



*United States Attorney  
Southern District of New York*



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**MANHATTAN U.S. ATTORNEY SUES SELLERS, LENDERS, AND  
APPRAISERS ALLEGING BROAD CONSUMER MORTGAGE FRAUD  
CONSPIRACY**

*Manhattan U.S. Attorney Seeks Millions In Civil Penalties  
And Damages Against 14 Alleged Participants In Fraudulent  
"Flip Sale" Scheme*

PREET BHARARA, the United States Attorney for the Southern District of New York, DAVE STEVENS, the Commissioner of the Federal Housing Administration ("FHA"), and RENE FEBLES, the Special Agent-in-Charge of the New York Field Office of the Office of the Inspector General, U.S. Department of Housing and Urban Development ("HUD OIG"), announced today that the United States has filed a civil fraud lawsuit against 14 defendants - including sellers, lenders, and appraisers - alleged to have engaged in an elaborate conspiracy to commit mortgage fraud in New York City that caused at least 17 home buyers to default on their mortgages and face foreclosure. The Complaint also requests the Court to enjoin what the Government alleges to be an on-going mortgage fraud by a number of the defendants.

Manhattan U.S. Attorney PREET BHARARA stated: "Schemes like the one alleged here helped contribute to the home mortgage crisis. In this particular case, not only did the alleged fraud victimize the home buyers themselves, who were duped into buying homes they couldn't afford and who now face foreclosure and eviction, but also the Government, which insured these bad loans. This Office will use every weapon in its arsenal to fight mortgage fraud, including its powerful civil remedies, and will hold those who participate in and profit from these schemes accountable for their actions."

FHA Commissioner DAVE STEVENS said: "Lenders that engage in the sort of activities outlined in this lawsuit not only pose a particular risk to FHA but to families struggling to do the right thing. The vast majority of the lenders we work with are part of the solution to our nation's housing crisis and we simply can't do business with those who are so clearly part of the problem."

HUD OIG Special Agent-in-Charge RENE FEBLES said: "It is very important that the HUD OIG aggressively investigate allegations pertaining to mortgage fraud. It is equally important that we identify instances where the integrity of the FHA program is compromised and ensure that those committing such acts are brought to the attention of the United States Attorney's Office so that victims and the American taxpayer are protected."

According to the allegations in the Complaint filed today in Manhattan federal court:

The sellers, lenders, and appraisers allegedly conspired to commit mortgage fraud in connection with the sale of 17 residential properties in New York City. The sellers purchased the 17 homes and promptly re-sold, or "flipped," them - without substantial improvement - to inexperienced, low-income buyers, duping them into buying properties they could not afford at falsely inflated prices. The appraiser defendants then fraudulently overstated the value of these homes in their appraisal reports so that the buyers would take out home mortgage loans far in excess of the property's true value. Defendant CAMBRIDGE HOME CAPITAL, LLC ("CAMBRIDGE"), a mortgage lender, then allegedly underwrote mortgages for the buyers knowing that the properties were not accurately appraised, and knowing that the buyers could not afford the mortgage payments.

All 17 loans, which were insured by the U.S. Department of Housing and Urban Development ("HUD"), defaulted, often within just a few months after the closing, exposing HUD to millions of dollars in losses. In addition to the losses to HUD, the fraud also left the buyers facing foreclosure and eviction from their homes. The fraud affected two financial institutions, Citibank, N.A., and Countrywide Bank, FSB, whose bank affiliates purchased these mortgage loans from CAMBRIDGE on the secondary market.

Defendant MITCHELL COHEN acquired homes for his flip sales through three entities that he controlled: defendants BUY-A-HOME, LLC, METROPOLITAN HOUSING, LLC, and GRAMERCY FUNDING GROUP, LTD. Once COHEN duped these buyers into purchasing his properties at inflated prices, he steered these buyers to CAMBRIDGE, which was authorized to underwrite loans insured by

HUD, to underwrite the mortgage. Through its owners and senior officers, CAMBRIDGE underwrote these loans to finance COHEN's flip sales, even though CAMBRIDGE and its principals knew - in each case - that the transaction, the home-buyers, or both failed to meet HUD's underwriting requirements. CAMBRIDGE then falsely certified that the transactions met HUD's requirements, knowing that they did not.

CAMBRIDGE also created false records to make the buyers appear more credit-worthy than they were, either by overstating their income or by understating their debts. In one instance, CAMBRIDGE fraudulently revised a buyer's loan application to change the buyer's occupation from "security guard" to "head chef" at a restaurant, falsely overstating that buyer's income by 50 percent. COHEN and CAMBRIDGE conspired to make the buyers appear more credit-worthy in some cases by paying off the buyers' personal debts, while concealing those side payments from HUD.

The mortgage fraud conspiracy included the participation of several appraisers who allegedly submitted false appraisal reports that "hit the numbers" for COHEN or CAMBRIDGE, valuing the homes COHEN was selling at or about the inflated prices set by COHEN.

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The Complaint seeks civil penalties pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), a statute enacted in the 1980s as a tool to address the savings and loan crisis. FIRREA authorizes the United States to seek millions of dollars in civil penalties for violations of, and conspiracies to violate, certain predicate criminal statutes involving financial fraud, including mail and wire fraud. In this case, the Complaint alleges 15 separate FIRREA violations against 14 separate defendants. The defendants charged today are: BUY-A-HOME, LLC; METROPOLITAN HOUSING, LLC; GRAMERCY FUNDING GROUP LTD; MITCHELL COHEN; CAMBRIDGE HOME CAPITAL, LLC; SETH KRAMER; CRAIG HYMAN; SETH LAPIDUS; JACQUELINE DERRELL; CAMBRIDGE FUNDING GROUP, LTD.; JAMES J. GOLDBERG, d/b/a JJG REAL ESTATE APPRAISAL SERVICES; PREMIER APPRAISAL SERVICE; WILLIAM BUCKLEY; and ROBERT MICHELINE, d/b/a P&M APPRAISALS.

The Complaint also seeks both damages and civil penalties pursuant to the False Claims Act ("FCA"), which imposes liability on any person who knowingly submits, or causes to be submitted, a false or fraudulent claim for payment to the United States. In this case, the United States alleges that two of the 17 loans at issue involve false or fraudulent claims to HUD for mortgage insurance and therefore give rise to civil penalties and damages under the FCA.

The Complaint seeks not only penalties and damages for past fraud, but also a court order enjoining on-going fraud by defendants COHEN and BUY-A-HOME. According to the Complaint, these defendants are continuing to engage in fraudulent flip sales of properties at the expense of HUD. This year alone, COHEN, through BUY-A-HOME, has allegedly consummated more than 20 flip sales, typically pricing the homes at 60 percent to 160 percent more than what he had paid for them just weeks or months earlier.

Mr. BHARARA thanked the Office of the Inspector General, U.S. Department of Housing and Urban Development for their assistance.

The case is being handled by the Office's Civil Frauds Unit. Mr. BHARARA established the Civil Frauds Unit in March of this year to bring renewed focus and additional resources to combating financial fraud, including mortgage fraud.

The new Civil Frauds Unit works in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

Assistant U.S. Attorneys LI YU and CRISTINE IRVIN PHILLIPS of the Office's Civil Division are in charge of the case.

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