

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF NORTH CAROLINA
STATESVILLE DIVISION

FILED
ASHEVILLE, N.C.
AUG 06 2013
U.S. DISTRICT COURT
W. DIST. OF N.C.

UNITED STATES OF AMERICA)

DOCKET NO. 5:13 cr 22 RLV

v.)

**SUPERSEDING
BILL OF INDICTMENT**

(1) DENNIS WAYNE PARRIS,
(2) FABIAN DAVID SPARROW,
(3) ANDREW B. McKEOWN, and
(4) ISSAC A. VINSON, IV,
a/k/a "Ike Vinson"

Violations: 18 U.S.C. § 371
18 U.S.C. § 1349
18 U.S.C. § 1519
18 U.S.C. § 2

THE GRAND JURY CHARGES:

That at the times material herein:

1. Defendant (1) DENNIS WAYNE PARRIS ("PARRIS"), while employed as the Senior Vice-President of Phoenix Housing Group ("PHG"), conspired, confederated and agreed with PHG sales managers (2) FABIAN DAVID SPARROW ("SPARROW"), (3) ANDREW B. McKEOWN ("McKEOWN"), and Roger Bailey ("Bailey"); and mortgage loan officers (4) ISSAC A. VINSON, IV, a/k/a ("VINSON"), Joseph "Joey" Klakulak ("Klakulak"), and Marina McCuen ("McCuen"); and others—including certain PHG salespersons, employees and corporate officers and certain loan officers, processors, brokers, real estate appraisers and mortgage companies—to execute a mortgage fraud scheme to sell PHG manufactured and modular homes to North and South Carolina consumers, through false and fraudulent pretenses, representations, and promises; financed by mortgage loans insured by the United States government, knowing that material information about the sales and buyers' ability to repay the loans was false or deliberately omitted and that the value of the land and homes securing the loans was inflated. PARRIS, SPARROW, McKEOWN, Bailey and other PHG officers created a culture at PHG wherein employees were compelled to generate as many sales as possible regardless of whether their customers could afford the homes they were sold. Moreover, PARRIS, SPARROW, McKEOWN, Klakulak and others continued the scheme at other PHG locations even after it was discovered and investigated at PHG Granite Falls. Through this scheme, PARRIS, SPARROW, McKEOWN, Bailey and their conspirators sold over 1,100 homes to North Carolina consumers from PHG stores in Granite Falls, Burlington, Asheboro and elsewhere between April, 2005 and October 2010, financed with government insured loans totaling more than \$158 million, resulting in hundreds of mortgage insurance claims totaling more than \$24 million and net losses to the United States presently exceeding \$16 million.

Relevant Entities and Individuals:

2. PHG was a manufactured housing retailer doing business as Homes America and Southern Showcase Housing. PHG was headquartered in Greensboro, North Carolina, and at various times had between seven and twelve sales centers throughout North Carolina, South Carolina, and Virginia, including stores in and near Granite Falls, Burlington, Asheboro, and Greensboro, North Carolina (hereinafter "PHG Granite Falls," "PHG Burlington," "PHG Asheboro," and "PHG Greensboro," respectively). Some of the PHG sales centers were subsidiaries in which PHG held a majority share, while other investor(s) owned minority shares.
 - a. PHG was in the business of selling manufactured and modular homes, which when sold alone were considered chattel and not real estate. In addition, PHG sold "land/home" packages—which included a manufactured or modular home and a parcel of real property—as well as foreclosed manufactured/modular homes already affixed to real property, both of which were considered "real estate sales." PARRIS, SPARROW, McKEOWN, Bailey, the PHG employees they supervised, and others directly or indirectly assisted customers in securing financing for their real estate purchases through federally insured mortgage loans.
 - b. PARRIS was employed as a Senior Vice-President of PHG from in and around April 2005 through October 2010. His duties included overseeing various PHG sales centers—including PHG Granite Falls, Burlington, Greensboro, and Asheboro—hiring, training, product knowledge, manufacturer relations, advertising and other duties as assigned by PHG's President.
 - c. SPARROW was employed by PHG as the Sales Manager of PHG Burlington from on or about January 2006 through October 2010. He was also a 40% owner of PHG Burlington, having paid approximately \$40,000 for his shares of PHG Burlington and \$40,000 for his shares in PHG Siler City. However, PHG Siler City closed shortly after SPARROW invested, leaving him with ownership only in PHG Burlington. As the manager of PHG Burlington, SPARROW supervised at various times approximately four salespersons, two or three administrative staff, and several contractors and agents. SPARROW reported to PARRIS and PHG's President.
 - d. McKEOWN was employed as the Sales Manager of PHG Asheboro from in and around November 2007 through in and around January 2010. From in and around April 2005 through in and around November 2007, McKEOWN was also employed at various times as a salesperson and/or acting manager at PHG Asheboro and Greensboro. In his capacity as the manager of PHG Asheboro, McKEOWN supervised approximately five salespersons, one administrative staff and several contractors and agents.
 - e. Bailey was employed as the Sales Manager of PHG Granite Falls from on or about April 1, 2005, to on or about September 24, 2008. In this capacity, Bailey

