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THREE DEFENDANTS INDICTED IN ALLEGED \$750,000 MORTGAGE FRAUD SCHEME INVOLVING THREE RESIDENCES IN CHICAGO

CHICAGO — A Chicago area real estate investor, the president of a Colorado real estate financing company, and a licensed appraiser were indicted for allegedly participating in a scheme to fraudulently attempt to obtain mortgage loans totaling more than \$750,000 by selling three residential properties in Chicago to nominee buyers, federal law enforcement officials announced today. The charges result from *Operation Madhouse*, an undercover investigation in which a cooperating individual posed as someone who could assist in structuring fraudulent loan transactions through a bank contact who would approve bogus loan applications on behalf of nominee buyers.

Defendant **Paul Demos**, 66, of Chicago, the licensed appraiser, was arrested this morning, and was released on his own recognizance after pleading not guilty at his arraignment before U.S. District Judge Amy St. Eve in Federal Court. Co-defendants **Michael Fort**, 42, of Hazel Crest, an investor who owned multiple properties in Chicago, and **Jeffrey Olson**, 43, of Lakewood, Col., who was president of 1st Funding Source, LLC, which engaged in real estate financing, were not arrested and will be arraigned at a later date.

Fort was charged with three counts of bank fraud, and Demos and Olson were each charged with two counts of bank fraud, in an indictment returned by a federal grand jury on Tuesday and unsealed today following Demos' arrest. The arrest and charges were announced by Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois; Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of investigation; Barry McLaughlin, Special Agent-in-Charge of the U.S. Department of Housing and Urban Development Office of Inspector General in Chicago; and Alvin Patton, Special Agent-in-Charge of the Internal Revenue Service Criminal Investigation Division in Chicago.

According to the indictment, the fraud scheme involved a "double-closing" on a residence located at 5517 South Paulina St., and the sale of residences located at 6845 South Morgan St., and 1241 North Monitor Ave., all in Chicago, between June and September 2010. The defendants and others allegedly fraudulently attempted to obtain loans by preparing and submitting to an unnamed bank applications in the names of nominee buyers that contained false information about the borrower's employment, income, assets, down payment, intention to occupy the residence, and the value of the property.

Regarding the Paulina "double-closing," the defendants and the undercover cooperating individual allegedly agreed that Fort would "short sell" the residence to a nominee intermediate party, who would immediately resell the property to a nominee buyer, with the second sale financed by a fraudulently-obtained \$295,850 loan. Fort allegedly hid information from the short sale lender, including that Fort had arranged for an immediate resale to a nominee buyer at a price significantly higher than the short sale price and based on an inflated appraisal, and that he would profit from the resale.

The Morgan Street property was to be sold to a nominee buyer financed by a fraudulently-obtained \$300,600 loan, and the Monitor Avenue sale by Fort to a nominee buyer financed by a fraudulently-obtained \$203,700 loan, the indictment alleges. As part of the scheme, Fort would pay a fee to the nominee buyers of the Paulina and Monitor properties. In exchange, the nominee buyers would obtain the loans and sign the documents at closings, but would not occupy the residences or make payments on the loans. Fort allegedly intended to keep the proceeds of the fraudulently-obtained mortgages.

Demos allegedly provided the bank with false appraisals that inflated the value of the Paulina and Morgan properties. Olson allegedly provided the down payment funds for the nominee buyer of the Morgan property, and agreed to provide the down payment and short sale funds for the Paulina property. In September 2010, Fort and others appeared at the closings for the sale of Paulina and Morgan properties, allegedly intending to receive approximately \$596,450 in fraudulently-obtained loan proceeds. Together with the Monitor property, the defendants allegedly intended to fraudulently obtain mortgages totaling more than \$750,000.

The government is being represented by Assistant U.S. Attorneys Tyler Murray and Christopher Stetler.

Each count of bank fraud carries a maximum penalty of 30 years in prison and a \$1 million fine, and restitution is mandatory. If convicted, the Court may impose an alternate fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater. The Court must impose a reasonable sentence under federal sentencing statutes and the advisory United States Sentencing Guidelines.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

The charges are part of a continuing effort to investigate and prosecute mortgage fraud in northern Illinois and nationwide under the umbrella of the interagency Financial Fraud Enforcement Task Force, which was established to lead an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes.

Since 2008, approximately 200 defendants have been charged in Federal Court in Chicago and Rockford with engaging in various mortgage fraud schemes involving more than 1,000 properties and more than \$280 million in potential losses, signifying the high priority that federal law enforcement officials give mortgage fraud in an effort to deter others from engaging in crimes relating to residential and commercial real estate.

The Financial Fraud Enforcement 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. For more information on the task force, visit: www.StopFraud.gov.

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