
Ex-convicts active in mortgage fraud

During Florida's housing boom, state regulators allowed thousands of mortgage professionals with criminal records into the industry -- costing consumers millions.

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When Scott Almeida walked out of federal prison and into the mortgage business, he took a gamble. He admitted on his license application that he had been convicted of cocaine trafficking.

Florida regulators -- responsible for protecting borrowers from predatory brokers -- could have rejected him on the spot.

Instead, they asked for a character reference: He gave them a note from his mom. They said he needed a reputable supervisor for his practice: He chose a guy he met in the prison visitor room.

They asked for a copy of the court file but never demanded the police report, which shows that he had been caught with a small arsenal of assault rifles and ammunition, in addition to the cocaine.

Their background investigation complete, regulators circled "approved" at the bottom of the screening checklist, collected a \$215 license fee and looked the other way.

Over the next three years, in a crime spree that stretched from Tampa to Miami, Almeida arranged nearly \$3 million in fraudulent loans and fleeced 30 people -- many of them elderly and disabled.

Twice, the Florida Office of Financial Regulation -- which polices the mortgage industry -- failed to act on warnings that Almeida was stealing from clients, allowing his scam to thrive until police threw him into jail.

The Almeida case highlights one in a series of breakdowns in the state's enforcement system created to protect borrowers. Since 2000, regulators failed to weed out people with criminal histories, monitor scam operations and discipline crooked brokers, a Miami Herald investigation found.

State regulators allowed thousands of ex-convicts to enter a profession that gave them access to the most sensitive and personal financial information: credit cards, bank accounts and Social Security numbers.

Those criminals went on to commit nearly \$85 million in mortgage fraud, the newspaper found. They stole their customers' identities. They stole their money. They even stole their homes.

"I was disgusted, I had to cry, because it was the first time in my life I'd been scammed," said Mary Taylor, 62, one of Almeida's victims.

Beyond the licensing, regulators routinely overlooked or ignored complaints, allowing rogue brokers to flourish amid one of the biggest housing booms in state history.

As the median home price reached an all-time record in Florida, and the Miami skyline erupted with gleaming new residential towers, fortune seekers rushed into the mortgage business in unprecedented numbers.

But Florida regulators, who introduced the nation's first licensing requirement for mortgage brokers in 1959, failed to keep pace.

During an eight-month investigation, The Miami Herald analyzed computer records for more than 222,844 Florida mortgage professionals, examined thousands of records from the Office of Financial Regulation, reviewed hundreds of court files and interviewed dozens of regulators, brokers and victims.

The newspaper found:

- From 2000 to 2007, regulators allowed at least 10,529 people with criminal records to work in the mortgage profession. Of those, 4,065 cleared background checks after committing crimes that state law specifically requires regulators to screen, including fraud, bank robbery, racketeering and extortion.
- More than half the people who wrote mortgages in Florida during that period were not subject to any criminal background check. Despite repeated pleas from industry leaders to screen them, Florida regulators have refused.
- Confronted with a growing epidemic of mortgage fraud -- Florida now has the highest rate in the nation -- the number of license revocations declined over the last five years, leaving borrowers at the mercy of predatory brokers.
- During the peak of the housing boom, the Office of Financial Regulation ignored a state law enacted in 2006 that compelled it to perform nationwide criminal background checks on applicants. That failure allowed people convicted in other states -- and in federal court -- to peddle loans in Florida without any scrutiny.
- Regulators allowed at least 20 brokers to keep their licenses even after committing the one crime that seemed sure to get them banned from the industry: mortgage fraud.

"I knew we had a problem. I had no idea how bad," U.S. Sen. Mel Martinez, R-Fla., said when told of The Miami Herald's findings.

Martinez is co-sponsor of an amendment to a sweeping federal housing bill that would ban anyone convicted of a felony from selling mortgages for seven years.

While much attention on the national mortgage crisis has focused on questionable Wall Street practices, the damage done by criminal brokers began on a far more basic and intimate level.