supervised at various times approximately five salespersons, two or three administrative staff, and several contractors and agents.

- f. SPARROW, McKEOWN and Bailey reported to PARRIS and PHG's President. PHG's President managed and controlled PHG's business operations and was responsible for its policies and practices.
3. PHG was also affiliated with First Priority Mortgage and Finance ("First Priority"). First Priority was a mortgage broker and lender which had an office in Winston-Salem, North Carolina. At times, however, First Priority's offices were co-located with PHG's headquarters in Greensboro, North Carolina. Beginning in an around April 2006 and continuing through in an around July 2009, First Priority provided financing and federally insured mortgage loans for consumers purchasing land/home packages from PHG. First Priority was approved to originate loans insured by the Federal Housing Administration ("FHA").
 - a. First Priority was created as PHG's financing arm in order to originate mortgage loans needed to fund PHG's sales. Beginning in or about April 2006, PHG officers and employees were also officers and directors of First Priority. During this time, PARRIS was Vice President of First Priority. In and around March 2007, a person known to the Grand Jury as RA, who previously originated loans for PHG customers while employed with another company, became a loan officer for First Priority. In and around March 2008, RA became President of First Priority, but PARRIS and other PHG officers and employees remained its officers and directors.
 - b. In and around October 2008, PHG officers and employees, including PARRIS, were removed as officers and directors of First Priority. While RA continued to be President of a purportedly independent First Priority, he still answered to PARRIS and other PHG officers because PHG was First Priority's main source of income.
4. WR Starkey Mortgage Company LLP ("WRSM") was a mortgage loan originator. WRSM had corporate offices in Texas and loan offices in Oklahoma, Colorado, Georgia, Alabama, Tennessee, and North and South Carolina, including Asheville and Charlotte, North Carolina. WRSM was approved to originate loans insured by FHA and guaranteed by the United States Department of Agriculture ("USDA"). Beginning in and around January 2007 and continuing through in and around September 2008, WRSM provided financing and federally insured mortgage loans for consumers purchasing land/home packages from PHG.
 - a. VINSON was a WRSM branch manager and loan officer in Myrtle Beach, South Carolina, who supervised McCuen and also originated mortgage loans for PHG customers in Burlington and elsewhere.

- b. McCuen was a WRSM loan officer in Asheville, North Carolina, from in and around January 2007 through in and around September 2008, who originated mortgage loans for PHG customers in Granite Falls and elsewhere.
 - c. Klakulak was a WRSM loan officer in Charlotte, North Carolina, from about February 2008 to about September 2008. Prior to and after his employment with WRSM, Klakulak was a loan officer at various other mortgage lenders and financial institutions, including American Home Mortgage, JP Morgan Chase ("Chase"), Prospect Mortgage L.L.C. (formerly Fidelity & Trust, L.L.C. and Metrocities Mortgage, L.L.C.) ("Prospect"), America HomeKey, Fairway Independent Mortgage ("Fairway"), and Envoy Mortgage ("Envoy"). Klakulak originated mortgage loans from each of these companies while located in Charlotte, North Carolina, including loans for PHG customers in Granite Falls, Burlington, Asheboro and elsewhere. WRSM hired Klakulak from Chase at PARRIS' request and recommendation.
 - d. WRSM originated and processed loans in Asheville and Charlotte, North Carolina, as well as Myrtle Beach, South Carolina. Loans originated in Charlotte and Asheville were processed via interstate wire transmissions from Asheville or Charlotte, North Carolina to WRSM's underwriters in Plano, Texas.
 - e. A WRSM senior loan closer in Charlotte, North Carolina was responsible for forwarding closing packages to the law firms in and near Granite Falls, Burlington and Asheboro, North Carolina. WRSM's Charlotte office also coordinated closings for mortgage loans originated in Myrtle Beach, South Carolina, on behalf of PHG Burlington and Asheboro customers. WRSM's senior loan closer communicated with WRSM's headquarters in Plano, Texas via interstate wire transmissions from Charlotte, North Carolina.
 - f. WRSM would immediately sell PHG loans it originated on the secondary market. Chase, a federally insured financial institution, purchased many of the PHG loans.
5. A person known to the Grand Jury as DT was a loan officer with CTX Mortgage Company, LLC ("CTX") and then with New South Federal Savings Bank ("New South") who worked extensively with SPARROW and PHG. CTX, a subsidiary of Pulte Group, LLC, was a mortgage company with offices in Greensboro and Charlotte, North Carolina and Danville, Virginia. New South was a federally insured financial institution with offices in Irondale, Alabama, and Greensboro and Charlotte, North Carolina. New South was closed in December 2009. DT was assisted by her husband, LT.
 6. Mortgage loans to purchase PHG real estate were also originated and/or brokered by; Colonial Savings, F.A., (Colonial National Mortgage), Family First Mortgage Corp, Sunset Mortgage Company, Union Federal Bank of Indianapolis, and other lenders and brokers.

