of the mortgages are federally insured, so taxpayers are on the hook for those as well. Stock investors lose money in the complex secondary market where home mortgage loans are pooled and resold as securities.

And stung lending companies pass their losses on to other borrowers or fold, said Chicago Title regional counsel Douglas Karlen.

In Chicago's interlocking South Side communities, the fraud threatens to undermine decades of homeownership gains.

"The impact of these losses might make a lender say, if 10 percent or 20 percent of deals in the neighborhood are fraudulent, maybe I won't go back," Karlen said.

Nationally, the FBI mortgage fraud caseload increased fivefold from 2001 through 2004 as reports of suspicious activity also rose. At the time, low interest rates touched off a cascade of home loan applications, while off-the-shelf software made it easy to fabricate the paperwork.

Mortgage fraud losses reported by lending companies have topped $1 billion so far in 2005. Unreported losses may be far larger, the FBI says.

"Quite frankly, it is very easy money when someone walks away from a mortgage closing with a quarter of a million dollars cash," said Chicago FBI white collar crime supervisor Robert Kowalski.

One Cleveland scheme involving dozens of fraudulent mortgages caused an artificial rise in area property values, an FBI report said. A separate, sprawling North Carolina case implicated officials of Fannie Mae, the government-owned corporation backed by taxpayers. While Chicago's inner city has been pounded, cases have cropped up in suburbs from Palatine to Downers Grove and Flossmoor.

The U.S. Department of Housing and Urban Development fueled some schemes by selling Chicago swindlers dozens of homes at discount prices and paying others hundreds of thousands of dollars in Section 8 rent subsidies to serve as landlords for poor people, the Tribune found.

And a patchwork of local and federal regulations failed to protect lenders and homeowners from savvy criminals.

The home loan industry, which touts its self-policing, relied on inexperienced employees without proper controls or oversight. Prominent lending companies approved fraudulent mortgage applications submitted by companies that didn't exist.

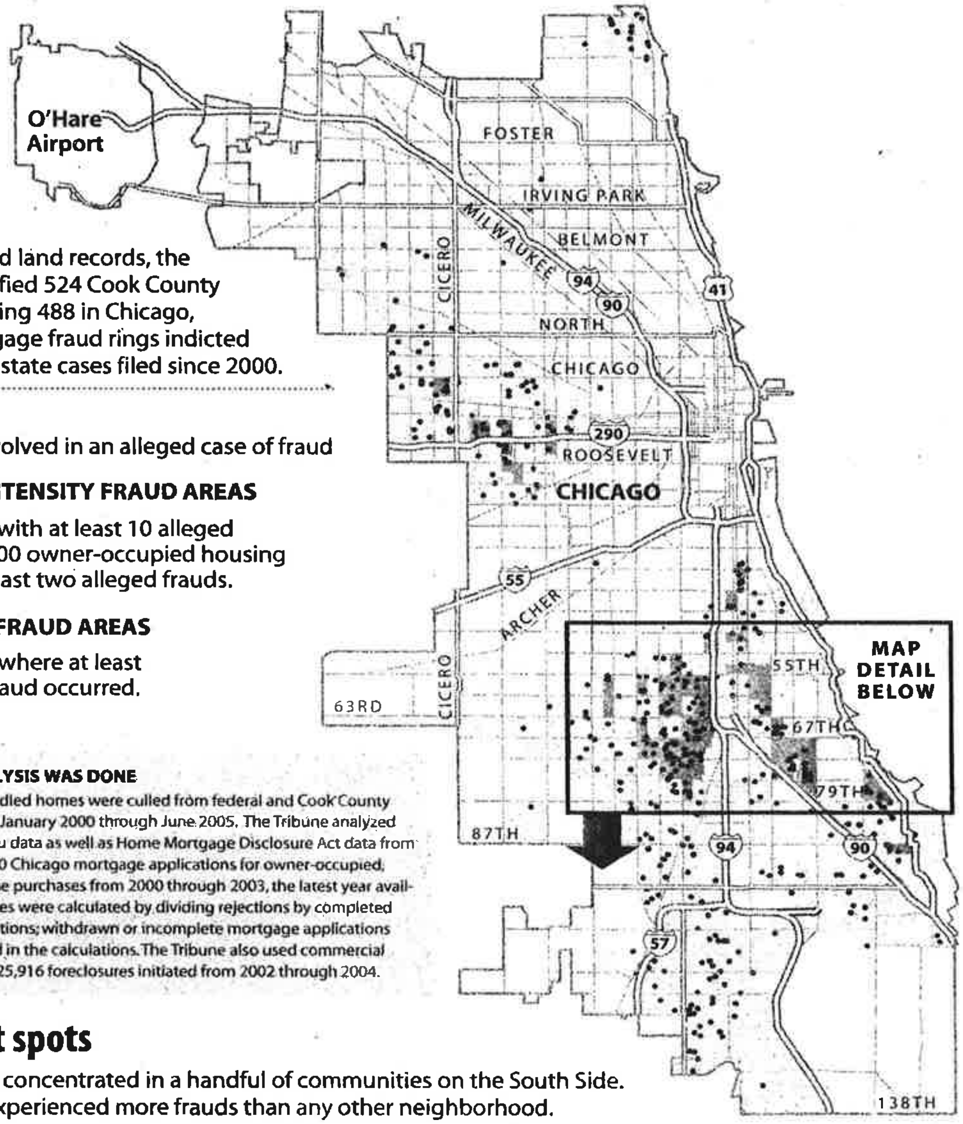
As new schemes surface, law enforcement authorities have been ratcheting up efforts. In May alone, officials won guilty verdicts against the leaders of 12 multimillion-dollar fraud rings.

Federal officials call homeownership central to the success of American democracy, because it can give people a stake in their community and allow them to build equity and escape poverty. Perhaps the crime's sharpest price is the intangible cost of seeing families knocked off the first rung of their climb to the middle class.

The swindlers, said Cook County financial crimes prosecutor John Mahoney, "prey on people using every last nickel to keep a roof over their heads."

Clusters of crime

While the economic impact of mortgage fraud ripples throughout the region, the crime wave strikes poor and minority areas hardest, hurting efforts to revive neighborhoods.



From court and land records, the Tribune identified 524 Cook County homes, including 488 in Chicago, used by mortgage fraud rings indicted in federal and state cases filed since 2000.

KEY:

- Property involved in an alleged case of fraud

HIGH-INTENSITY FRAUD AREAS

Census tracts with at least 10 alleged frauds per 1,000 owner-occupied housing units and at least two alleged frauds.

OTHER FRAUD AREAS

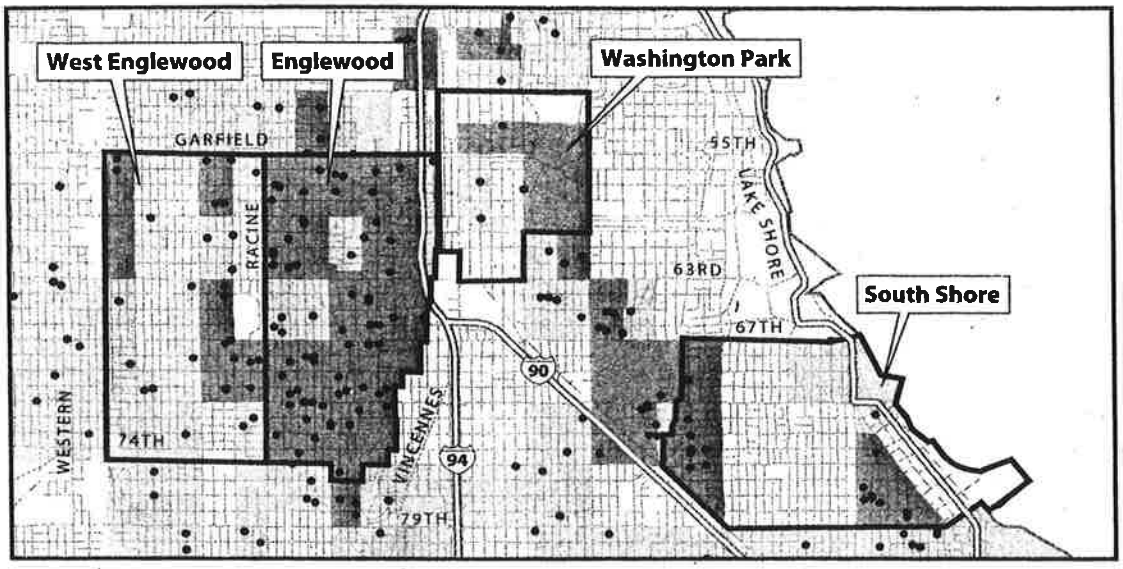
Census tracts where at least one alleged fraud occurred.

HOW THE ANALYSIS WAS DONE

Addresses of swindled homes were culled from federal and Cook County indictments from January 2000 through June 2005. The Tribune analyzed U.S. Census Bureau data as well as Home Mortgage Disclosure Act data from more than 200,000 Chicago mortgage applications for owner-occupied, single-family home purchases from 2000 through 2003, the latest year available. Rejection rates were calculated by dividing rejections by completed mortgage applications; withdrawn or incomplete mortgage applications were not included in the calculations. The Tribune also used commercial databases listing 25,916 foreclosures initiated from 2002 through 2004.

Fraud hot spots

Fraud is most concentrated in a handful of communities on the South Side. Englewood experienced more frauds than any other neighborhood.



A look at how the worst fraud areas compare to the rest of the city:

	HIGH-INTENSITY FRAUD AREAS	ALL FRAUD AREAS	CHICAGO AVERAGE
Percent African-American, 2000	95.9%	78.6%	36.7%
Percent in poverty, 1999	39.3%	25.2%	19.6%
Homeownership, 2000: Owner-occupied	24.3%	39.9%	40.3%
Renter-occupied	60.4%	50.2%	51.8%
Vacant	15.3%	9.9%	7.9%
Foreclosures per 1,000 owner-occupied units	217	124	56
Mortgage rejection rate	34.9%	27.9%	16.1%

Source: Chicago Tribune reporting

Chicago Tribune

Robbed at the point of a pen

By David Jackson
Tribune staff reporter

On a sunny August afternoon in 2002, Tina Smith walked her disabled patient into a sleek suburban real estate title company office.

David Shank recalls his nurse whispering last minute instructions in his ear:

"Just make sure you look like you understand everything you're reading, and sign."

Moments later, a mortgage broker with a dollar sign tattooed on his right hand walked in. As instructed, Shank penned his neat signature on a flurry of paperwork that afternoon, including a fraudulent $94,000 home loan that ultimately cost him the sturdy brick bungalow on the West Side that his parents had left him.

An easygoing 46-year-old with limpid blue eyes and a gentle voice, Shank had chronic leg ulcers that limited his mobility and learning disabilities that rendered him "totally incapable of making financial decisions," according to one psychiatrist's report.

The mortgage broker walked away with a $65,000 check—money he disbursed to companies Shank never heard of for debts he didn't have.

Shank was given a check for $23,000. He said nurse Smith convinced him to cash it at a currency exchange. She used some of that money to take Shank and her boyfriend on a four-day Caribbean cruise, then vanished.

Six months later, when the fraudulent loan went unpaid, Shank's home was taken in court by the mortgage company that extended the loan. Shank was moved into a group apartment with other disabled adults.

"I thought I had people I could trust, but no," Shank said.

Stories like Shank's are crowding court dockets as a surge of mortgage fraud sweeps Chicago and the nation, fueled by the new and dangerous marriage of identity theft and easy home loans.

The Tribune's account of Shank's case is drawn from interviews and thousands of pages of court depositions and records.

Like most mortgage fraud, Shank's ordeal involves confusing legal terms, reams of documents and financial sleights of hand. Stripped to its core, though, what happened to Shank in that brightly lit office is the story of four people involved in a brazen, face-to-face scam.

Tattooed mortgage broker Edwin Evans, 39, a powerfully built ex-convict in a suit and tie, allegedly orchestrated the scheme.

Evans' right-hand man, identity thief Christopher Scott, helped fill out phony documents. "We as black people are just catching up with mortgage fraud," Scott said in an interview. "White people been doing it for years."

The nurse, Smith, provided the bridge between Evans and his new client.

And there was Shank, surrounded by home loan professionals days after his mother died.

The broker

Edwin Evans spent seven years in Illinois prisons for violently raping a 14-year-old girl, then four more for hijacking a delivery truck at gunpoint. Paroled in 1999, Evans went into the mortgage business.

There, he prospered.

Six feet tall, with watchful, unflinching eyes, Evans soon ran companies that offered financial advice, prepared loans for homeowners and invested in property sprinkled through the South Side and suburbs.

Amid Chicago's red-hot real estate market, as low interest rates and rising property values touched off a flurry of mortgage refinancing, the home loan maker trolled his boyhood streets in a Lexus LX 470 SUV and a pinstriped suit.

His aliases include George L. Brown, Willie J. Cannon, Albert A. Dawson and Anthony Wilson, police records show.

Born Edwin George Evans, he was raised in a modest wood-frame house in Chicago's Morgan Park neighborhood.

"Edwin grew up in a safe, middle-class community," his mother, Mae Evans, wrote in a 1990s letter to a judge. "He played Little League baseball. He was also captain of his bowling team."

Real estate deals ran in the family. His mother, who also used the name May Morris, held state licenses as a real estate broker and salesperson starting in the 1970s. Both licenses were revoked

Tribune photo by Antonio Perez

David Shank lives in a group apartment with other disabled adults after losing his bungalow in a mortgage fraud.

Heavy connections

As he built his career in financing, convicted felon **Edwin Evans** **(right)** got help from a crime figure and a municipal official.

The Evans & Hall firm borrowed $300,000 from Chicago crime figure Michael Giorango, who was convicted twice of federal bookmaking charges and of promoting a nationwide prostitution operation. He declined to comment.

Matteson village trustee Sam Brown was listed as corporate secretary and shareholder of the Evans & Hall firm starting in 2002. Brown, who secured a mortgage loan from the firm and also gave his personal guarantee to help it obtain a $1 million property loan, declined to comment in detail on the transactions.

in the 1990s after state regulators determined that she improperly handled client accounts. Despite those revocations, she won state approval as a loan originator last year, representing the family's E&I Funding Corp.

Mae Evans, who sometimes has presented herself as a financial consultant, has declared bankruptcy five times since 1986, court records show. She declined to comment.

"We don't talk about our business," she told a Tribune reporter.

Court records offer a harsher portrait of Edwin Evans' early years, depicting a teenage burglar who preyed on his South Side neighbors. A string of juvenile detentions led to adult felony convictions in the 1990s.

Even while drifting in and out of prison, Evans sharpened his real estate skills. In three instances, when Evans apparently was in prison, South Side homeowners purportedly gave him their property for nothing. Those land records are riddled with conflicting statements that raise questions about the legality of Evans' deals. The Tribune could not locate the original homeowners.

A month after he was paroled in 1999, Evans began signing records as president of another family-owned firm, Evans & Hall Realty Investment

Glossary of mortgage fraud schemes

■ **AIR LOANS:** A swindler invents borrowers and buildings to obtain loans. The perpetrator may set up phones and pose as borrower, employer, appraiser and credit agency when the lender calls to verify.

■ **CHUNKING:** A swindler holds a seminar promising to show investors how to get rich buying property with no money down. Using the investors' personal information, the swindler submits multiple mortgage applications, pocketing the loan proceeds.

■ **DOUBLE SALES:** Weeks can pass between the filing of a property record and its appearance in computerized registries used by title-search companies. A swindler can record a deed, arrange a loan, and before those transactions show up in the computer, file another deed and arrange another loan.