In brokerages at nondescript offices in strip malls across the state, the frauds ran the gamut, from simple schemes to boost reported incomes and assets, to elaborate enterprises with straw buyers and bogus appraisals.

Sometimes banks were the targets of the fraud; other times, borrowers.

Don Saxon, commissioner of the Office of Financial Regulation, said he didn't know why his staff issued licenses to bank robbers and racketeers, but would look into the cases cited by The Miami Herald.

"You're asking me to get into the heads of the people who made those choices," Saxon said. He added: "Certainly we are not proud of the fact that these people have gone on to do bad things."

OFR officials who do the screening said there is no single standard they use to decide who gets a license: The criminal background check is just one of many factors.

"We look at all the facets around, you know, whatever file, and we predicate on the fact that everybody deserves another chance," said Terry Straub, director of the OFR's Division of Finance, which regulates the mortgage industry in Florida.

Miami-Dade schoolteacher Candace Young said she expects more vigilance from regulators.

She ran up a \$100,000 legal bill while fighting to get her house back after broker Michael Fletcher -- who has a conviction for grand theft -- allegedly slipped the deed into a stack of documents he got her to sign. Young said she thought she was simply refinancing.

She got the house back. A civil-court judge nullified the deed transfer because the notary whose signature is on the documents admitted she was not present for the deal.

Fletcher could not be reached for comment for this report.

"I think it's horrible," Young said. "Why would you let someone convicted of grand theft just go and raid the public? What does it take to lose a license?"

THE BOOM YEARS

When Almeida made the jump from cocaine trafficker to mortgage broker in 2002, he joined a wave that would nearly triple the number of brokers in Florida by the summer of 2007.

They were the first, and only, contact most buyers had with the banking industry.

Their role was simple: to persuade banks to lend their customers the money they would need to buy into the booming real-estate market.

To make their case, they gathered the most intimate details about their customers' financial lives.

The mortgages they peddled -- including many that required no money down and minuscule payments for the first few years -- lured previously unqualified buyers into the market and sent home prices to all-time highs.

Through it all, state regulators were the only line of defense, empowered to keep criminals out of the mortgage industry and revoke licenses to protect consumers from fraud.

But the OFR almost never rejected applicants based on their criminal records. The Miami Herald analyzed the same criminal database that the OFR uses and discovered 4,065 new applicants between 2000 and 2007 who had been found guilty of crimes that the law specifically requires regulators to screen.

Those include crimes involving fraud, dishonest dealing and "moral turpitude". Any conviction counts, as does any case where the applicant pleaded no contest, or where the court withheld adjudication.

As a group, they were guilty of 2,821 financial crimes, including 922 larcenies, 752 frauds, 327 burglaries, 161 forgeries and 67 robberies.

There were at least 1,588 crimes that the law describes as "moral turpitude," including 835 assaults and batteries, 253 illegal drug sales, 84 sex crimes and 15 homicides.

During the same period, regulators rejected only 29 applicants based on their criminal record.

The OFR's mission statement declares that it is dedicated to safeguarding the public from fraud.

State lawyer William Gene Cole described that responsibility in a 1999 order refusing to license a Miami man guilty of grand theft because it would "place him in a position of trust over other people's money, in a transaction that is often the most important investment a person will ever make -- buying a house."

But as the industry boomed, and new applications piled up on regulators over the last eight years, they veered away from applying that standard, licensing 186 people guilty of the same theft statute, The Miami Herald found.

Among them: Anthony Hollis of Orlando, who got a license to own a mortgage brokerage in 2003, despite convictions for car theft and passing bad checks.

He didn't even make it through the 24-hour mortgage-broker training class without breaking the law, court records show. He persuaded a classmate who

worked for Sprint PCS to sell him cellphone customers' Social Security numbers.

Hollis used his training to pull his victims' credit histories without their knowledge, court records show. He opened credit-card accounts in their names and stole more than \$200,000 -- much of that blown in Las Vegas -- before his conviction for racketeering in 2004.

