INTERNAL REVENUE SERVICE

IRS Fact Sheet

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# Real Estate Fraud Investigations Increase

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In recent years, the booming real-estate market has helped increase mortgage fraud and other phony real estate-related schemes. The perpetrators of these schemes range from mortgage brokers looking to make a fast buck to drug dealers laundering their ill-gotten gains. Every year, these fraudulent schemes victimize individuals and businesses from many walks of life, including struggling low-income families lured into home loans they can't afford, legitimate lenders saddled with over-inflated mortgages and honest real-estate investors fleeced out of their investment dollars.

Through federal tax-fraud investigations and money-laundering charges, the Internal Revenue Service is playing a key role in the fight against real-estate fraud.

The number of real-estate fraud investigations initiated by IRS Criminal Investigation (CI) doubled in just two years (from 107 during the 2001 Federal Fiscal Year to 215 during FY 2003, which ended Sept. 30). Similarly, the average prison term handed out by federal judges to defendants in these schemes nearly doubled over the same period (from 24 months in FY 2001 to 46 months in FY 2003).

In addition, the IRS has more than 4,000 returns under audit involving individuals and entities associated with the real-estate business.

Some of the more common schemes seen by IRS criminal investigators include:

- **"Property Flipping"** — A buyer pays a low price for property, then resells it quickly for a much higher price. While this may be legal, when it involves false statements to the lender, it is not.
- **Two Sets of Settlement Statements** — One settlement statement is prepared and provided to the seller accurately reflecting the true selling price of the property. A second fraudulent statement is given to the lender showing a highly-inflated purported selling price. The lender provides a loan in excess of the property value, and after the loans are settled, the proceeds are divided among the conspirators.
- **Fraudulent Qualifications** — Real estate agents assist buyers who would not otherwise qualify by fabricating their employment history or credit record.

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In these real estate fraud cases, money laundering is often the mechanism used to hide income from the government. Money laundering is the process of attempting to make money earned illegally appear to be legitimate. Many criminal tax investigations focus on money laundering because it is often inseparable from tax evasion.

As the following statistics indicate, IRS criminal investigations of real-estate fraud have increased.

**Statistical Information**

| | FY 2001 | FY 2002 | FY 2003 |
|---|---|---|---|
| Case Initiations | 107 | 166 | 215 |
| Prosecution Recommendations | 69 | 83 | 117 |
| Indictment/Information Filed | 67 | 71 | 94 |
| Convictions | 85 | 57 | 81 |
| Sentenced | 103 | 64 | 65 |
| Incarceration Rate | 71.8% | 82.8% | 87.7% |
| Average Months to Serve | 24 | 27 | 46 |

**Case Summaries**

The following case summaries are based on public record court documents on file in the judicial district in which the cases were prosecuted.

- On April 24, 2003, in Indianapolis, Ind., Paul A. Dailey, owner of Platinum Mortgage Brokerage Firm of Indianapolis, was sentenced to 105 months in prison, followed by 3 years supervised release, and ordered to pay $3.7 million in restitution. Dailey pled guilty to conspiracy to commit mail fraud and money laundering. He operated Platinum Mortgage in Indianapolis from 1998 until May 2001, during which time the company brokered more than 100 fraudulent residential mortgages on properties principally in Center Township in Indianapolis. Dailey and other members of the conspiracy, 13 of whom have been convicted, recruited several real-estate appraisers and closing agents to assist in the fraudulent scheme. Basically, the properties were appraised for two to three times their true value. Straw purchasers obtained loans on the property well in excess of their true value, the members of the conspiracy shared the profits and the purchasers defaulted on the loans, leaving the properties abandoned and boarded up. After mortgage lending companies refused to lend money to the Platinum Mortgage customers, Dailey moved to Detroit and opened another mortgage brokerage company, Monumental Mortgage, and continued the scheme there. The total amount of loss attributed to the schemes is more than $8 million.
- On July 3, 2003, in Indianapolis, Jeffrey Neely was sentenced to 170 months in prison, three years supervised release and ordered to pay restitution of $2,055,000. He had pled guilty to conspiracy, mail fraud and money laundering. Neely was indicted, along with six other defendants, in a mortgage-fraud and

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money-laundering conspiracy involving loans obtained through Investors Mortgage Group (IMG) on residential properties in Indianapolis from July 1999 to June 2002. Neely was one of the owners of IMG and was the leader and organizer of the criminal activity, who recruited closing agents, appraisers, investors and other persons to assist in the scheme. During the course of the scheme, about 75 fraudulent loans were obtained on properties. Almost all of the loans went into default, resulting in losses to the lender of about $3,000,000.

- On Aug. 18, 2003, in Greenbelt, Md., Alton F. Bivins was sentenced to 57 months in prison, three years of supervised release and ordered to pay restitution of $297,188. As the loan officer for the First Capital Acceptance Corporation and Mortgage Corporation of Maryland, Bivins assisted his sister, Karen Bivins, and Donald Osorio in spending their drug proceeds to purchase real estate. As the loan officer, Alton Bivins submitted false loan applications and documentation, including false W-2's and false employment verification, to obtain the mortgage loans. The drug proceeds of Osorio and Karen Bivins were used for down payments and closing costs to complete the transactions. The properties involved were valued at over $1.1 million.
- On Sept. 17, 2003, in Des Moines, Iowa, Steven Tod Davis was sentenced to 37 months in prison on bank-fraud and money-laundering charges. Davis was also ordered to serve five-years supervised release, fined $10,000 and ordered to pay restitution of $1,860,403.50. At his plea, Davis said he formed a company called Eastgate Development to purchase and develop a 40-acre parcel of land in Ames, Iowa. The land was to be developed into commercial lots for resale. During November and December of 1997, he raised a total of $1.2 million from 24 investors, each of whom contributed about $50,000 for the purchase of the land. Davis further admitted that in May of 1998, he obtained a $1.8 million line of credit from the First National Bank, and in June of 1999 obtained a $1.5 million line of credit from the Hardin County Savings Bank. He explained to both financial institutions that the purpose of the loans was to develop the infrastructure of the property. Davis said he used about $1.8 million of the loan money for purposes other than developing the property, including using the money for his own personal use and injecting funds into other business ventures. He also admitted that he used $300,000 of the money to make a payment on a jet aircraft loan with another financial institution.

**Related Items:**

- http://www.IRS.gov — Keyword: Fraud
- Report suspected tax fraud: 1-800-829-0433
- Tax Fraud Alerts — http://www.irs.gov/irs/content/0,,id=106057,00.html