



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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FORMER DIRECTOR OF ACCOUNTING AND OUTSIDE AUDITOR FOR ARIZONA MORTGAGE ORIGINATOR PLEAD GUILTY TO ROLES IN FRAUD AGAINST TARP RECIPIENT BNC NATIONAL BANK

WASHINGTON, DC - The former director of accounting and the former outside auditor of Arizona-based residential mortgage loan originator American Mortgage Specialists Inc. (AMS) pleaded guilty yesterday in Arizona to conspiracy to defraud BNC National Bank (BNC) and obstruction of justice, respectively, Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Assistant Attorney General Lanny A. Breuer of the Justice Department's Criminal Division; U.S. Attorney Timothy Q. Purdon of the District of North Dakota; and Steve A. Linick, Inspector General of the Federal Housing Finance Agency Office of Inspector General (FHFA-OIG) announced today.

Lauretta Horton, 45, and David Kaufman, 69, both residents of Arizona, pleaded guilty before U.S. District Judge Daniel L. Hovland of the District of North Dakota, who took the pleas in Arizona federal court. Horton and Kaufman were charged in separate criminal informations unsealed on Oct. 2, 2012, for their roles in the fraud scheme against BNC.

"As the controller and director of accounting of mortgage originator AMS, Horton sent to TARP-recipient BNC National Bank false financial statements she had prepared so that BNC would continue to fund AMS," said Christy Romero, Special Inspector General for TARP (SIGTARP). "In a cover-up and an attempt to impede the federal grand jury investigation, AMS's external auditor Kaufman lied to SIGTARP agents about his telling an AMS executive that he had changed the financial statements so that BNC would not discover the truth. Kaufman is the third person convicted of lying to SIGTARP agents, which shows that SIGTARP will aggressively pursue those who fail to tell the truth and impede our investigations."

"While the nation was reeling from a financial downturn, Laueetta Horton conspired with AMS executives to deceive BNC Bank about AMS's true financial stability, and AMS auditor David Kaufman lied to federal investigators to impede their investigation," said Assistant Attorney General Breuer. "Horton and Kaufman's guilty pleas reflect our continued vigilance in investigating and punishing criminal conduct relating to the financial crisis."

"Banks in North Dakota were not immune from illegal conduct related to the mortgage crisis that impacted banks all across the country," said U.S. Attorney Purdon. "These guilty pleas are the result of close collaboration with our federal investigative partners and the Justice Department's Criminal Division and should send the message that the Department of Justice is committed to prosecuting cases such as these wherever they might arise."

AMS was in the business of originating residential real estate mortgage loans to borrowers and then selling the loans to institutional investors. In 2006, AMS entered into a loan participation agreement with BNC whereby BNC provided funding for the loans issued by AMS. According to court documents, Horton, the director of accounting at AMS, conspired from February 2009 to April 2010 to defraud BNC by making false representations regarding the financial well-being of AMS in order for AMS to continue to obtain funding from BNC. Specifically, Horton admitted to inflating asset items and altering financial information in the AMS balance sheet provided to BNC to falsely reflect that AMS had substantial liquid assets when, in fact, it did not.

According to court documents, Kaufman, a certified public accountant and the outside auditor of AMS' annual financial statements, lied to federal agents during the criminal investigation and obstructed the grand jury investigation. Specifically, Kaufman admitted denying to agents that he had a conversation with an AMS executive in which Kaufman explained to the AMS executive that Kaufman had combined two expenses on AMS' financial statements in order to conceal the true nature and extent of AMS' financial condition from BNC.

Although BNC's holding company had received approximately \$20 million under the TARP and had injected approximately \$17 million of the TARP funds into BNC, BNC incurred losses exceeding the millions received from TARP. BNC then did not make its required TARP dividends to the Department of Treasury for nearly two years.

At sentencing, scheduled for May 6, 2013, Kaufman and Horton face a maximum penalty of 10 years and five years in prison, respectively.

The investigation was conducted by agents from SIGTARP and the FHFA. The case is being prosecuted by Trial Attorney Robert A. Zink and Senior Litigation Counsel Jack B. Patrick of the Criminal Division's Fraud Section and by Assistant U.S. Attorney Clare Hochhalter of the District of North Dakota, with the assistance of Trial Attorney Jeannette Gunderson of the Criminal Division's Asset Forfeiture and Money Laundering Section.

This prosecution was brought in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. SIGTARP is a member of the task force. To learn more about the President's Financial Fraud Enforcement Task Force, please visit www.StopFraud.gov.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP.

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