■ **HOME IMPROVEMENT CONS:** A contractor talks the homeowner into making costly or unnecessary repairs. The contractor lends the homeowner money for the job or steers him to a mortgage lender, then has the loan proceeds sent directly to the contractor. When the loan forecloses, the contractor can end up taking the house or part of the sale proceeds from it.

■ **LAND FLIP:** Property is purchased, falsely appraised at a higher value, then quickly resold. Some properties are flipped three or four times between associates with no money changing hands.

■ **STRAW OWNER:** To apply for a loan, the swindler pays a person, often a friend or relative, for the use of his name and credit history.

Sources: Federal Financial Institutions Examination Council, FBI, Illinois attorney general, Cook County state's attorney's office.

About the investigation

David Jackson began reporting this series when an attorney from the Cook County public guardian's office gave him a tip about a mentally disabled man who lost his home in a mortgage swindle.

Jackson

During a six-month investigation, Jackson reviewed thousands of pages of land and court records and interviewed more than 100 people, including mortgage fraud perpetrators and victims, law enforcement officials, attorneys and real estate professionals. Jackson has worked at the Chicago Tribune since 1991, except for a yearlong stint at The Washington Post in 1998. At the Post, he shared the 1999 Pulitzer Prize for public service.

Perez

At the Tribune, he twice has been a Pulitzer finalist.

Tribune reporters Ray Gibson and Todd Lighty contributed to this series. Reporter John McCormick guided the computer analysis.

Antonio Perez is a prize-winning staff photographer. Before joining the Tribune two years ago, he had worked at a sister publication, Exito.

About the series

SUNDAY
The surging crime wave
Mortgage fraud drains billions from the economy.

MONDAY
A gang's new weapon
A drug-dealing outfit uses fraud to seize territory, cover tracks and make money.

TUESDAY
An inside job
A major lender finds itself embroiled in a scam.

WEDNESDAY
One block's heartache
A handful of swindles breeds street crime, drugs, poverty and desolation.

THURSDAY
Who's keeping watch?
At every step, gaping loopholes invite con artists to exploit home loans.

Anatomy of a swindle

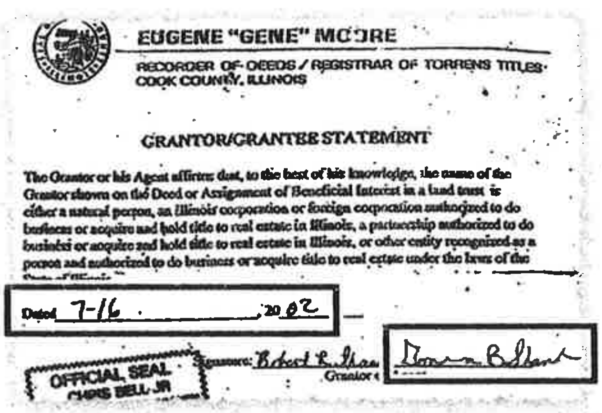
In 2002, mortgage broker Edwin Evans helped arrange a $94,000 mortgage loan on the home of David Shank, a mentally disabled man. State regulators called the mortgage "fraudulent" and levied a $10,000 fine against Greater Investment Mortgage Corp., where Evans was a branch manager. Evans denied wrongdoing, and he was not charged with a crime in the case. Shank lost his home after the mortgage went unpaid.

How fraud occurred in the Shank case

FRAUDULENT MORTGAGE PREPARED

1 Home transferred using forged deed

Two days after Shank's mother died, on July 16, 2002, two of Evans' co-workers filed a false quit claim deed purportedly transferring the Shank family home to David Shank.


EUGENE "GENE" MOORE
RECORDER OF DEEDS / REGISTRAR OF TORRENS TITLES
COOK COUNTY, ILLINOIS

GRANTOR/GRANTEE STATEMENT

The Grantor or his Agent affirms that, to the best of his knowledge, the name of the Grantor shown on the Deed or Assignment of Beneficial Interest in a land trust is either a natural person, an Illinois corporation or foreign corporation authorized to do business or acquire and hold title to real estate in Illinois, a partnership authorized to do business or acquire and hold title to real estate in Illinois, or other entity recognized as a person and authorized to do business or acquire title to real estate under the laws of the State of Illinois.

Dated 7-16 , 2002

Signature: Robert L. [illegible] Grantor

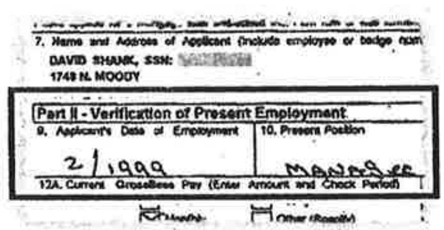
Donna B Shank

OFFICIAL SEAL CHRIS BELL JR

▲ Phony deed dated July 16, 2002, with purported signature of Donna Shank transferring home to David Shank.

2 Phony work history created for Shank

Shank's home mortgage application said he was manager of a Harvey beauty salon. In fact, Shank never worked there, and the beauty salon wasn't even incorporated in 1999, when Shank purportedly began managing it.


7. Name and Address of Applicant (include employee or badge num
DAVID SHANK, SSN: [redacted]
1749 N. MOODY

Part II - Verification of Present Employment

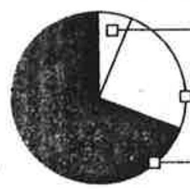
9. Applicant's Date of Employment	10. Present Position
2/1999	Manager

12A. Current Gross Base Pay (Enter Amount and Check Period)

▲ A phony mortgage application identifying Shank as a manager.

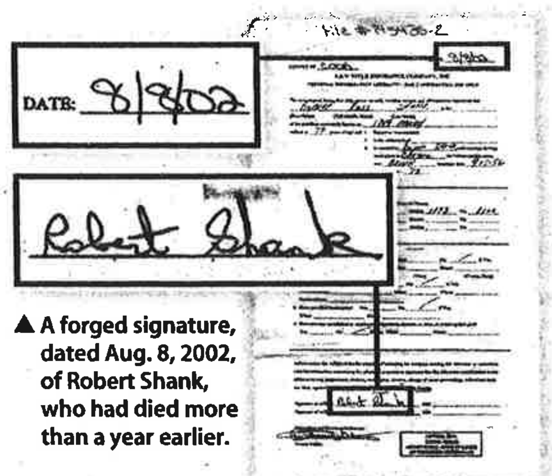
Sources: Court and land records and interviews

WHERE THE $94,000 MORTGAGE PROCEEDS WENT



3 Process eased with fake signature

At the signing for the mortgage, an employee for Law Title Insurance Co., who was working with Evans, notarized the forged signature of Shank's deceased father. The phony signature helped speed the loan process.



▲ **A forged signature, dated Aug. 8, 2002, of Robert Shank, who had died more than a year earlier.**

FALSE DEBTS CREATED

4 Fictional bills added

Although Shank had clean credit, Shank's fraudulent mortgage application said he owed $10,000 to Evans & Hall Realty Investment Corp., a company run by Evans, and $30,000 to ABC Counseling, a company owned by Yolanda Spearman, Evans' subordinate.

COLLECTING ON THE FRAUD

5 Mortgage payment diverted

The Shank home was mortgaged for $94,000. At the closing, the mortgage lender was directed to make a $65,000 check payable to the Evans & Hall firm for "services rendered."

6 Checks cut to accomplices

Evans took the $65,000 check and gave Spearman two checks for $20,000 each, court records show. One was made out to her personally and the other to her other company, ABC Credit.

Chicago Tribune

Corp.

While running the family firms, Evans was hired in 2001 by the rapidly growing Greater Investment Mortgage Corp., a south suburban company that arranges loans for homeowners.

Greater Investment CEO Nasir Muhammad told the Tribune he knew little about Evans' past. "Had I known he was a rapist, I wouldn't have hired him," Muhammad said.

Greater Investment was riding the boom of mortgage lending in Chicago's low-income and minority communities. The firm grew tenfold in its first three years, court records show.

With success came controversy: In three civil lawsuits besides those involving Evans, Greater Investment was accused of mortgage fraud, charges the company denies.

Muhammad, who sometimes goes by his birth name, Corian Echols, promoted Evans to branch manager of Greater Investment's nine-person Matteson office in 2002.

"I had no problems with him," Muhammad said, "until the Shank loan."

The right-hand man

"Cool Chris" Scott is a 26-year-old identity thief with an impish smile and close-cropped hair.

Scott this summer completed an 18-month federal prison sentence for two credit card fraud convictions, and he twice has been convicted of felony weapons charges.

He said he met Evans at a party where they discussed their luxury cars.

"Money know money," Scott said in an interview. "I was playing checks and credit cards. I was dabbling in real estate, but I didn't trust nobody. I wanted to learn, but wouldn't nobody teach me. Edwin taught me well."

In a court deposition for the Shank lawsuit, Evans denied meeting Scott until about a year after the Shank loan.

Records show Scott in 2001 incorporated a Harvey beauty salon named Kendra's Sudden Change, after his wife. It served as his cover as he learned to steal credit information. Some of the money went to buy high-speed motorcycles.

Scott said he supplied Evans with stolen identities after swiping patient files from a medical office where he worked briefly. Scott said Evans sorted the paperwork into "a lady pile, a man pile and a senior citizen pile."

In return for the data-rich records, Scott said, Evans gave him about $3,000 and let him stay in a south suburban home and use a Mercedes Benz S430 luxury sedan.

At Evans' invitation, Scott said, he began hanging out at mortgage closings "every chance I could get. We was like conjoined twins. He'd talk, I'd listen."

Scott recited his mentor's simple precepts:

People always need two things: food and a place to live.

A chameleon can adapt to any situation at any time.

Make sure your wife is happy. Keep her credit straight.

Evans interacted with his cohorts one at a time, limiting their knowledge of each other, Scott said. "Edwin taught me never to let the people meet. Stay the middle guy and bring the money home," Scott said.

Scott said he never met Shank and added, "I never got paid for that [deal]."

But Scott's signature is on the Shank loan and at least two other land deals involving Evans.

The two had a falling out in 2002, Scott said, after authorities locked Scott up for fraud and Evans didn't pay his bail.

"I thought he was a god, but he left me here hanging," Scott said in a prison interview earlier this year. He pointed to a reporter's notepad and dictated his next statement: "How could you leave your right-hand man out in the cold? Would you leave your right-hand man for $25,000? My bond was $25,000. He pretended like he didn't know me.

"I was furious at him when I came in here. I don't understand how I'm the only one here."

The victim

In the second-story group apartment where he now lives, David Shank's bedroom is lined with World Book encyclopedias, stuffed animals and autographed baseballs in clear plastic holders.

Shank said that with his father's guidance, he got those autographs from the players himself, not from a souvenir store. "They're not bought.

PLEASE SEE **ROBBED,** PAGE 23

ROBBED

CONTINUED FROM PREVIOUS PAGE

Just hand 'em the baseball," he said.

On one wall, a framed image of Wrigley Field's infield features favorite ball cards. "That's my Cubs dream team," Shank said.

Another pastiche of snapshots shows the stray cats he adopted. Stormy, Rusty, Annie, Shadow and Ty "all had different personalities," Shank said. By the bed are his TV and a tiny plastic Christmas tree. Above hangs a hand-tinted Air Force photo of his father, Robert, a World War II gunner who became a construction foreman.

Shank's mother, Donna, had been a Steinmetz High School teacher's aide for students with mental disabilities like her only child's, records show.

Shank's father died at age 76 in 2001. A few months later, his mother had a series of heart attacks that left her in a wheelchair and difficult to understand. Shank was hospitalized for several weeks with leg ulcers—swelling tissue and sores tied to poor blood circulation. He and his mother began relying heavily on nurse Smith.

"Tina, she surprised me," Shank said.

Standing 5 feet 7 inches tall with expressive brown eyes, Smith, now 38, was a nursing assistant and "homemaker/companion" who passed criminal background checks at a series of temporary nursing agencies and hospitals.

A reporter's recent attempts to find her through family members and previous home addresses in Illinois, Michigan and California were unsuccessful. Process servers in a civil lawsuit also were unable to locate her.

In May or June 2002, at the invitation of Smith, Shank's disabled mother was visited by Yolanda Spearman, a polite and businesslike loan broker who worked for Evans at Greater Investment.

On the side, Spearman also ran her own financial consulting firms, which weren't registered or incorporated. Spearman declared bankruptcy five times since 1993, court records show.

She was not charged with any crime in the Shank deal. She denied wrongdoing in a civil lawsuit and could not be reached for comment.

At Greater Investment, Spearman had been preparing a mortgage application to borrow $94,000 against the Shank home before July 14, 2002, when Donna Shank died.

The day after she died, Spearman created a new application for David Shank.

Six weeks later, on that August afternoon in 2002, the lives of Evans and Shank intersected in a bland-looking title company office. Shank thought he was being offered an easy way to get cash to pay some bills.

The scam

Even though inheritance laws made Shank the sole owner of his home, Spearman and another Greater Investment loan officer prepared a phony deed transferring the bungalow to him, according to court records.

The official-looking deed, supposedly signed by both of Shank's parents, was created two days after Shank's mother died but dated a year earlier. It helped speed along the mortgage.

Greater Investment prepared a mortgage application in Shank's name. The package was a crazy quilt of obvious contradictions.

The application said Shank had managed Scott's beauty salon since 1999, even though the salon wasn't incorporated until 2001. Shank's purported pay stub for August was issued in July.

Shank, supposedly earning $43,000 a year as manager, had no idea the salon existed. But when a lending company called Kendra's Sudden Change to verify Shank's work history, Scott was there to confirm the bogus information.

Other real estate professionals played cameo roles in the scheme. At the August 2002 loan signing, a title insurance company employee known as an escrow closer notarized the forged signature of Shank's father, asserting that the World War II veteran appeared in the office that afternoon, more than a year after his death.

Shank's loan application said he owed tens of thousands of dollars to companies run by Evans and Spearman, even though commercially available credit reports showed Shank had no creditors. The listing of those questionable debts would help Evans access the mortgage proceeds.

Based on Greater Investment's application, Aegis Mortgage Co. of Louisiana advanced a $94,000 loan.

After the papers were signed, a bouquet of checks was cut.

One $65,000 check was made payable to the Evans & Hall firm as a "creditor," for "services rendered."

Evans took that $65,000 check and gave his subordinate Spearman two checks for $20,000 each, court records show. One was made out to her personally, and the other to her unregistered financial consulting company, ABC Credit. In a later court deposition, Spearman said she used the money to pay Shank family debts, although she could provide no evidence she did so.

In addition to the $40,000 that went to Spearman, Evans claimed a $10,000 fee for purportedly offering Shank investment advice. Evans said in a later deposition that he gave the remaining $15,000 to Shank, although he could produce no receipts or records verifying this.

"David was fine with it," Evans testified. "David told me what to do with the money. I did exactly what he asked me to do. That was my relationship with David Shank."

After Evans took $65,000, and $6,000 went toward closing costs, Shank was left with a $23,000 check. He and Smith cashed it at a currency exchange. Though Shank remains confused about what happened to the cash, the public guardian alleges that Smith absconded with it.

Shank said his nurse told him she won a Caribbean travel package in a contest. Whenever any expense came up, "Tina took care of it," he said.

In a quiet voice, Shank added: "She was using my money."

The deal unravels

When the $94,000 loan went unpaid, the Louisiana lending company filed court papers to take Shank's house. Shank had no clue about the financial chaos looming over him until 2003, when he showed legal papers to a cousin. She called authorities.

The Cook County public guardian's office waged an 18-month-long civil lawsuit that forced Evans to pay back the $65,000 that he and his Evans & Hall Realty Investment Corp. took.

But that made up only part of the mortgage. Shank couldn't pay the rest. And though he had been duped, his signature was on the paperwork. His home was sold to repay the loan company.