The Miami Herald reviewed the complete application files for 100 mortgage professionals -- violent offenders and those with the most serious financial crimes, like bank robbery and racketeering -- to see how the OFR handled high-priority cases.

The list includes brokers arrested and convicted in Florida, those who had been imprisoned in other states, and those convicted in federal courts.

Most had been found guilty before they applied for their license. The rest were found guilty after getting into the industry.

Of 64 with criminal histories when they applied, 36 disclosed their records. In those cases, regulators started the vetting process by demanding character references.

They accepted one from an Almeida business associate, Joel K. Hill, who has since been arrested, and acquitted, on charges of grand theft and exploiting the elderly. They accepted another from Almeida's mother, who noted that her son struggled with the exam after his training course: "It took Scott three times but he passed and he didn't give up," she wrote.

Regulators also routinely asked offenders for a written explanation of their crime and subsequent rehabilitation.

"I had to write a letter. It took three seconds. It wasn't a battle," Almeida told The Miami Herald. With that, the OFR issued his license.

When South Beach real-estate speculator Richard Crowder applied in January 2003, he explained that his prior burglary case was "my only altercation with the law and something I will be forever ashamed of."

The same month he wrote those words, court records show, Crowder embarked on one of the most ambitious mortgage-fraud schemes in recent Florida history, netting \$37 million in fraudulent loans by systematically lying on mortgage applications, fabricating supporting documents and arranging bogus appraisals.

Crowder spent the money on luxury condos in gleaming new towers, which have become the very symbol of Miami's real-estate bubble.

His empire included 14 waterfront units -- with access to a rooftop pool and 24-hour concierge -- at the Continuum in South Beach, one of the most expensive addresses in the southeastern United States.

After Crowder pleaded guilty in January, he told The Miami Herald that he hoped for a light sentence so he could devote himself to teaching "credit literacy seminars" in area high schools. In April, U.S. District Judge Jose E. Martinez sentenced him to nine years in prison.

EVADING THE TRUTH

Dozens of applicants simply lied to get their licenses, The Miami Herald found.

Twenty-six with criminal records checked "no" to the question on whether they had ever been convicted of a crime involving fraud, dishonest dealing or moral turpitude. The OFR's background check -- which until recently searched only Florida police and court records -- uncovered convictions for eight of them.

But even when regulators caught applicants lying, they still granted licenses, despite a provision in state law that says any "material misstatement of fact" is, by itself, grounds for a denial.

In 2003, Kissimmee broker Donald Lewis Smith checked "no" to the crime question on his application. In fact, he had been sentenced to 17 years in prison for strangling his wife and dumping her body into Tampa Bay, court records show.

When their background check revealed that Smith had lied, it was too late to reject him.

Under state law, after regulators receive an application, they have 30 days to request more information, said OFR Bureau Chief Pam Epting. In Smith's case, they didn't get the results of the background check until the 30th day -- they missed their chance to ask him about the murder conviction.

"The agency ended up having to issue the license, and the reason for that is our own mistake," OFR lawyer Peter Fisher said.

So instead, they asked whether Smith would be willing to go on probation. He said no, records show.

The OFR gave him a license, no strings attached. Smith could not be reached for comment.

In other cases, applicants omitted their most serious offenses from the follow-up paperwork or shaded the facts in their own favor.

Almeida told regulators he had been convicted of "possession with intent to distribute." They asked for certified copies of all court records pertaining to the case, but their file doesn't include a copy of the police report.

It shows that when police raided his Tampa apartment in 1998, they found the tools of a large-scale trafficker: two kilograms of cocaine, two semiautomatic

assault rifles, a stolen Glock pistol, Ecstasy, steroids, syringes, sophisticated scales, and a mold for pressing cocaine into one-kilogram packages.

Regulators did not demand a copy of the report, a standard part of any criminal file. Instead, they asked Almeida to sign a probation agreement -- a promise not to own a brokerage or break any mortgage-industry law for five years.