Under an arrangement crafted by the court and the public guardian, Shank was moved into the group apartment with other disabled wards and a full-time home care worker. After the mortgage company was paid in full, the remaining home sale proceeds were placed in a court-supervised trust fund to supplement Shank's primary income from public aid benefits.

Last year, state regulators declared the 2002 mortgage "fraudulent," levying a $10,000 fine against Greater Investment, Evans' employer.

But Evans was not charged with any crime or disciplined by regulators. He moved on to other firms to execute other disputed deals. In civil suits and other records, five more homeowners have accused Evans and his companies of fraud.

In court cases, Evans denied wrongdoing, and he declined a Tribune interview request. "I don't want to talk to you," he told a reporter.

Under a new state law, Evans' criminal record might disqualify him as a mortgage broker. But he works under the family firm E&I Funding Corp., which is 91 percent owned by his wife, and thus avoids the required background check.

Former public guardian attorney Peter Schmiedel said Evans and his associates "robbed [Shank] at a time when his mother had just died. These people swooped in and swept away his only asset."

Shank's case was referred to the FBI and prosecutors, but authorities seem "just overwhelmed with the amount of mortgage fraud out there," said Schmiedel's colleague, Dawn Lawkowski.

Federal and Cook County prosecutors would not confirm or deny any investigation of the Shank loan.

In October 2004, Evans appeared in court for the public guardian's civil lawsuit. Wearing a crisp brown suit and mustard shirt, he presented the judge with a stack of checks and cash to make the last payment on the $65,000.

As his lawyer counted out thousands of dollars in front of the public guardian attorneys and the judge, a sharp-eyed mortgage company lawyer noted that Evans was still $800 short.

Unfazed, Evans pulled a money clip from his pocket and peeled off eight $100 bills. The Shank case was discharged.

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Chicago Tribune
:where
MONDAY, NOVEMBER 7, 2005 ★

THE NEW STREET HUSTLE:
A TRIBUNE INVESTIGATION

Reputed gang leader Marvel Thompson controlled real estate as well as drugs. What was his secret weapon? Mortgage fraud.

Scams build gang empire

By David Jackson | Tribune staff reporter

From his second-story office in a grimy South Side commercial building, crime lord Marvel Thompson kept watch over his turf.

The reputed king of the Black Disciples street gang relied on beatings, murder and mayhem to control drug-selling corners across the South Side, prosecutors allege.

To lock in territory, the 36-year-old Robeson High School dropout also deployed a more sophisticated weapon: mortgage fraud.

PART 2
A GANG'S NEW WEAPON

THE SERIES
Mortgage fraud is raking cities like Chicago, robbing families of their homes and draining billions from the U.S. economy.

Over the course of a decade, Thompson used straw buyers, sham sales and phony identities to secure more than $1 million in mortgage loans that went unpaid, records and interviews show.

The Black Disciples' expert use of mortgage fraud signals a menacing development. Once confined to a relatively small group of swindlers, mortgage fraud has morphed into a method of supporting ongoing criminal enterprises such as drug-dealing, smuggling and prostitution, records and interviews show.

Thompson acquired vacant lots, single-family homes and hulking apartment buildings that wrapped around corners where his gang dealt crack and heroin. Gang functionaries lived in some buildings and used others to store drugs and weapons and to stage operations, the Tribune found.

Thompson and a circle of criminal associates used the property to sop up lucrative bank loans. And they collected hundreds of thousands of dollars more from U.S. government Section 8 checks that are supposed to go to landlords to subsidize the rents of poor families.

PLEASE SEE **HUSTLE,** PAGE 17

Gang cashes in on home loan fraud

HUSTLE

CONTINUED FROM PAGE 1

Similar schemes have cropped up in the Chicago area and across the country, court records show.

A coast-to-coast methamphetamine ring based in the southwest suburbs—known to prosecutors as the Esawi organization—used mortgage fraud to launder drug profits. Traveling Vice Lord Marc Roberson, a convicted cocaine dealer, worked with a swindling crew to secure mortgage loans on two ramshackle West Side homes.

But few of the operations appear as fully evolved as Thompson's. By May 2004, when he was indicted on federal drug conspiracy charges, Thompson controlled at least 15 South Side properties, the Tribune found. Most were clustered within a half-mile of his headquarters at 6901 S. Halsted St. in the Englewood neighborhood.

From there, Thompson kept track of his land portfolio using an HP Vectra computer tower equipped with IBM Red Brick Warehouse business software, search warrant receipts show. Two handguns were tucked nearby.

Thompson pleaded guilty to federal drug conspiracy charges in March but denied being the gang's leader in a court statement. He awaits sentencing and faces 10 years to life in prison. Thompson and his attorneys declined to comment.

His collection of South Side properties was the fulfillment of a stubborn dream. Aided by a cadre of lawyers, accountants and mortgage brokers, Thompson began buying buildings in the early 1990s, soon after he is alleged to have assumed leadership of the gang.

A dope supplier introduced Thompson to a real estate broker and loan officer who helped him "start a corporation to facilitate the purchase of real estate in order to launder drug money," federal prosecutors wrote in 2004 court papers. "Thompson wanted to use [secret land trusts] to obtain legitimate bank loans."

In the hands of an honest investor, Thompson's properties could have been worth millions of dollars and might have kindled development in a swath of Englewood struggling to rebuild.

Instead, they became ravaged, dangerous shells.

Secret land trusts

To understand how dubious mortgages helped generate cash for Thompson and extend his gang's dominion, consider the three-story, 15-unit courtyard apartment building at 6723-29 S. Parnell Ave.

Thompson bought the building in a 1995 tax auction, although patchy county land records don't show how much he paid. He then titled the property to a secret land trust using an Illinois law that allows property owners to withhold their identities from public records.

Assisting Thompson in these transactions was attorney Peter Loutos, who helped Thompson acquire at least three other properties using secret land trusts, the Tribune found.

Loutos, 73, pleaded guilty to an unrelated investment swindle last year and gave up his law license. He declined to comment for this article.

In 1998, three years after Thompson's land trust acquired the Parnell Avenue building, Thompson sold it to an associate for $315,000.

On paper, at least.

The supposed buyer, a woman named Dishawn King, was the mother of one of Thompson's daughters, court records show.

King listed her occupation in court records as manager of Thompson's Royal Improvement Ltd. That company sponsored "courtesy patrols" in the Englewood neighborhood, the documents said, and was the employer Thompson and Black Disciples associates listed to show court authorities they held legitimate jobs.

King, 40, has not been charged with any crime, and she declined to comment.

After Thompson purportedly sold King the Parnell building in 1998, she used it to secure a $252,000 mortgage loan that went unpaid. It is unclear where that money ultimately ended up, but in a typical mortgage, it would have gone to the seller, Thompson.

But Thompson apparently kept his hold on the building. "Thompson, along with his mother, have retained control over that property," an FBI agent wrote in a 2004 court affidavit.

The FBI affidavit cited evidence of Thompson's hidden ownership.

Even after he supposedly transferred the building to King, Thompson stated that he owned the property when he collected $54,941 in U.S. Department of Housing and Urban Development Section 8 payments from October 1999 through March 2004. Thompson said he was the landlord of two government-subsidized tenants there.

On his federal income tax returns for 1999 and 2000, Thompson reported owning the Parnell building and listed income and expenses related to it, the FBI found.

The tax preparer who compiled Thompson's tax filings for a decade—and also prepared King's tax returns in 1999 and 2000—explained to FBI agents Thompson's strategy for concealing his ownership.

Thompson sold the building to King, the accountant told the FBI, and then Thompson bought it back from her without registering the second sale with the Cook County recorder of deeds.

Adding to the evidence that Thompson still controlled the building was the fact that his mother managed it, even after King took title. Arlether Branch raised Thompson and three siblings as a single mother, then worked for his Royal Improvement as a property manager. She was not charged with any crime, and she did not respond to requests for comment.

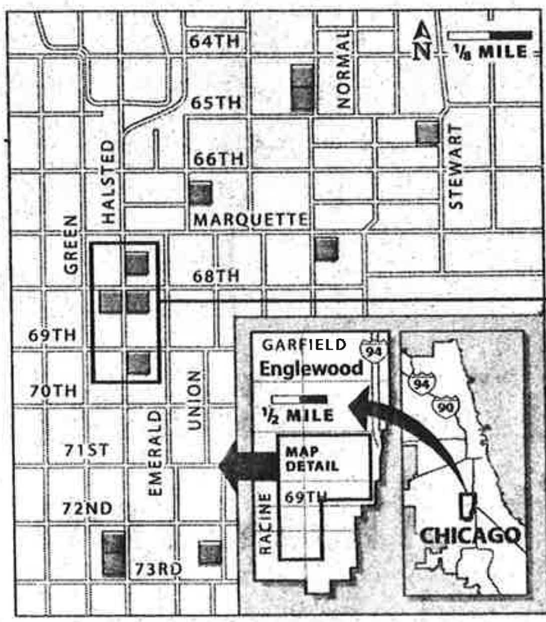
When federal agents arrested Thompson on drug conspiracy charges, they searched two apartments he and his mother used in the building. Authorities found bundles of U.S. currency

Marvel's world

Alleged gang leader Marvel Thompson had plenty of help securing his real estate empire, including a network of Black Disciples associates who took part in mortgage fraud and a local lending company that provided more than $500,000 in capital.

Thompson's buildings in Englewood

Twelve of Thompson's 15 properties were clustered in Englewood, which police said had a corrosive effect on the neighborhood, driving up crime reports, building violations and drug dealing.



Thompson's lender

A Skokie-based mortgage firm, **Spalter Finance Co.**, loaned Thompson more than $500,000 secured by **four buildings on South Halsted Street.** Spalter executives, who declined to comment, have not been charged with any crime and have said in court that they had no knowledge of criminal activity by borrowers.

Two of those four buildings originally belonged to **Chuck Maury**, a Cook County deputy sheriff who was arrested in 1992 for selling crack cocaine with the Black Disciples. Spalter had financed Maury's buildings, and Spalter Vice President **Robert Gordon** represented Maury as a private attorney. Spalter founder **Robert Spalter** put up $12,500 bail for Maury when he was arrested.

Thompson's associates

Prosecutors are moving to seize five buildings ostensibly owned by associates of Thompson:

- Three buildings belonging to **Burnie Williams**, a Black Disciple who served probation for felony drug and misdemeanor weapons arrests. Williams obtained mortgage loans totaling $388,000 on the three properties but didn't pay the money back.
- A building belonging to **Joel Head**, who worked for Thompson's Royal Improvement company. Thompson purportedly sold the building for $71,000 to Head, who used the building to secure a $92,000 mortgage that he didn't repay.
- A building belonging to a convicted drug dealer named **Terrance "Tee-Tee" Elane.** Thompson transferred it for $3,500 to Elane, who used it to borrow $126,750 in mortgages that weren't repaid and to collect $122,400 in U.S. Housing and Urban Development Department Section 8 payments.

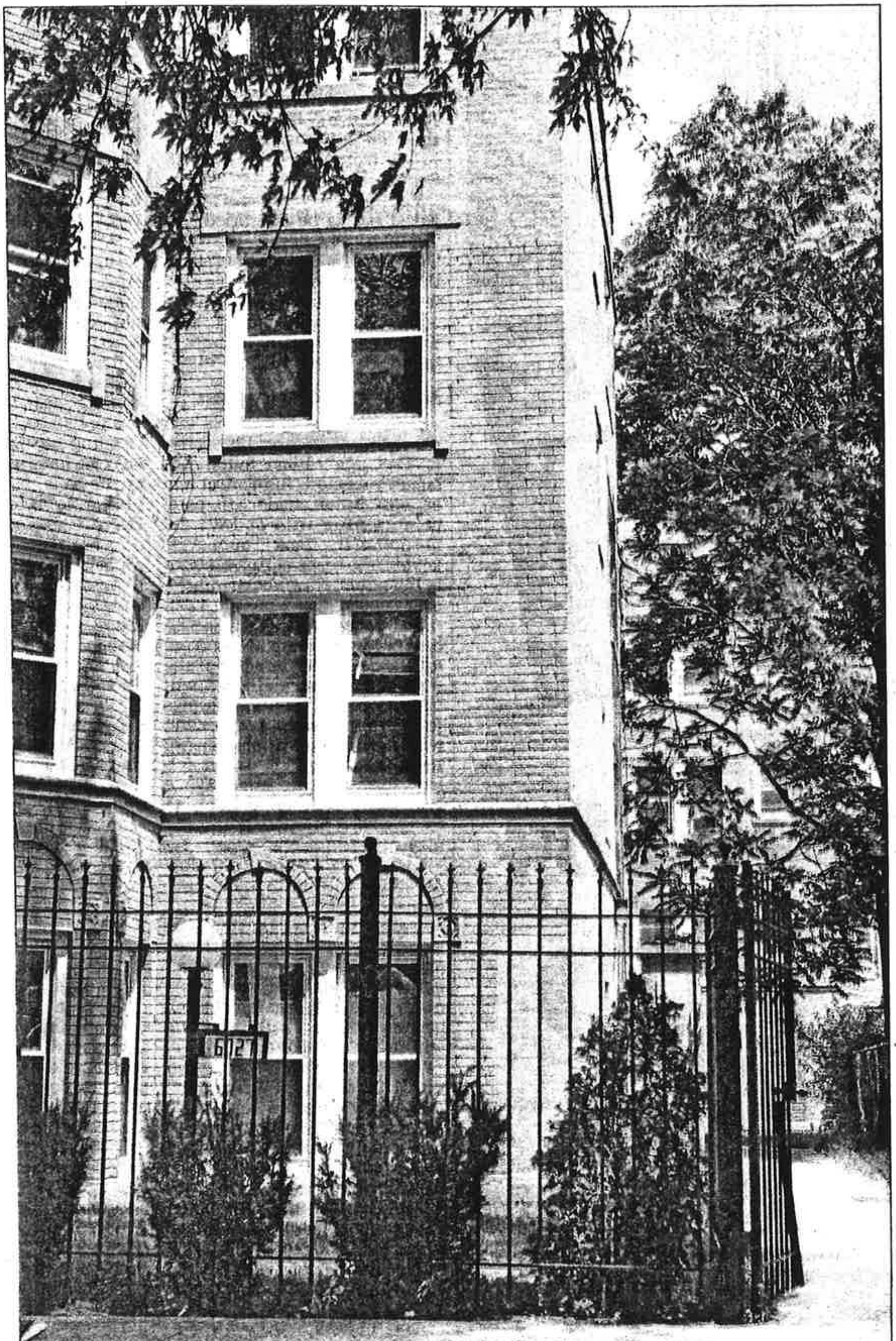
Sources: Tribune review of land and court records, MapStudio

Chicago Tribune

totaling $313,000, a notebook containing "The Black Disciple Nation Laws" and a box of .380-caliber ammunition.

Thompson, the alleged Black Disciples leader, maintained a third apartment's electrical service under the name "Unit BD."

An August 2004 city housing code inspection found cracked mortar and loose brick on the



Tribune file photo by Milbert O. Brown

Through a secret land trust, alleged Black Disciples leader Marvel Thompson acquired this apartment building in the 6700 block of South Parnell Avenue in 1995.

building's exterior. Inspectors reported that they couldn't get inside.

Trusted gang members knew the secret. They knocked on an outer door to be led down a set of stairs into the basement, then through a wooden door on the right side of a hallway. There, Thompson had installed a two-room recording studio, court records show.

From a radio antenna on the roof, the Black Disciples broadcast across the South Side by hijacking the frequency of a Christian station.

Amid uncensored rap, the gang sent out messages like the one from Sept. 29, 2003: "There was serious surveillance on Parnell, didn't tell us where, just called it in. It was unsuccessful."

Learning the game

In addition to Thompson's 15 properties, his criminal associates bought property alongside his and used it to obtain mortgage loans.

Wholesale drug supplier Willie Diggs owned four nearby South Side parcels, including one used as a key safe house in Black Disciples drug operations, land and court records show. Diggs used his buildings to collect $365,700 in mortgages that he did not repay, as well as $64,376 in Section 8 vouchers, the Tribune found.

It's not clear how much of that money Diggs pocketed, or how much he churned into property purchases. Charged in a separate pending federal narcotics case, Diggs did not respond to requests for comment.

An unnamed associate bragged to federal agents about teaching Diggs how to buy property, use mortgage loans and rent profits to acquire drugs, then buy another piece of property and deal more drugs.

"This was the best way to do it," the associate told an undercover federal agent.

Jerry Fort, a convicted drug dealer who helped Diggs acquire a building used for drug dealing by the Black Disciples, controlled an additional nine properties that garnered $571,000 in mortgages and $181,657 in Section 8 vouchers, the Tribune found. Fort was not charged in the Black Disciples case, and he declined to comment.

A former county employee named Generall J.G. Voker II was convicted of helping the Black Disciples launder profits from the sale of heroin and crack. He owned properties on the South Side and in Kankakee County and Arizona, land records show.

Voker was not a Black Disciples member, but his 33-year-old twin sons were mid-level gang leaders who washed drug profits through their father, prosecutors alleged.

Voker also was a veteran employee of the Cook County Management of Information Systems department, which helps prepare property tax bills, according to public records.

Sentenced to 5 years of probation for the money laundering, Voker declined an interview request.

Eviction notices

Mortgages were not the only income Thompson squeezed from his properties.

He leased dozens of shabby apartments to single mothers who paid only a small portion of their rent. The federal Section 8 program paid the rest, giving Thompson at least $276,951 in housing choice vouchers from January 2000 through December 2004, records show. Thompson got about $13,250 of that money after his May 2004 indictment.

Thompson evicted at least 41 slow-paying tenants from his properties between 1998 and last year.

In nine of those cases, Thompson's mother and property manager successfully petitioned Cook County Circuit Court judges to appoint special process servers who presented tenants with court notices. Those servers were Black Disciples, the Tribune found.

Among them was Thompson's half-brother Curtis "Bay-Bay" Branch, who served state prison stints for drug dealing and for concealing a murder fugitive.

In seven cases, eviction notices were served by Burnie Williams, who has served probation for felony drug delivery charges and a misdemeanor weapons arrest.

When Thompson's mother filed court petitions asking judges to approve special process servers, Thompson was able to help her. He affirmed her signature using an Illinois notary stamp granted to him by the secretary of state in 1997.

Neighborhood suffers

Eleven of the 15 Thompson properties traced by the Tribune were cited for dangerous housing code violations. Four were demolished after judges ruled that they were public hazards.

At Thompson's headquarters building at 6901 S. Halsted St., city inspectors cited broken plaster, peeling paint, smashed windowpanes, rotted window frames and rats.

Activity at the building also drove up crime in the neighborhood.

From 1999 through 2003, police made 12 felony drug-dealing arrests on the corner dominated by Thompson's headquarters.

A 24-year-old woman convicted of drug dealing outside the building lived in a second-floor apartment there, police and court records show. A 29-year-old Black Disciple was convicted of selling 34 zip-lock bags of marijuana from the corner.

And police investigated 78 crimes on the block between 1999 and 2003, including 11 involving guns.

The street crime all but vanished after Thompson was indicted in May 2004. Police records list only one battery and one assault on the block in the final seven months of 2004.

Tribune staff reporters Ray Gibson and Todd Lighty contributed to this report.

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Chicago Tribune

where TUESDAY, NOVEMBER 8, 2005

THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

A tense corporate drama unfolds when one of the nation's major lenders finds its Chicago operation enmeshed in mortgage fraud

Even big boys get scammed

By David Jackson
Tribune staff reporter

Working rapidly, the team of investigators descended on a Chicago branch office of a giant global bank.

In sparsely appointed meeting rooms, they interrogated junior account managers and frightened clerks. Riffling through one branch manager's desk, they confiscated receipts for steakhouse dinners and Bulls tickets.

As they pored through loan files caked with white-out, the investigators came to a startling conclusion: Under prior ownership, the bank's recently acquired mortgage subsidiary had poured some $9.6 million into 81 fraudulent Chicago-area home loans, all in less than a year.

Using phony identities and forged records, a loose-knit band of con artists had taken title to dozens of inner-city buildings, borrowed millions of dollars against the properties, then vanished. Executives overseeing the Chicago branch appeared to have been negligent or complicitous in the fraud.

"A classic straw buyer's scheme," one investigator's memo concluded.

Watching this team of sleuths download computer files and comb through financial receipts, an outsider might have assumed they were FBI agents tracking one of the street gangs that is learning to profit from the surging national crime called mortgage fraud.

But these investigators didn't work for the government. They were a corporate quality control team trying to stanch a growing stream of fraudulent loans from within their own market-leading company.

The tense corporate drama was unfolding in the Chicago central branch office of CitiFinancial, a mortgage and personal loan division of Citigroup, one of the world's most powerful and sophisticated banking firms.

CitiFinancial's internal investigation, de-

PLEASE SEE **HUSTLE,** PAGE 11

PART 3
AN INSIDE JOB

THE SERIES
Mortgage fraud is raking cities like Chicago, robbing families of their homes and draining billions from the U.S. economy.

ON THE WEB
Read the first two installments of the series at **chicagotribune.com/mortgage**

TRIBUNE INVESTIGATION

Citigroup inherited scams

HUSTLE

CONTINUED FROM PAGE 1

tailed in court records, interviews and internal company reports, shows how charlatans can exploit sloppiness and misconduct in a profession that touts its self-policing. Mortgage executives implicated in the Chicago fraud schemes disappeared from CitiFinancial's payroll only to pop up as managers of other firms.

Citigroup spokesman Rob Julavits declined to discuss details of the case, but he said in a written statement that Citigroup worked closely with authorities in the investigation and "takes all incidents of fraud very seriously and works hard to eliminate any improper activity."

When the fraud scheme began in March 2000, the Chicago central branch was owned by a predecessor company, Associates First Capital Corp., once the largest subprime mortgage lender in the U.S.

Citigroup acquired Associates in a celebrated $30 billion merger in November 2000. In Chicago, two months later, CitiFinancial officials discovered the pattern of fraudulent loans and negligent approvals. The secrets spilled out because of a fluky computer failure and the persistence of two assistant branch managers.

"Citigroup was left to clean up this inherited situation," Julavits said in the written statement.

In many ways, the Chicago case serves as a microcosm for similar schemes played out across the country during the last five years as prominent lending companies became enmeshed in mortgage fraud.

Low interest rates and the ease of identity theft have fueled a surge in the white-collar crime, federal officials say. The FBI estimates that 80 percent of reported mortgage fraud losses involve collaboration by home loan professionals—appraisers, attorneys, mortgage brokers and lending company executives.

The Chicago episode also highlights the pitfalls of the corporate consolidation sweeping the global financial services industry, as blue-chip banks cash in on the booming market of subprime mortgages extended to homeowners with poor credit.

Caught in the high-stakes drama was the troupe of smartly dressed middle managers who kept the Chicago central branch humming—the worker bees of the booming home loan industry. Quickly promoted to supervisory positions, they found themselves making rapid ethical decisions with little financial training or oversight, records and interviews show.

CitiFinancial's corporate compliance and quality control division flew a field review team to Chicago in February 2001. Loan files were shipped to Seattle for further scrutiny. CitiFinancial closed dozens of mortgage accounts, and at least five CitiFinancial employees were fired or quit amid the scandal, records and interviews show.

An assistant branch manager who called attention to the fraud scheme left town because she felt threatened by a co-worker, records and interviews show. She moved to another firm. Because of her concerns, the Tribune is withholding her name.

The con artists who had taken loans from Associates and CitiFinancial kept going. They exploited other Chicago-area lending companies and homeowners well into 2002, court and land records show.

It wasn't until May 2003 that Cook County prosecutors indicted 14 mortgage brokers, appraisers and sidekicks for roles in the CitiFinancial case.

No CitiFinancial officials were charged with any crime. But as the criminal trials wound on, two convicted mortgage swindlers testified in government proffers that they funneled improper payments to a former Chicago central branch manager so that he would turn a blind eye to obviously fraudulent loans.

The former branch manager, Sergio Olivares, has not been charged with any crime. He denied wrongdoing during CitiFinancial's internal investigation and in a Tribune interview. Olivares left CitiFinancial and now is a supervisor at another mortgage firm.

The computers went down

Set in a nondescript strip mall office on West Irving Park Road, the Chicago central branch episode offers a rare glimpse of a massive criminal conspiracy unfolding in the home loan industry, an icon of middle-class solidity.

In the first week of January 2001, a little more than a month after Citigroup took over Associates, the computers sputtered for a few hours in the Chicago central branch. An assistant branch manager rallied her staff to stop goofing around and use the idle time.

They began phoning a list of people who had home loans with CitiFinancial to make sure they were up-to-date on payments, to offer other financial products and to provide former Associates clients "an introduction to the CitiFinancial world," according to an internal company memo.

The first four people the assistant branch manager contacted told her their mortgage payments should be coming from a "management company." But none of the four would provide that company's name.

She immediately reported the suspicious responses to her superior, Olivares, but he discounted her concerns, CitiFinancial investigators wrote in their 17-page memo.

Olivares had risen quickly in a home loan business that rewarded his ambition and provided little oversight.

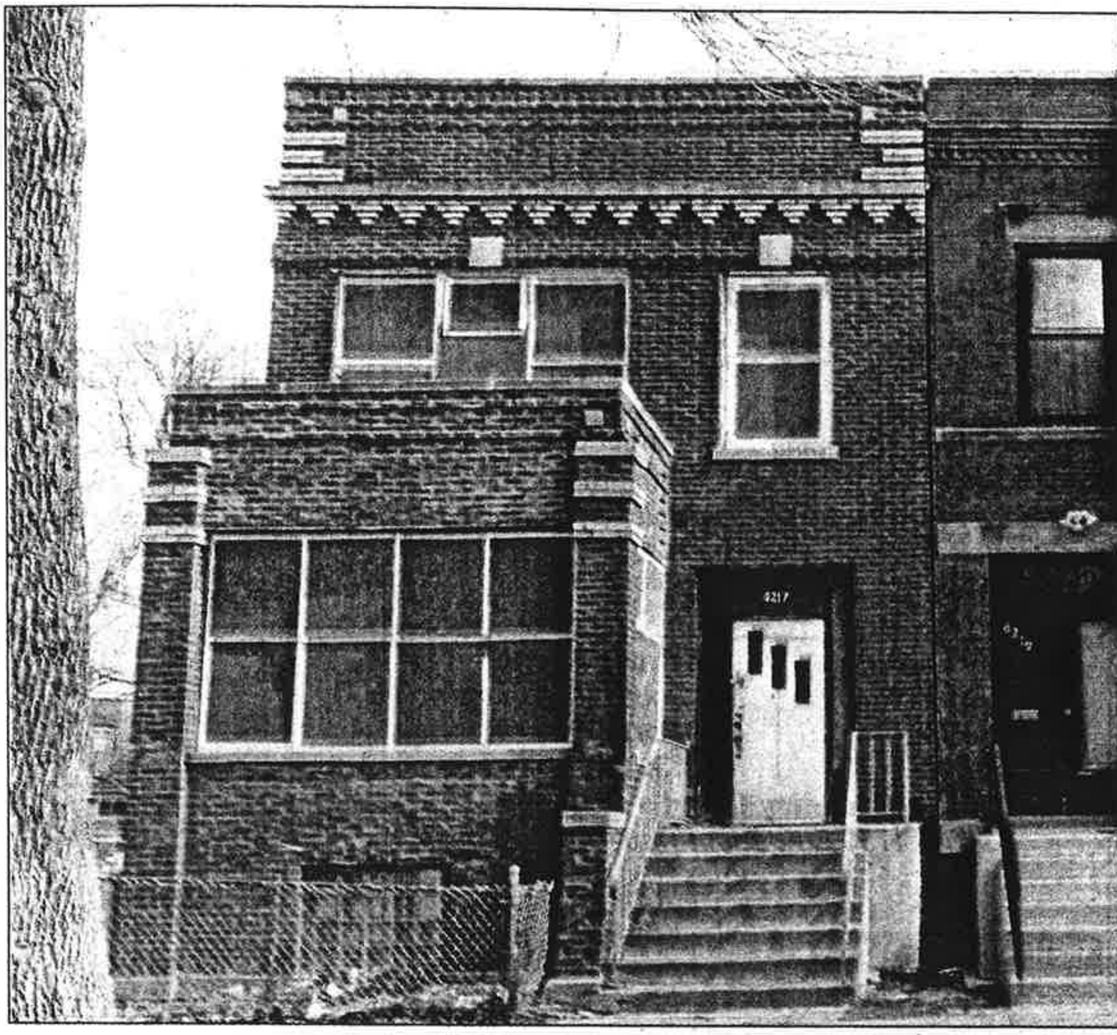
The Mexican-born Southwest Sider listed his occupation as a laborer when he applied for a Cook County marriage certificate as a 19-year-old in 1991.

He joined the Navy that year and served until 1993, then worked for the mortgage broker American General Financial Services, records show.

In 1995, the 23-year-old was hired at the Associates Oak Lawn office as a customer service representative. He became manager of the Cicero branch in 1999 and took over the prestigious Chicago central branch in January 2000.

Olivares' cousin succeeded him as manager of the Cicero branch. There, CitiFinancial investigators eventually identified 16 of the 81 allegedly fraudulent loans.

As Chicago branch manager, Olivares received a pay incentive for all mortgage loans approved over a base number, plus a year-end bonus tied to the total loan amounts, the CitiFinancial memo



Tribune photo by Antonio Perez

This building in the 6200 block of South May Street was among those used in frauds financed through Associates First Capital Corp., a firm that later became CitiFinancial.

Citigroup's costly merger

Mortgage fraud was not the only problem Citigroup inherited when it bought Associates First Capital Corp. in 2000.

Following the merger, the Federal Trade Commission filed a civil lawsuit alleging that Associates lured hundreds of low-income borrowers across the country into costly mortgage loans through false and misleading statements from 1995 to 2000. Without admitting wrongdoing, Citigroup paid a record $215 million to settle that case.

Then the Federal Reserve Board fined Citigroup an additional $70 million—another record payout—for alleged subprime mortgage abuses from 2000 and 2001, after Citigroup took over Associates.

CitiFinancial officials say they have cleaned up the business they received from Associates, introducing the industry's best practices and making fairly priced credit available to a large segment of underserved consumers.

David Jackson

said. During 2000, his salary was roughly $45,000, and his bonus was $15,000, the memo said.

Olivares' troubles began in 2001, shortly after the new year. First one of his deputies found what appeared to be a clue in a newly discovered fraud case. But when he brought it to Olivares' attention, the manager told him the matter looked fine to him.

A few days later, the computers went down, and the other assistant branch manager noticed the pattern of suspicious responses from clients.

The two junior executives talked to each other about what they were seeing, and they decided to act.

At a CitiFinancial insurance seminar on Jan. 18, they pulled aside district manager Terry Logan and expressed concerns about questionable loans.

Logan visited the branch four days later, on Jan. 22. Amid a whirlwind of employee interviews, he pulled dozens of home mortgage files from the prior six months.

Loan applications were missing customary appraisals and title reports and were thick with white-out, the company's subsequent investigation found. An entity called the No-Name Tax Service had prepared some borrowers' pay stubs. One file began with the purchase of an uninhabitable home for $907 at a tax sale—a house later used to secure a fraudulent $145,000 mortgage that went unpaid.