PROBATION DEALS

Of the 4,065 mortgage brokers and lenders with criminal records who got licenses between 2000 and 2007, 269 applicants signed similar probation agreements, The Miami Herald found. Among them were 40 people convicted for assault or battery, 39 for grand theft, 23 for burglary and one for kidnapping.

But the state's probation does not require monitoring -- no mandatory reports, no visits from regulators.

"We do not have the personnel to go out and review their files," said Fisher, the OFR lawyer.

The system even allows convicts to choose their own probation supervisors.

In 2003, Almeida chose his boss, Frank Giffone, whom he had met in federal prison. Almeida was an inmate; Giffone was visiting a mutual friend, Almeida told The Miami Herald.

Shortly after going into business together, the pair sent salesmen to search out elderly, often disabled people living in ramshackle houses in poor neighborhoods of Hillsborough, Polk and Lee counties.

They promised home-equity loans for badly needed renovations.

State regulators received two written warnings in 2004 that Almeida was lying on the loan applications and stealing money. One was from the daughter of a 76-year-old victim, the other from investigators at the Hillsborough County Consumer Protection Agency.

But despite the fact that Almeida was on probation, and had promised not to break the law, regulators took no action against his license.

Almeida later pleaded guilty to stealing from both borrowers. Giffone pleaded guilty to racketeering.

After the warnings, Almeida went on to scam 12 more victims in deals involving \$1.1 million in fraudulent loans, including several routed through a brokerage in Homestead, records show.

As the number of applicants rushing into the business peaked in the last three years, criminals with even longer and more troubling rap sheets got licensed, The Miami Herald found.

State regulators allowed Eric Goldstein into the industry early last year despite no-contest pleas to two counts of racketeering, conspiracy to traffic cocaine, and possession of a machine gun with the serial number filed off.

In his explanation of the 1997 racketeering charge, Goldstein told regulators he had been running "an adult entertainment establishment" -- police called it an illegal escort service -- when an undercover cop offered to process credit-card payments for him.

Under the law, any of his convictions would have justified immediate denial of his license application. But the OFR "has to ensure that we are considering the possibility of rehabilitation," said lawyer Peter Fisher.

In Goldstein's case, the agency noted that he got probation for the racketeering offense, and hadn't served jail time since the cocaine-trafficking and weapons charges in the early '90s, Fisher said.

Two months after the OFR granted his license, Goldstein was arrested again, for extorting money from a partner in a proposed real-estate deal. He pleaded guilty to a lesser charge of making harassing phone calls. "In retrospect, I agree, our decision does look questionable," Fisher said.

Nevertheless, Goldstein still has an active license. He told The Miami Herald that he's not practicing, however, "because of all the problems in the industry."

FBI SCREENING

Sometimes state officials themselves broke the law.

In 2006, the year license applications and home-sale prices peaked, the Florida Legislature changed the law to close a significant gap.

The new provision required state officials to send would-be brokers' fingerprints to the FBI to screen for convictions in other states and in federal court, where serious financial crimes and drug-trafficking cases are often prosecuted.

But state officials didn't follow the law. Last February, more than a year after the statute was changed, Greg Oaks, chief of the OFR's Bureau of Regulatory Review, told The Miami Herald that running the FBI checks using the old-fashioned hard-copy fingerprint cards took too long.

"It's conceivable a person might have an FBI record and we wouldn't see it," Oaks said. The agency began to run FBI checks in March of this year, officials said.

Here's what the OFR missed:

- Miami broker Jack Lux checked "no" to the criminal-history question. In fact, he had pleaded guilty to conspiracy to commit money laundering and

was sentenced to two years in federal prison, court records show. The OFR granted his license in February 2007.

- Nilsa Albaron, who had pleaded guilty to conspiracy to commit bank robbery, got her license in 2007, too. She checked "yes" to the criminal-history question, but wrote in her letter of explanation that prosecutors had dropped the charges.

Not true. Miami-Dade prosecutors dropped one charge, but transferred the bank-robbery case to federal court.

Albaron said she doesn't know how OFR administrators missed her federal judgment. "Ask them," she said before walking away from two Miami Herald reporters.

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