Laying out the scheme to corporate managers, the CitiFinancial memo's unnamed author wrote: "I believe all of the [swindlers'] firms are interconnected one way or other and use multiple names in order to perpetrate the property investment loan schemes on a grand scale."

When fraudulent loan applications were passed up to Associates supervisors, only the approval form was submitted, and the supervisors took that information at face value, CitiFinancial documents show.

One in-house underwriter told CitiFinancial investigators that he had rejected several applications "due to questionable information" only to have a supervisor overrule him and approve the loans. The underwriter's "concerns were not addressed or were disregarded by management," CitiFinancial investigators reported.

One of the assistant branch managers who helped expose the fraud told investigators that at first he "was not suspicious of the scheme due to his newness in the business," the CitiFinancial memo said.

CitiFinancial finalized at least six of the fraudulent mortgages in December 2000, after its merger with Associates. CitiFinancial says it did not fully integrate the new subsidiary's operations into its own management and computer systems until January 2001.

'Grow at any cost'

As part of CitiFinancial's Chicago investigation, company officials drove Olivares through the South Side to look at the homes CitiFinancial had funded.

"In probably five out of six of the properties, they were board-ups," Logan later told prosecutors, according to a court report. "They were not inhabitable, and they were not inhabited."

While Logan helped uncover the fraud, investigators also noted that he oversaw the branch while the schemes flourished. The CitiFinancial investigators wrote that "his failure to perform his supervisory duties allowed the scheme to continue for so long and at such a large scale." Logan moved to another mortgage company and declined to comment for this article.

Interviewed by CitiFinancial investigators, Olivares said he felt "sanctioned by management to . . . grow at any cost," the company's internal memo said.

Olivares "admitted to not verifying the loan applications, but stated this was an accepted practice at the Associates," the CitiFinancial memo said.

Olivares and his cousin were suspended on Feb. 2, 2001, and they left the company three weeks later.

The CitiFinancial report said company investigators were not able to prove kickbacks or a monetary relationship between the fraud crews and branch employees.

But allegations of improper payments emerged later from court records surrounding loan broker Kenneth Steward, who has pleaded not guilty to fraud in the CitiFinancial case and awaits trial.

In a proffer to authorities, Steward's childhood buddy and professional associate Carl Miller said, "Olivares was apparently pushing through mortgage application paperwork at the Associates in exchange for United States currency."

Miller told authorities that Olivares received $1,000 for any file referred to him, although Miller later clarified that statement by adding that the money went through another person, and he was not sure how much Olivares got.

The middleman Miller allegedly paid—freelance loan broker Fritz Fox—said in his own July 2003 plea agreement that "Olivares expected money."

Fox had been an Associates executive for a few years in the 1990s and had trained Olivares, court records show.

Later, when Fox brought a mortgage application, "Olivares would ask Fox if he was going to get some money for this, and Fox would ask Steward and make arrangements with Olivares to get paid," Fox's plea agreement said.

"Steward would give Fox money, and Fox would cash the check and would write a check to Olivares out of his own account. Fox states that these payments were between $200 and $1,500," Fox's plea agreement said.

Fox pleaded guilty to laundering money and was sentenced to 36 months of probation. He did not respond to requests for comment.

After Fox's July 2003 conviction, he went to work as a branch manager for a separate residential mortgage company in Hazel Crest. Fox said in a 2004 civil court deposition that he didn't tell his new employer about his conviction.

'This is a shocker'

In a Tribune interview, Olivares declined to discuss the criminal cases stemming from Steward's loans. Of Steward himself, Olivares said, "I don't recall the name."

Citigroup spokesman Julavits said his company could not comment on any individual employee. His written statement said "the behavior of the Associates employees allegedly involved in this was unacceptable and contrary to CitiFinancial policies. The former Associates employees remained on the job for less than two months after CitiFinancial integrated the Associates branches, [and] Citigroup immediately launched a thorough investigation."

During 2001, CitiFinancial cut off business with 5,252 mortgage brokers across the country—some 67 percent of those on the Associates approved "buy" list—because they did not have valid licenses or had disciplinary histories, according to a company regulatory filing.

CitiFinancial branches now focus on smaller home improvement and refinance mortgages, while home-purchase loans are channeled through a separate Citigroup affiliate. Julavits said Citigroup also has introduced tighter credit controls.

Though Olivares left CitiFinancial for another company shortly after the fraud scheme was uncovered, he said authorities have not questioned him.

"You're the first one I've talked to," he told a reporter. "This is a shocker to me."

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Inside the fraud crew


Steward

Mortgage fraud schemes typically involve collaboration with home loan professionals. Authorities allege Kenneth Steward's operation used handpicked associates to secure $2.4 million from fraudulent loans discovered by CitiFinancial. Steward has pleaded not guilty and awaits trial.

Operatives and examples from Steward's alleged frauds

SCOUTS

Steward company employees who recruited potential mortgage borrowers.

EXAMPLE

Sheila Hubbard allegedly referred borrowers to Steward for loans, in some cases helping the borrowers complete their loan applications. She pleaded guilty to one count of money laundering and was sentenced to 3 years in prison.

STRAW OWNERS

Recruited by Steward or an associate to pose as the purchaser of a run-down property.

EXAMPLE

Devon Williams allowed his identity to be used in exchange for cash and false promises that he would eventually own property. Paid about $1,000 for this role, he was not charged with any crime and cooperated with authorities.

FORGERS

Created fraudulent tax returns, paycheck stubs, bank statements and other documents.

EXAMPLE

Steward associates told the government that **Jocqua Carter** supplied Steward with phony documents needed for a mortgage application. Carter pleaded guilty to one count of conspiracy.

APPRAISER

Bribed by Steward to issue inflated property valuations.

EXAMPLE

Eric Pollards, who was sentenced to jail for his role in a Steward scheme, said he would have his assistants take the boards off windows before photographing a building he was appraising, then put the boards back up.

FINANCIER

Provided seed money to carry out Steward's operations.

EXAMPLE

Companies linked to former attorney **David Goldman** loaned Steward more than $100,000 to finance land deals. Goldman was not charged in the Steward case.

FAKE COMPANIES

Shell businesses set up to create phony employment histories and borrowers.

EXAMPLE

Steward asked Pollards to create a company called **Acme Recovery Systems.** Steward would list Acme as a borrower's employer on loan packages. Pollards would answer the phone when lenders called for verification.

LENDERS

Provided loans while accepting questionable information on mortgage applications.

EXAMPLE

Convicted members of Steward's crew said they paid the Chicago branch manager of a CitiFinancial predecessor so the company would ignore obviously fraudulent loans. The manager was not charged with any crime and denied wrongdoing.

Sources: Federal and Cook County court records

Chicago Tribune

THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

Fraud strikes 1 building 3 times

Real estate adviser Kenneth Steward is accused of duping a West Side couple out of their home and then using the modest two-flat in a decade-long chain of frauds that netted $266,700 in mortgage loans. Steward, who was not charged, denied wrongdoing.

How the property at 4901 Gladys Ave. changed hands

FIRST FRAUD

1 Steward given power of attorney

Building owners William and Mattie Ruff sought Steward's financial advice when they fell behind on their mortgage in 1992. They gave Steward a letter that allowed him to execute documents on their behalf.

2 Property gets new owner

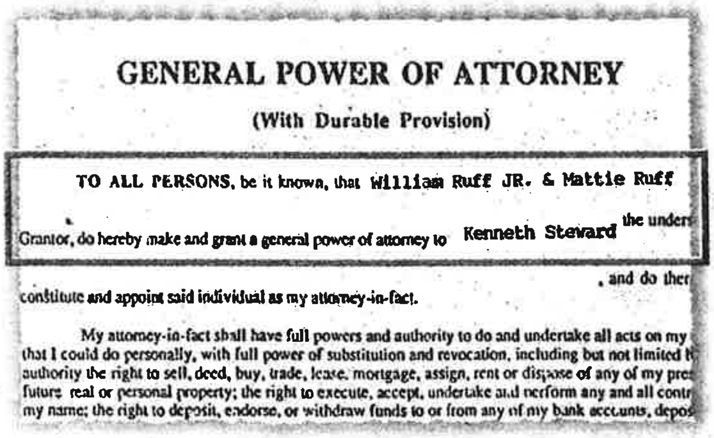
In 1993, Steward's company transferred the home to Chicagoan Reginald Walker, allegedly without the Ruffs' knowledge. Walker had previously sought financial counseling from Steward and agreed to allow Steward to use his name and clean credit record in exchange for $1,000.

3 Steward applies for mortgage on Walker's behalf

Steward's company applied for a $62,100 second mortgage on the house on Walker's behalf. The mortgage application allegedly included a forged version of Walker's 1993 federal tax return and false records indicating that Walker lived in the building. Walker expected Steward's company to repay the mortgage, but no one did.

4 Ruff is evicted

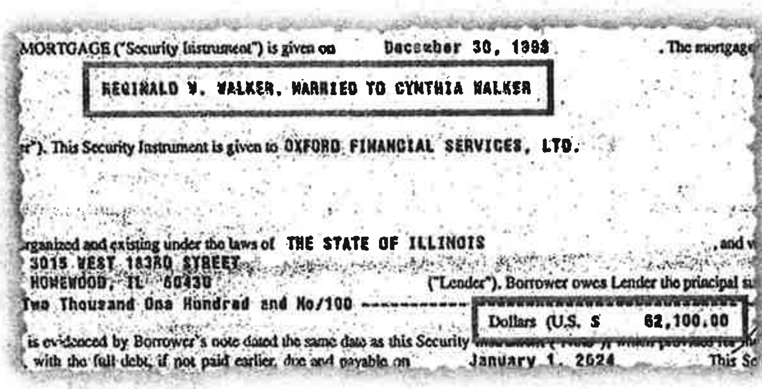
In 1994, Mattie Ruff died. Steward's company filed court papers to evict William Ruff, saying he owed rent. Ruff was forced from the home. Walker's mortgage went into default.


GENERAL POWER OF ATTORNEY
(With Durable Provision)

TO ALL PERSONS, be it known, that William Ruff JR. & Mattie Ruff the under Grantor, do hereby make and grant a general power of attorney to Kenneth Steward , and do ther constitute and appoint said individual as my attorney-in-fact.

My attorney-in-fact shall have full powers and authority to do and undertake all acts on my that I could do personally, with full power of substitution and revocation, including but not limited t authority the right to sell, deed, buy, trade, lease, mortgage, assign, rent or dispose of any of my pre future real or personal property; the right to execute, accept, undertake and perform any and all contr my name; the right to deposit, endorse, or withdraw funds to or from any of my bank accounts, depos

▲ The Ruffs grant Steward power of attorney.


MORTGAGE ("Security Instrument") is given on December 30, 1993 . The mortgage REGINALD W. WALKER, MARRIED TO CYNTHIA WALKER

r"). This Security Instrument is given to OXFORD FINANCIAL SERVICES, LTD.

rganized and existing under the laws of THE STATE OF ILLINOIS , and w 3015 WEST 183RD STREET HOMEWOOD, IL 60430 ("Lender"). Borrower owes Lender the principal su Two Thousand One Hundred and No/100 Dollars (U.S. $ 62,100.00 is evidenced by Borrower's note dated the same date as this Security with the full debt, if not paid earlier, due and payable on January 1, 2024 This Se

▲ Mortgage for Walker allegedly applied for by Steward.

SECOND FRAUD

Steward uses Debra Allen's credit

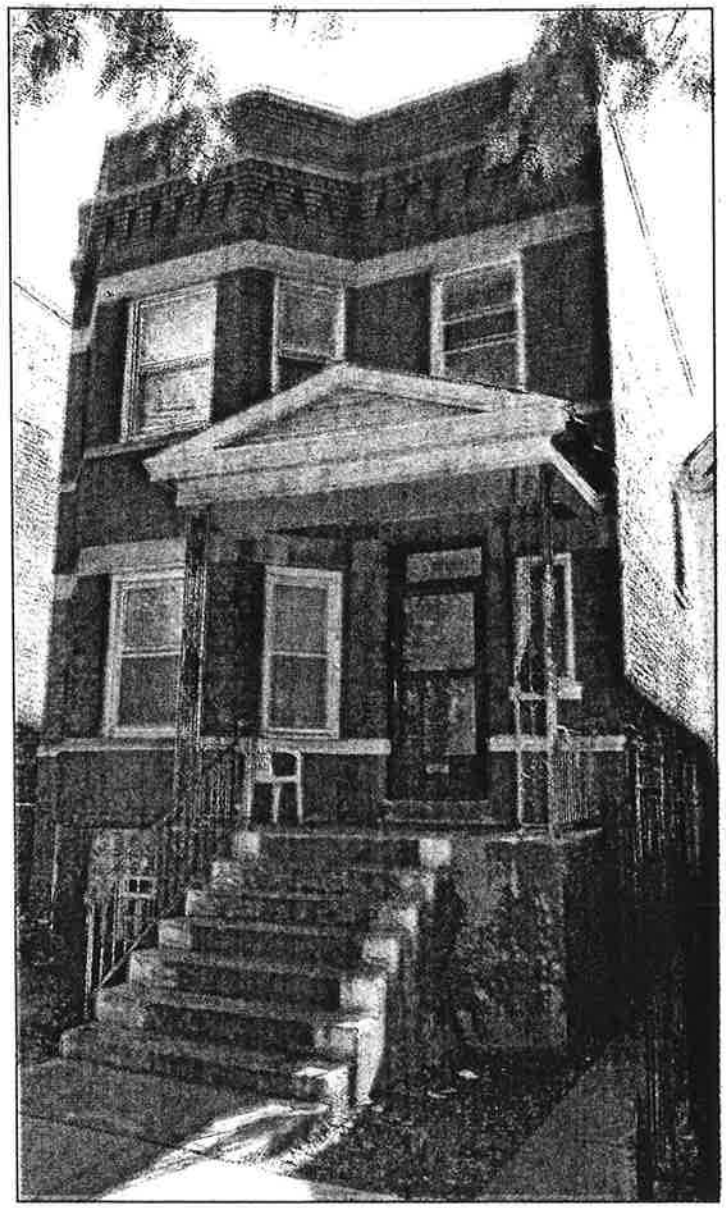
In 1996, Steward approached single mother Debra Allen, who said he asked her to let him use her credit to pose as the owner of the property and apply for a second mortgage. Allen testified that Steward paid her $3,500 for the use of her name. On Allen's behalf, a Steward company applied for and obtained a $73,600 mortgage loan on the building. Allen said she never saw the money. The loan was not repaid.

THIRD FRAUD

Steward associate secures mortgage

The building was sold in a court sale in July 1998. After five quick transactions, it wound up in the hands of another Steward associate, who obtained a $131,000 mortgage that went unpaid. The building is currently in foreclosure, court records show.

Sources: Tribune analysis of Cook County Circuit Court civil lawsuits and land records



▲ 4901 W. Gladys Ave. Tribune photo by Antonio Perez

AMOUNT TAKEN IN THE THREE FRAUDS

Reginald Walker's unpaid mortgage:	$62,100
Debra Allen's unpaid mortgage:	$73,600
Unpaid mortgage of Steward associate:	$131,000
TOTAL	$266,700

Chicago Tribune

Selling hopes and schemes

'Nice young businessman' charged with orchestrating $2.4 million in loan scams

By David Jackson
Tribune staff reporter

He sold dreams in face-to-face encounters.

Kenneth Steward held himself out as a financial adviser to cash-strapped families in danger of losing their homes.

His business cards said he ran companies called Light of the World Development Corp. and Building Better Communities.

Now he awaits a criminal trial for allegedly orchestrating a mortgage fraud scheme that garnered $2.4 million from a predecessor company of the U.S. mortgage giant CitiFinancial. Steward has denied wrongdoing in that case, and he declined to comment for this article.

The allegations against Steward place him at the center of Chicago's brewing mortgage fraud crisis, revealing his connections to major lending operations, downtown professionals and street gang members. His portfolio of properties stretches through the city's South and West Sides and into the suburbs.

Soft-spoken and articulate, with a shaved head and crisp beard, Steward ran an operation that grew unchecked for more than a decade, even as civil lawsuits accusing him of fraud began to pile up, even as state regulators fined him, and even as a 1996 Tribune report said he conned homes from unsuspecting owners.

"He seemed like a nice young businessman," said West Side homeowner Paul Jenkins.

Steward and his associates "were going out in the street ringing people's doorbells. They said, 'We're a small, black business helping people get out of foreclosure. We can help you,' " Jenkins said.

Jenkins filed a civil lawsuit alleging that Steward used fraud to take a $74,000 mortgage loan on his home without Jenkins' knowledge. When the loan went unpaid, Jenkins and his wife were forced out of the two-flat where they raised five children.

"They took a whole lot of homes in the area," Jenkins said.

"It hurt bad," said 81-year-old Mamie Cook, who was evicted from her South Side home in the mid-1990s after a Steward company allegedly arranged for a $25,859 mortgage without her knowledge.

When that loan went into default, Cook was forced to move in with a sister. She now lives in a nursing home.

Cook County prosecutors said in a 2003 search warrant application that they had identified about 90 properties used by Steward in frauds.

Steward lived in a 43rd-floor apartment in the Presidential Towers high-rise downtown. By 2000, records show, Steward and his firms were buying dozens of properties through federal housing programs and using the land to borrow millions of dollars that went unpaid.

Steward's non-profit Knowledge of Economics Empower People, or KEEP Inc., bought at least 50 single-family homes between 1999 and 2001 through a U.S. Department of Housing and Urban Development program that transferred houses to neighborhood development groups, land records show. He used many of those buildings in schemes that allegedly defrauded CitiFinancial's predecessor, Associates First Capital Corp.

In proffers to the government, Steward's convicted crew members say they mirrored the specialized roles of the legitimate real estate industry.

Among them were scouts who identified cash-strapped victims, appraisers who inflated property values, and insiders at home loan and title insurance companies who approved fraudulent mortgage applications. Sharing offices and deals, they taught one another the intricacies of taking homes from vulnerable people.

According to statements by two associates, Steward ordered fictitious documents from a forger named James Wilson, who played piano at a South Side church and lived in a shifting series of cheap hotel rooms. Using off-the-shelf computer software, Wilson would scan in deeds, check stubs, tax forms, whatever Steward needed; he would then alter the information to create look-alike documents.

"Wilson would provide any type of document you needed to get the loan through," Steward's associate Carl Miller told authorities. "Wilson did business with a lot of mortgage companies on the South Side."

Wilson has not been charged and could not be reached for comment.

Mark Roberson, a convicted drug dealer affiliated with the Traveling Vice Lords street gang, told HUD investigators that Steward and an associate paid him $3,800 to be the straw owner of two West Side properties.

Using those homes, Steward companies and associates secured $252,000 in mortgages that went unpaid, records show. No charges were brought in those cases, and the Tribune could not reach Roberson for comment.

Steward also enlisted attorneys.

Marvin Rux, a lawyer imprisoned in the 1990s for helping drug dealers launder money, helped Steward create and run KEEP Inc. Rux did not respond to requests for comment.

Companies created by another former attorney—David Goldman, who served a 6-month prison term in 2000 for a mortgage fraud not involving Steward—lent Steward hundreds of thousands of dollars to finance home purchases, land and court records show. Goldman, 63, did not respond to requests for comment.

In addition to these legal professionals, an official at a prominent title insurance company was accused in civil lawsuits of overseeing the closings of several allegedly fraudulent home loans arranged by Steward.

Cook County prosecutors tried to question former Law Title Insurance Co. closer Cynthia Mitchell in the Steward case, but Mitchell asserted her 5th Amendment privilege and refused to testify, records and interviews show.

Mitchell has not been charged with any crime and has since left Law Title to work for another real estate company. Through an attorney, she declined to comment.

"She was duped like the rest," said Law Title CEO John Ginocchio. "The industry has seen fraud at its highest rate in the last five or six years. . . . It is like con man heaven."

Obama urges Senate to investigate scams

WASHINGTON — Sen. Barack Obama (D-Ill.) called for congressional hearings Monday on "the growing predatory practice of mortgage fraud."

In a letter to Sen. Richard Shelby (R-Ala.), Senate Banking Committee chairman, Obama questioned whether authorities have enough resources to enforce lending laws. He pointed to the "troubling" findings of this week's Chicago Tribune investigation, showing the crime disproportionately affects poor African-Americans.

"We have an obligation to protect the most vulnerable members of our society from falling prey to schemes that target their most significant asset—their homes," Obama wrote. "This is particularly important when the proceeds of these fraudulent activities are used to fund illicit gang and drug activity."

Obama asked the committee to "hold hearings as soon as possible."

Jeff Zeleny


'The cop'


'The ComEd guy'

TEMPO

CHICAGO'S ALL

CHARACTERS

Part 2 of our series on the city's uncharted ter

Chicago Tri

50¢ City & Suburbs; 75¢ Elsewhere

TUESDAY, NOVEMBER 8, 2005

159TH YEAR — NO. 312 © CHICAGO TRIBUNE

Obama calls for hearings on fraud

Citing the Tribune's report, Sen. Barack Obama urges the Senate Banking Committee to investigate "the growing predatory practice of mortgage fraud."

PAGE 10

THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

A tense corporate drama unfolds when one of major lenders finds its Chicago operation enm

Even big boys g

By David Jackson
Tribune staff reporter

Working rapidly, the team of investigators descended on a Chicago branch office of a giant global bank.

In sparsely appointed meeting rooms, they interrogated junior account managers and frightened clerks. Riffling through one branch manager's desk, they confiscated receipts for steakhouse dinners and Bulls tickets.

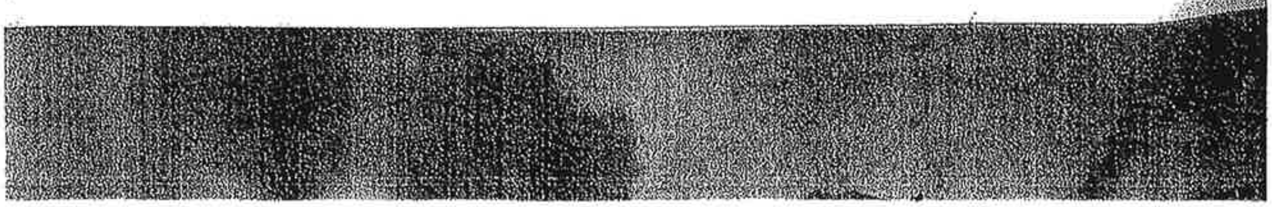
As they pored through loan files caked with white-out, the investigators came to a startling conclusion: Under prior ownership, the bank's recently acquired mortgage subsidiary had poured some $9.6 million into 81 fraudulent Chicago-area home loans, all in less than a year.

Using phony identities and forged records, a loose-knit band of con artists had taken title to dozens of inner-city buildings, borrowed millions of dollars against the properties, then vanished. Executives overseeing the Chicago branch appeared to have been negligent or complicitous in the fraud.

"A classic straw buyer's scheme," one investigator's memo concluded.

Watching this team of sleuths download computer files and comb through financial receipts, an outsider might have assumed they were FBI agents tracking one of the

Riots escalate across France



II

110TH CONGRESS
1ST SESSION

S. 1222

To stop mortgage transactions which operate to promote fraud, risk, abuse, and under-development, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 25, 2007

Mr. OBAMA (for himself and Mr. DURBIN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To stop mortgage transactions which operate to promote fraud, risk, abuse, and under-development, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Stopping Mortgage Transactions which Operate to Promote Fraud, Risk, Abuse, and Underdevelopment Act" or the "STOP FRAUD Act".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

Lunch with a felon: catfish, smiles and denial

Nightclub singer, record producer, financial adviser and convicted felon Jocqua Carter took a last sip of lemonade as the Saturday luncheon crowd thinned at Captain's Hard Times restaurant on East 79th Street.

He joshed with the waitress, pretending to criticize the food as he leaned back to let her sweep away the plate that once held his blackened catfish.

As part of the investigation into a mortgage fraud ring allegedly run by Kenneth Steward, Carter was charged with five counts, including theft, money laundering and conspiracy. Carter pleaded guilty to one count of conspiracy and spent more than a year in prison, court records show.

Carter said he copped the plea only because he was penniless and rendered sleepless by stress as he awaited trial.

"I thought it was going to go on forever," he said of prison life. "Everybody sizes you up. . . . Just like in the world, everybody trying to get over."

He glanced at the credit card of the reporter buying his lunch.

Carter

Steward associates who pleaded guilty to mortgage fraud schemes said in sworn statements to the government that Carter supplied Steward with phony pay stubs, tax receipts and other documents needed for mortgage loan applications.

"Carter took longer to provide the fraudulent documentation and at a greater cost, but his fraudulent documents were of much higher quality," Steward associate Carl Miller stated in court papers.

Carter said he merely kept Steward's corporate books and prepared his income tax returns.

"I was basically his accountant. I referred people to him to buy property," Carter said.

Carter said he suffered a brain aneurysm in 2002 or 2003 that left him with only hazy recollections of his dealings with Steward. He awoke in a nursing home and then found himself in Cook County Jail, Carter said. His memory wasn't lost, he said, "it was just repositioned in my mind."

Carter recounted the fragments of a life played out on many stages. He sang in South Side nightclubs, and his BAM 2000 Records company produced versions of the dance tunes "Chances" and "I Couldn't Do It Without You."

BAM stands for Businessmen After Money, Carter explained.

"People who get their taxes done like to hear me sing. People who hear me sing like to buy real estate," he said. "I am using whatever gifts God gave me to take money."

His prison stint was not proof of his guilt, Carter said. It was God's way of slowing him down.

Now that he is out, Carter apparently does not intend to waste his gifts. He will continue to try to earn a living in real estate.

"I am getting back into my mortgage business, preparing applications for people," Carter said. "I don't have a license. I just refer business to someone who is licensed, and they give me [a percentage of] the fee."

David Jackson

Chicago Tribune
where
WEDNESDAY, NOVEMBER 9, 2005

THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

Tribune photo by Antonio Perez

Helen Tatum has seen her neighborhood deteriorate as mortgage scams left behind vacant homes.

A block troubled by poverty, drug abuse and crime also falls prey to mortgage scams

How fraud became the nightmare on May St.

By David Jackson and John McCormick
Tribune staff reporters

One by one, four houses on May Street went dark, and none of the neighbors quite knew why.

From the front yard of the tidy bungalow where she was raised, Helen Tatum eyed a boarded shell across the street.

"No one wants to move into a neighborhood where there's nothing," said Tatum, 36.

PART 4
ONE BLOCK'S HEARTACHE

THE SERIES
Mortgage fraud is raking cities like Chicago, robbing families of their homes and draining billions from the U.S. economy.

ON THE WEB
Read the first three installments of the series at **chicagotribune.com/mortgage**

At first glance, the 6100 block of South May Street might seem an emblem of the oceanic social ills that afflict American cities—poverty, drugs, crime.

But land records show that behind May Street's troubles stand a few enterprising con artists.

Accused mortgage swindlers took control of four homes on Tatum's block between 1999 and 2003 and obtained more than $364,000 in mortgage loans that went unpaid, records show.

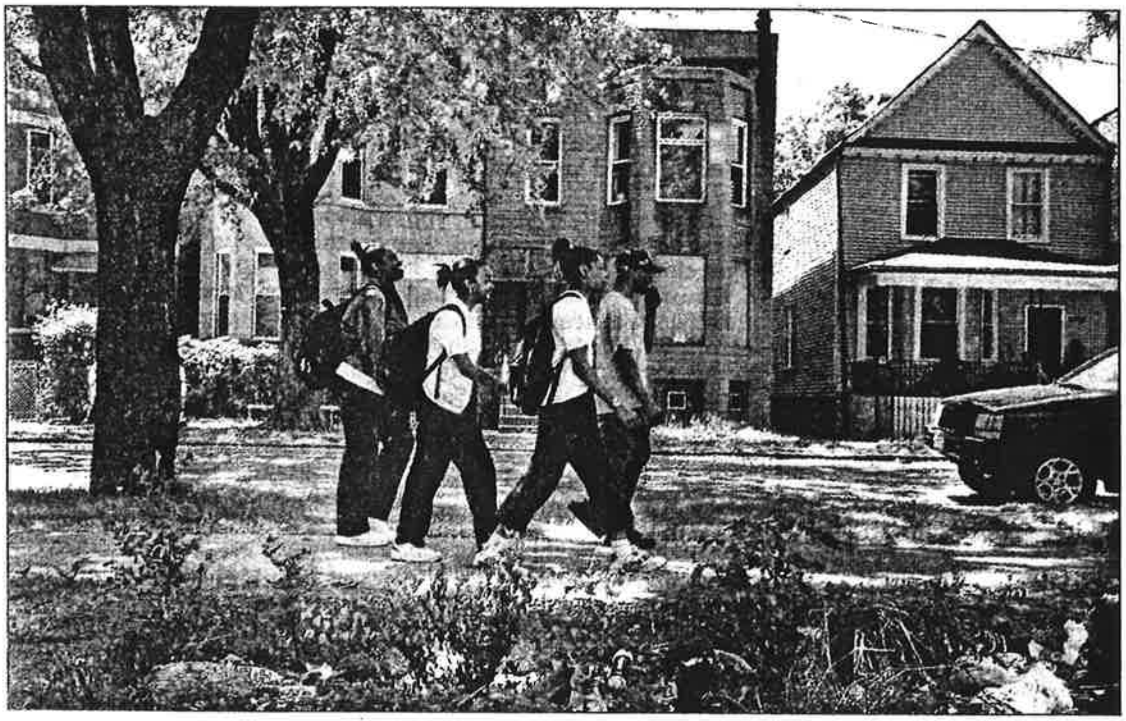
Now one of the four houses, a two-flat, has plywood where the windows should be. City officials ordered another, a single-family home, demolished, calling it a threat to public safety.

The other two buildings, both two-flats, endured months of vacancy and legal limbo before they were transferred in judicial sales to investors who are trying to rehab and rent them.

"It's like we're watching our block disappear," said Tatum's 16-year-old

PLEASE SEE **HUSTLE,** PAGE 17

Fraud plagues troubled block



Tribune photo by Antonio Perez

A father passes through the 6100 block of South May Street as he walks his daughters home from Woods Elementary School. A proliferation of boarded-up buildings has raised safety concerns.

Riding a downward spiral

Four buildings in the 6100 block of South May Street were taken by three separate crews from 1999 through 2003, court and land records show. They used the properties to obtain about $364,000 in mortgage loans that went unpaid. The block is in the Englewood neighborhood, which has suffered a high incidence of mortgage fraud, leaving it vulnerable to other crime.

CONTINUED FROM PAGE 1

neighbor, Robert Eddmonds.

The scams sent land values seesawing, scaring off families who might have bought other homes nearby. The vacant buildings deterred renters and beckoned criminals.

City records listed 70 registered voters in this block in 2000, but only 51 in November 2004. A 2001 police report called the block "a high narcotics area."

Students from nearby Woods Elementary School are instructed to avoid the street if they are alone.

"We tell them, don't go down May between 61st and 60th. It is very dangerous," said Assistant Principal Linda Rathey. "We try to make parents aware that they should steer the children from walking that way if they don't have a companion. We tell them to go down Racine."

It seems counterintuitive at first that white-collar criminals would target low-income minority communities and stay largely clear of Chicago's wealthy ZIP codes.

But the 6100 block of South May, a slender, 200-yard-long passage, runs through the cluster of Chicago census tracts pounded hardest by mortgage fraud.

Sixteen of the 34 census tracts in the Englewood and West Englewood neighborhoods were high-intensity fraud areas, a Tribune study found. Those tracts had at least 10 frauds per 1,000 owner-occupied housing units and a minimum of two frauds per tract.

'Like a communicable disease'

Mortgage fraud is by no means the only source of abandoned housing in Englewood and West Englewood. The area endured years of redlining banks, profiteering slumlords, violent gangs and all manner of misfortune.

But in poor neighborhoods like this across the U.S., fraud exacts a growing social cost.

"All you need is for a couple of buildings to board up in the street, and it is like a communicable disease," said Christopher Mammel, a private attorney who handles foreclosure defense and predatory lending cases. "It doesn't take much for an area to spiral."

Examining federal and Cook County prosecutions filed since 2000, the Tribune identified 524 fraudulent Cook County mortgages.

The census tracts where those swindles occurred had higher poverty rates, a lower percentage of homeowners versus renters, more foreclosed homes and higher mortgage rejection rates, a Tribune computer analysis found.

Simply put, mortgage swindlers target homeowners who have a tenuous hold on their property.

In one West Englewood census tract beset by fraud, roughly 45 percent of those who applied for home loans were unable to get one, compared to a citywide mortgage rejection rate of 16.1 percent.

Adding to the misery, qualified borrowers may be considered high credit risks simply because their homes are in neighborhoods with high foreclosure rates and unstable home values.

Homeowners with poor credit often are offered subprime mortgages, which can carry high interest rates, fees and penalties.

Across the country, blacks are more than twice as likely as whites to be given a high-cost subprime mortgage, according to a study released in September by the Federal Reserve Board.

Subprime lenders were active in many of the Chicago census tracts where the Tribune found the highest rates of fraud. In 2003, subprime lenders received nearly half of all mortgage applications in those neighborhoods, compared to a citywide rate of 24.1 percent.

Consumer advocates have criticized the subprime lending industry for sloppy and predatory practices, and for relying heavily on independent loan brokers—financial advisers who do not lend money but package applications for borrowers.

Responsible brokers help deserving families keep a roof over their heads. But in neighborhoods like Englewood, unscrupulous ones generate dozens of fraudulent loans that cause a geographic concentration of foreclosures.

"Some of these mortgage brokers are becoming wealthy before the noon lunch hour," said Thomas Young, a community policing volunteer.

Transformation of a neighborhood

Many of Englewood's wood-frame homes and brick two-flats were built before 1930, as Irish, Swedish and German railroad workers flocked to the settlement they called Junction Grove.

Helen Tatum's parents moved to Chicago from Mississippi in 1955, during Englewood's second chapter, the massive immigration of southern blacks following World War II. At first, the Tatums raised six children in an apartment in the 5900 block of South May Street.

Both parents worked. Tatum's mother, Ruth, now 68, said she assembled blinds and lampshades until the factory in which she worked closed two decades ago.

In her apartment, "wasn't anybody tearing down walls. We had order there," Ruth Tatum said. "But we needed more room."

When workers began constructing a small brick house in the 6100 block in 1971, "me and my husband came down to take a look," Ruth Tatum said.

The family made the leap to ownership.

"We picked this lot when they started building," Ruth Tatum said. "It was so nice. I was so happy. Nobody has ever lived here but us."

Already at that time, white families were fleeing Englewood. African-Americans made up just 2 percent of Englewood's population in 1940 but 99 percent by 1980, census records show.

Just a few years later, African-Americans also began leaving in droves, driven away by joblessness, crime and the neighborhood deterioration that followed. The exodus of African-American families during the 1980s and 1990s was nearly as dramatic as the influx of the decades before, according to the University of Illinois at Chicago's

Properties nabbed through alleged fraud

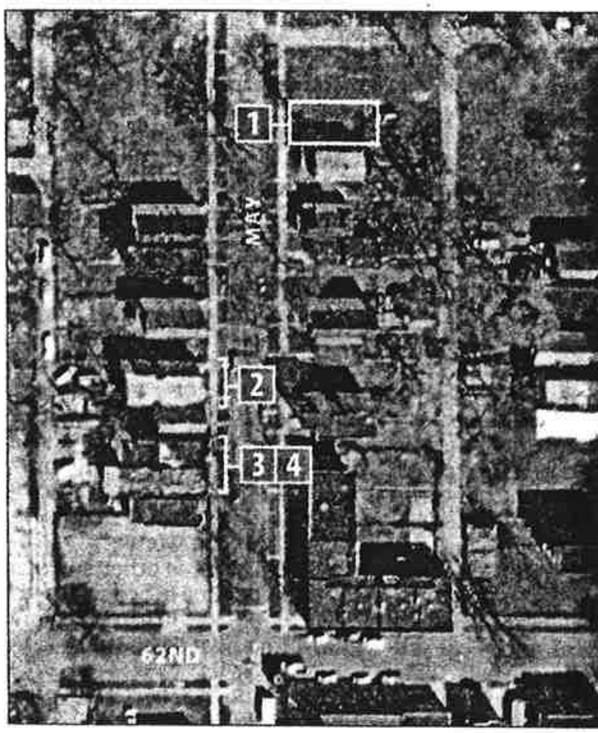
1 6125 S. MAY ST.

THE SCHEME

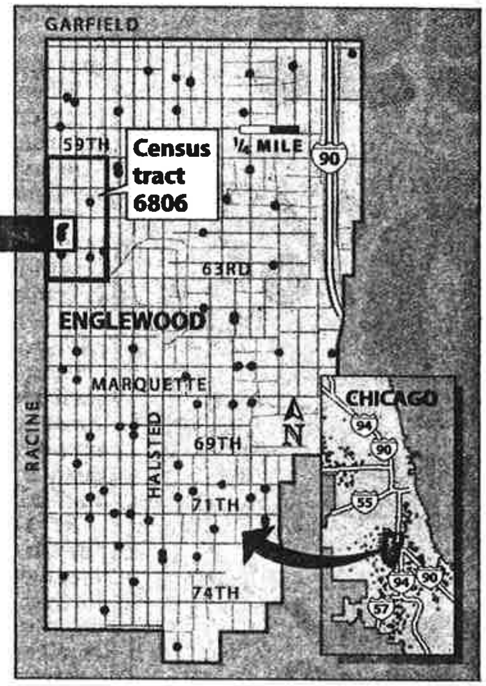
The house was used by Theresa Holt, who in March pleaded guilty to frauds involving 90 homes. Holt transferred the house to a straw owner who obtained a $47,500 mortgage that went unpaid.

THE FALLOUT

In 2001 the vacant building was demolished at a cost of $4,400 to the city.



• *Property involved in suspected case of fraud*



2 6138 S. MAY ST.

THE SCHEME

James Rucker's crew took this two-story graystone to obtain mortgage loans totaling $90,750. Rucker's alleged fraud is detailed in court papers.

THE FALLOUT

The untended building accrued significant housing code violations until it was purchased by a Skokie investor who rehabbed and rented it out.

Tribune photo by Antonio Perez

3 6146 S. MAY ST.

THE SCHEME

The Kenneth Steward crew purchased the two-flat for $46,000 and three months later sold it for nearly three times that much to a woman who obtained a $107,880 mortgage loan that was not repaid.

THE FALLOUT

In February 2003, an investor bought the building for $66,000 and restored and rented it.

4 6144 S. MAY ST.

THE SCHEME

A Steward company purchased this two-flat for $62,000 and four months later deeded it to an associate who obtained a $118,150 mortgage loan that went unpaid.

THE FALLOUT

The building is now boarded up.

Local Community Fact Book. Englewood's population was cut in half in 30 years.

"The people left, and they went so many different ways," said Rev. Albert Charles Sr., pastor of the New Jerusalem Pentecostal Church, 6201 S. May St.

As May Street residents walked away or were pushed from their homes, the city often was forced to flatten the abandoned structures.

In the 16-square-block census tract around the Tatums' house, the number of housing units plummeted to only 786 in 2000 from 1,527 in 1960.

Only 19 buildings stand on the Tatums' block. The other 28 lots are empty.

"By there not being anyone here, the block club disappeared," Ruth Tatum said.

Mortgage swindlers creep in

During the last five years, as houses fell vacant, mortgage swindlers crept in.

The house at 6125 S. May St. was used by the crew of Theresa Holt, a former neighborhood housing advocate, to obtain a $47,500 mortgage. In March, Holt pleaded guilty to frauds involving 90 homes. City officials paid a contractor $4,400 to tear down the unsafe shell in 2001. The lot remains vacant.

Another swindling crew, led by a small-time operator named James Rucker, used the two-story graystone at 6138 S. May St. to obtain mortgages totaling $90,750, a federal indictment said. The untended building was cited for code violations, including a leaky roof, missing window panes and rat infestation, until it was purchased by a Skokie investor who poured roughly $20,000 into rehabbing it. He rented it out.

The adjoining two-flats at 6144 and 6146 S. May St. were taken by companies controlled by Kenneth Steward, who awaits trial for alleged fraud schemes that netted his crew $2.4 million in mortgages. As Steward's firms obtained some $226,000 using fraudulent mortgages, his crew's May Street buildings fell empty and accrued code violations, including broken window panes and smashed entry doors. Today one is still boarded. Investors eventually rehabbed the other.

Property values soared across the city in the late 1990s, but home prices lurched up and down in this part of May Street.

The swindlers used phony appraisals to inflate the market prices of homes so they could get larger mortgages. That, in turn, boosted the seeming value of surrounding properties.

The high prices kept away legitimate buyers, said Chicago FBI supervisor Robert Kowalski, whose unit has tracked fraud on the South Side.

After the mortgage swindlers grabbed their checks and left empty buildings, surrounding property values plunged again.

"There are so many empty houses, tenants are scared to rent," said Stephen Aghahowa, who invested in the neighborhood.

Aghahowa borrowed heavily to buy a wood-frame home on the block for $85,000 in 2002, hoping to rent to government-assisted tenants. When no tenants would stay, Aghahowa fell behind on mortgage payments. Facing foreclosure, he sold it for a $21,000 loss this June. The house is now boarded up.

A few doors down, Ruth Tatum's children were drawn to public service. One son capped a three-decades-long Navy career as an officer. A daughter is a special-education teacher.

Helen Tatum is a residential counselor who works with disabled adults and children in group homes. She visits May Street frequently.

"For the kids, it was a nice neighborhood at one time," she said. "Now we don't have as many kids on the block."

dyjackson@tribune.com
mccormickj@tribune.com

A CLOSER LOOK AT CENSUS TRACT 6806

	1960	2000	Percent change, 1960-2000: TRACT 6806	Percent change, 1960-2000: CHICAGO
Population	4,257	1,901	-55%	-18%
Housing units	1,527	786	-49%	-5%
Percent owner-occupied housing	28.5%	22.1%	-22%	-34%
Percent in poverty	23%	48.4%	+110%	+44%
Percent African-American	96.8%	98%	+1%	+58%

Sources: Tribune examination of land and court records, U.S. Census Bureau, MapStudio

Chicago Tribune

Where to get help

If a real estate professional offers you a deal that sounds too good to be true, it probably is.
A borrower or lender who suspects mortgage fraud can contact:

■ **U.S. Department of Housing and Urban Development**
Inspector general
Fraud hotline: **800-347-3735**
Chicago office: **312-353-4196**

■ HUD also maintains a list of *approved housing counseling agencies*:
HUD, 451 7th St. S.W., Washington, DC 20410
800-569-4287
www.hud.gov/offices/hsg/sfh/buying/loanfraud.cfm

■ **FBI white collar crime supervisor**
219 S. Dearborn St., Room 905,
Chicago, IL 60604, **312-431-1333**

■ **Internal Revenue Service**
Fraud hotline: **800-829-0433**

■ **Illinois attorney general**
500 S. 2nd St., Springfield, IL 62706
Consumer fraud bureau: **217-782-1090**
www.ag.state.il.us/consumers/conscomp.pdf

■ **Illinois Department of Financial and Professional Regulation**
500 E. Monroe St., Springfield, IL 62701-1509
Division of banking: **217-782-3000**
www.idfpr.com

■ **Federal Trade Commission**
877-382-4357 or ***www.ftc.gov***

■ The Federal Citizen Information Center brochure, "Looking for the Best Mortgage: Shop, Compare, Negotiate":
888-878-3256 or ***www.pueblo.gsa.gov***

Other links

Several real estate industry Web sites track mortgage fraud scams and offer fraud prevention services:

mortgagefraud.squarespace.com
mortgagefraudblog.com
mortgagebankers.org/MBAFightsFraud
mari-inc.com/reports.html

Chicago Tribune

where THURSDAY, NOVEMBER 10, 2005

THE NEW STREET HUSTLE: A TRIBUNE INVESTIGATION

Sometimes it falls to a uniformed cop to unravel a loan scam, tracking it from the opening con to the sad finale

Tribune photo by Antonio Perez

With gun drawn, Chicago Police Officer Jim Fennessey enters an abandoned house in the 5900 block of South May Street to check for squatters. No one was inside.

With mortgage fraud, it's catch 'em if you can

By David Jackson
Tribune staff reporter

PART 5
WHO'S KEEPING WATCH?

THE SERIES
Mortgage fraud is raking cities like Chicago, robbing families of their homes and draining billions from the U.S. economy.

Police Officer Jim Fennessey holds his pistol by his right knee as he slides through the yawning rear door of a darkened South Side house.

"Po-lice! Po-lice!" Fennessey hollers, breaking the word so that it echoes like a siren through the empty halls.

His flashlight beam slips across a swirl of clotted clothes, smeared feces and empty liquor bottles. A stray cat leaps out—but this time, no drug dealers.

Fennessey and two other officers are assigned to monitor 1,300 abandoned buildings in the Englewood District.

His dangerous patrol suggests mortgage fraud's potential cost, in dollars and lives. The burgeoning white-collar crime is fast adding to Chicago's roll of abandoned homes, as families are ripped off and houses fall vacant.

Despite a welter of federal and state agencies that oversee the home loan industry, it sometimes falls to uniformed cops like Fennessey to try to track mortgage fraud, from the first forays of con artists to the rarefied machinations of lawyers and bankers, and on to the sad finale of ruined neighborhoods.

It starts when mortgage

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Laws leave a lot of loopholes

HUSTLE

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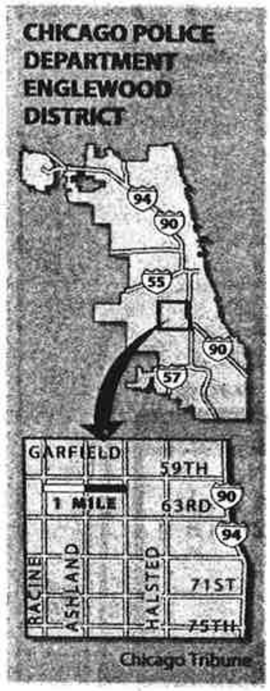
swindlers take control of inner-city homes. The criminals buy the buildings dirt-cheap at auctions or con the owners. They use identity fraud to secure large mortgages, then disappear.

"I used to think dope was the big criminal moneymaking activity," Fennessey said. "But once you get into the background of a building, you can see the fraud. The building is a pigsty, all busted up. You think it's only worth 30 grand, but you find it just sold for $200,000."

After walking a maze of desolate cottages and two-flats, the beat cop returns to an office decorated with grainy surveillance photos.

Fennessey then spends hours hunkered at his metal desk, the phone headset buried in his shoulder as he politely interrogates mortgage executives and distressed homeowners.

He cruises Internet sites to trace land records.



But even when Fennessey hits on a solid lead, he faces a daunting journey through a complicated regulatory and financial landscape.

Buyers and lenders declare their interest in property by filing records with a county agency usually called the recorder of deeds.

The clerks who process land records are not assigned or equipped to test whether signatures are real or the signers were of sound mind.

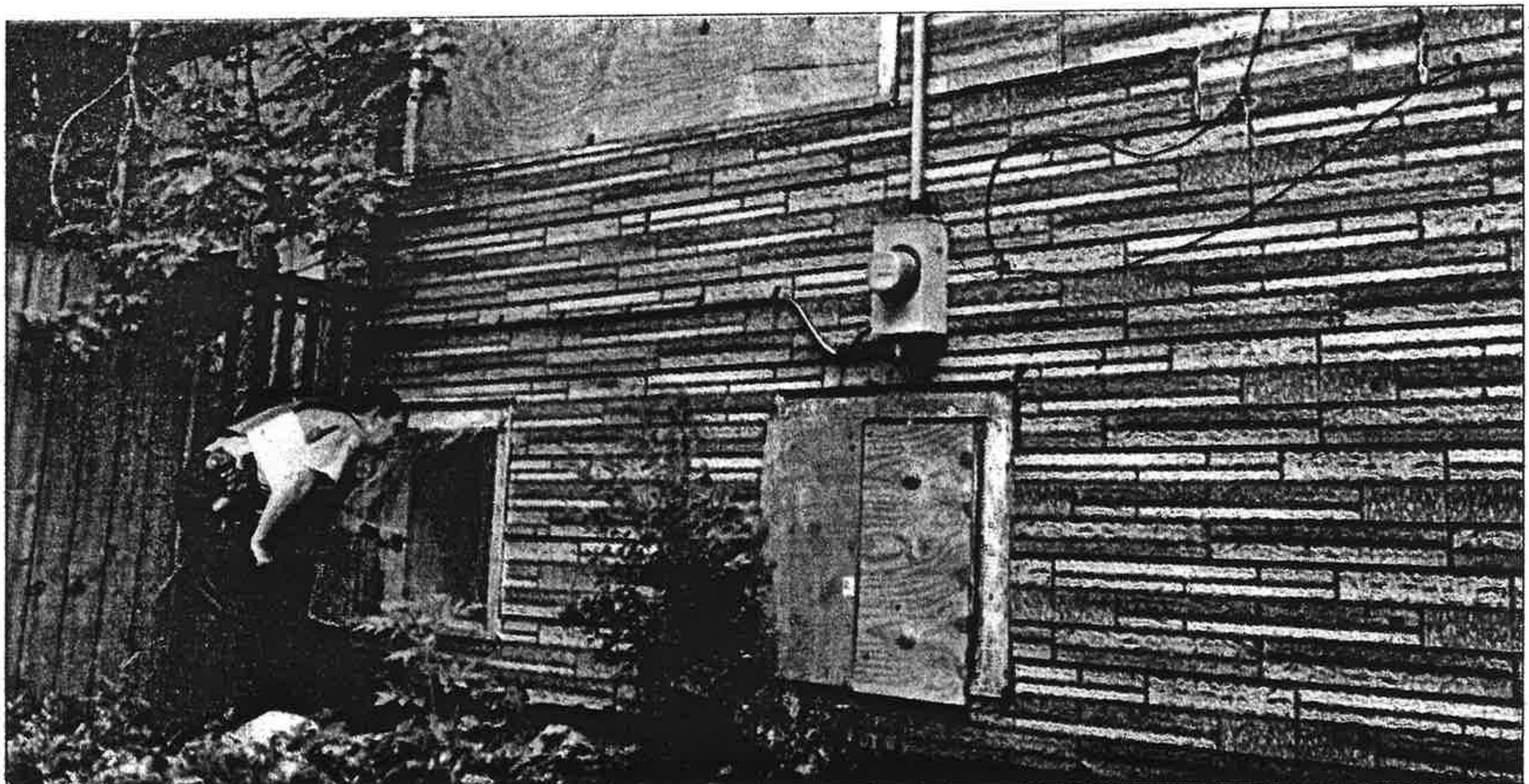
"I can create a deed saying I sold you City Hall and go record it, and no one will ask any questions," said Illinois Assistant Atty. Gen. Stanley Wojciechowski.

Notaries are licensed by the state to certify signatures on legal documents, to prevent fraud and forgery, and to act as official witnesses when people sign legal papers.

But Illinois is not one of the 16 states that require notaries to keep an official record book of their real estate transactions—a so-called notary's journal—that would help investigators like Fennessey trace fraud. A bill that would require the journals is pending the state House Rules Committee.

Perhaps the most crucial step in any fraud investigation is finding the people who packaged the phony loan. Mortgage brokers, financial advisers and appraisers are rarely listed in public records of transactions. Authorities have no practical way to track them from deal to deal or detect patterns.

The state Department of Financial and Professional Regulation's division of banking oversees legions of loan originators—mortgage brokers and other finance professionals who do not lend



Tribune photo by Antonio Perez

Englewood District Police Officer Jim Fennessey peers into an abandoned building in the 6200 block of South Paulina Street.

money but help prepare loan applications.

Illinois anti-fraud laws put into effect last year required mortgage loan originators for the first time to obtain a license from the division. But the division had a staff of six examiners to oversee the roughly 29,000 who initially registered.

'Ridiculously outmanned'

"Especially in minority areas of Chicago, we have a mortgage broker on every corner," said D. Lorenzo Padron, the division's director. "We have people in the industry operating from the trunks of their cars."

This year, when the state required loan originators for the first time to take a test and undergo a criminal background check, only 15,000 of those 29,000 brokers took that next step and applied for a permanent certificate, state officials say. Of those, 40 percent failed their exams, and roughly a third had criminal backgrounds.

The state examiners are "ridiculously outmanned," said Illinois Association of Mortgage Brokers President Darren Weisberg.

It might help law enforcement officials like Fennessey if there were mandatory reporting of possible fraud in the home loan industry.

The FBI has asked for a home loan equivalent of the suspicious activity reports required of other banking officials who suspect fraud. But mortgage industry groups counter that burdensome and expensive reporting requirements could ultimately choke off credit to homeowners.

Beyond the first line of financiers, the trail becomes even more difficult to follow. In the multibillion-dollar secondary market, home loans to low-income borrowers are pooled and then offered as securities to Wall Street investors.

Big institutional investors sometimes hold a pool of these subprime loans for just minutes before reselling it. Since no single foreclosure represents a significant loss to any of these investors, the owner of a delinquent loan has little incentive to assist a borrower, to hold an unscrupulous loan broker accountable, or to report suspected fraud to authorities.

As Fennessey puts it: "A lot of these mortgage companies just write off the loss and walk away. Then whose mortgage is it?"

Daley fires back

The swindling and the empty houses it leaves behind have infuriated Chicago Mayor Richard Daley. He has demanded action from federal authorities and crafted local programs being studied and replicated across the country.

"You're talking about swindling that's hurting neighborhoods," said Jeff Ahmadian, a city attorney. "It affects everybody, not just the people in Englewood."

A Chicago ordinance bars city agencies from doing business with any financial institution that has demonstrated a pattern of exploitative home mortgage practices. The city has dozens of police officers like Fennessey who are trained to analyze land records and track the owners of deserted homes.

And through Chicago's 311 non-emergency information line, city officials provide counseling to homeowners contending with mortgage fraud or foreclosure.

But Ahmadian, who has enforced Chicago's abandoned building laws since 1999, says these city programs can only nip at the symptoms of mortgage fraud.

"We don't have enough of a whack," Ahmadian said.

Close to home

Fennessey parks his squad car in an alley and pulls another file from his bulging blue satchel. He studies the paperwork and then climbs the sagging back porch of a balloon-frame cottage on West 59th Street, measuring each tread with a soft footstep.

His father was raised less than two miles from here, at Marquette Road and Throop Street. For all the crime scenes he's visited, Fennessey remains an optimist inspired by the lavishly restored, well-loved homes sprinkled amid Englewood's boarded up buildings.

He pushes open the fire-blackened back door of the West 59th Street building. The house may be part of a mortgage fraud scheme or the scene of some other crime.

His flashlight beam pools in a space where plumbing pipes were clawed out. The beat cop takes a breath that makes the dust swirl.

"This used to be a nice place," Fennessey says.

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Fighting back against swindlers

Rogers Park stands up when faced with fraud

By Ray Gibson and David Jackson
Tribune staff reporters

The mortgage swindlers don't have to win. Neighborhoods can fight back.

That's what happened in Rogers Park when a fraud crew took control of 16 hulking apartment buildings between 1997 and 2001 and used the properties to extract millions of dollars from home loans they didn't repay.

The multi-unit structures fell vacant and attracted squatters and drug peddlers.

"These were some of the worst buildings in the neighborhood," said Ald. Joe Moore (49th). "People hanging out outside all hours of the day and night. Neighbors reporting suspected drug dealing. Garbage all over the place. It had a devastating impact."

A cadre of residents, cops and city officials fought tooth and nail to oust the equally determined swindling crew and reclaim the properties. Today those buildings are refurbished, housing families and stabilizing the multicultural lakefront neighborhood.

But the fraud crew—Mohammad Taghie "Mike" Kakvand and his associates—simply moved on to other parts of the city.

Taking control of at least 16 high-profile apartment buildings on the South Side and one on the West Side, the crew operated until October 2004. That's when federal prosecutors indicted Kakvand and two associates for using their 33 buildings to garner a total of $29 million in fraudulent mortgages that went unpaid.

Kakvand's two main associates were convicted, while Kakvand, the alleged ringleader, evaded authorities and was a fugitive for more than a year. He was arrested in Canada this month.

"We are currently in the process of getting him back to Chicago to face charges. We're hoping he'll be returned here in a few days," FBI spokeswoman Cynthia Yates said Tuesday.

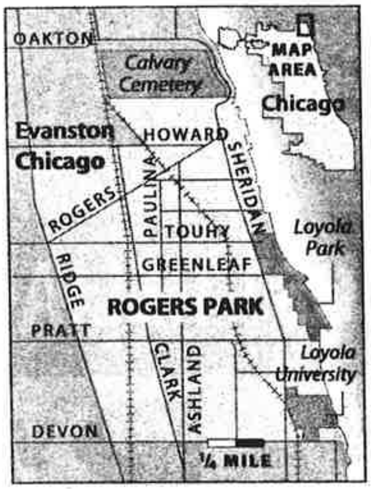
Though Kakvand has been apprehended, some of the multi-unit South Side properties he is accused of using in his scheme remain vacant shells with missing windows.

Kakvand shows up in court records beginning in the 1990s, when the Park Ridge mortgage broker and real estate investor was sued in civil court for racial housing discrimination.

Shortly after that, Kakvand moved his operation to Chicago, where he joined an appraiser and another investor, creating an array of companies to own, operate and convert apartment buildings.

Kakvand and his crew allegedly bought apartment buildings and then resold scores of individual units as condominiums, a common and seemingly legitimate business. But rather than market the units, Kakvand's crew recruited straw buyers to pose as condo buyers.

For each supposed buyer, Kakvand companies prepared a separate bogus loan application, federal prosecutors allege. More than 150 mortgage applications were submitted to dozens of lenders.



When the mortgages went unpaid, some lending companies queued up in foreclosure court, initiating a separate civil lawsuit to unwind each fraudulent loan.

The Kakvand crew's building in the 7600 block of North Greenview Avenue was "a free-for-all," former city attorney Elizabeth Vitell said in an interview. Nothing but wall studs and exposed copper pipes separated some supposed condo units, Vitell found. Drug dealers cruised the hallways.

That's where this mortgage fraud story took an unusual turn.

As police calls and neighbors' complaints poured in, Vitell and city attorney Jacob Handelman teamed up with Moore and police supervisors to find the source of the criminal activity.

The neighborhood had a long history of community activism, with veteran organizations such as the Rogers Park Community Council. Council housing director Mary Jane Haggerty and neighborhood activist Karen Hoover quickly joined the fight against this new blight. Haggerty and Hoover helped witnesses attend court hearings and did their own research into the real estate.

This ad hoc task force met monthly for about a year. Among the group's small victories was getting the city to trim trees blocking streetlights so that the area would be well-lit.

The final step—taking back the buildings—proved hardest of all.

The phony mortgages were held primarily by out-of-state banks, and many were resold rapidly in a complex secondary market. That meant there was an ever-changing array of lenders technically in possession of the units.

Many of those investors simply wrote off the losses and walked away. Assistant U.S. Atty. Brian Havey told a judge at a June hearing that many of the defrauded lenders didn't even respond to efforts to give them restitution later in the process.

When police ticketed the vacant and open Kakvand crew buildings, the lack of clear title led to many court cases being dismissed or delayed.

Moore and the city sought new developers who could take control of the buildings and clean them up. But the developers had to buy at least 51 percent of the units from various lenders.

"It was a huge undertaking," said Rogers Park real estate broker Connie Abels, who helped organize investors to buy condos.

In the end, buoyed by a robust local real estate market, Rogers Park won. By that time Kakvand had headed to the South Side.

There, Kakvand's crew reaped millions more. For several reasons, it was much harder to flush him from those neighborhoods.

Eleven of Kakvand's Rogers Park buildings were in Moore's ward, so one public official fielded the brunt of the complaints. Kakvand's 16 South Side properties, by contrast, were spread through six wards, diffusing any outcry.

Global events also conspired against the South Side. The FBI investigation into Kakvand was delayed by the Sept. 11, 2001, terrorist attacks, interviews show.

Finally, there is the stubborn fact that mortgage fraud and the resulting housing abandonment are far more common and therefore less visible in low-income South Side communities.

When the Rogers Park buildings fell vacant, community activists pestered police and rallied residents.

Handelman, who prosecuted Kakvand's Rogers Park housing code violations for the city, now works on the South Side, where he wishes more residents would pester him like that.

Said Handelman: "I hope that Englewood residents will start to feel comfortable with me and trust me and approach me in the same way that Rogers Park residents did when I started prosecuting there."

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Devine urges inquiry into mortgage fraud

Cook County State's Atty. Richard Devine called Wednesday for a joint local, state and federal task force to investigate and prosecute mortgage fraud.

In response to this week's Tribune investigation of the growing crime, Devine said he also plans to introduce a legislative package in Springfield next year targeting home loan swindling in Illinois.

"We have learned through our own investigations and the Tribune series that we have just been dealing with the tip of the iceberg. A task force would help crack down on this burgeoning financial fraud that victimizes us all," he said.

State Sen. Jacqueline Collins (D-Chicago), chairwoman of the Committee on Financial Institutions, separately said she plans to hold hearings on mortgage fraud in response to the Tribune series.

One bill proposed by Devine would extend the statute of limitations for mortgage fraud to 10 years from three years. Another would require that a registered letter be sent to the owner of a piece of property in a quit-claim title transfer. Often, fraudulent transfers take place without the homeowner's knowledge, Devine said.

He said his proposed task force could be funded by fees from title companies, financial institutions and mortgage companies.

David Jackson

Where to get help

A borrower or lender who suspects mortgage fraud can contact:

- **U.S. Department of Housing and Urban Development**
  Inspector general
  Chicago office: **312-353-4196**

- **FBI white collar crime supervisor**
  219 S. Dearborn St., Room 905,
  Chicago, IL 60604, **312-431-1333**

- **Illinois attorney general**
  500 S. 2nd St., Springfield, IL 62706
  Consumer fraud bureau: **217-782-1090**
  www.ag.state.il.us/consumers/conscomp.pdf

- **Illinois Department of Financial and Professional Regulation**
  500 E. Monroe St., Springfield, IL 62701-1509
  Division of banking: **217-782-3000**
  www.idfpr.com