The FHA Mortgage Loan Process:

7. The United States Department of Housing and Urban Development ("HUD") includes the FHA, which administers the FHA loan programs. FHA loan programs are designed to ensure adequate housing for individuals of low and moderate incomes by providing mortgage insurance to lenders who make home loans to these individuals. FHA insured loans are more attractive to investors in the secondary mortgage market, despite their increased risk, because investors know such loans are 100% insured in the event of a default and that HUD/FHA will pay the insurance claim, accept conveyance of the property securing the loan, and then dispose of the property. As a result, the secondary market for FHA loans is very liquid and loan originators can sell FHA loans faster than other loans, thereby allowing lenders to use their funds for more loan originations.
8. FHA insured loans must be processed via the Direct Endorsement (DE) program. Lenders who participate in the FHA-insured loan programs must be DE lenders. Qualified DE lenders may also participate in the Lender Insurance (LI) program, which permits the lender to issue FHA mortgage insurance on its loans. DE lenders approved by HUD are delegated to make underwriting decisions for the HUD Secretary. Loan brokers and officers must submit their loans to a DE Lender for underwriting. "Underwriting" is the process a lender uses to determine if the risk of offering a mortgage loan to a particular borrower is acceptable. Generally, underwriters consider the borrower's credit, capacity (ability to re-pay the loan), and the value of the collateral securing the loan; all of which must be in compliance with guidelines set by HUD, the lender, and potential investors.
9. A DE lender underwrites and closes the loan prior to submitting it to FHA for insurance endorsement and prior to insuring it under the LI program. In order to expedite the approval of mortgage loans, lenders use automated underwriting systems ("AUS") that include HUD's criteria for insuring loans. An authorized representative of the lender must certify that the loan data used to obtain the AUS result was verified as accurate. The integrity of the loan data is crucial to the automated underwriting process.
10. As a part of the application for an FHA insured mortgage loan, HUD requires that home buyers/borrowers disclose their income, assets and liabilities, including wages, non-wage income, bank accounts, real property owned, loans (including mortgage loans), and any other type of asset and debt (collectively the "borrower's information").
 - a. Borrower information is disclosed to the lender and HUD on a HUD Form 1003, also known as a Uniform Residential Loan Application ("URLA") and supported by other documents, all provided directly to the lender's employees by the borrower or an independent third party, such as the borrower's employer. Lenders are required to sign the URLA and indicate whether the information was taken from the borrower by a face-to-face interview, mail, telephone, or internet communication.

- b. Lenders are required to certify to HUD on an FHA addendum ("HUD Form 92900-A") to the URLA that one of their employees has obtained the borrower's information on the HUD Form 1003 directly from the borrower. This is material to HUD's efforts to assess the risk of a loan and to protect the FHA fund from fraud.
- c. During the application process for an FHA insured mortgage loan, HUD requires that lenders independently verify a borrower's income, credit and other pertinent financial information such as rental income and credit history. HUD regulations also require that independent verifications must be collected from reliable and disinterested third parties such as the borrower's employer, landlord or tenants (if the borrower already owns a home that will be leased). HUD further requires that lenders obtain copies of the buyer's most recent pay-stubs and W-2 forms

The USDA Mortgage Loan Process:

- 11. The USDA includes the Rural Development Agency ("RD") and the Rural Housing Service ("RHS"), which administers the Single Family Housing Guaranteed Loan program. Rural Housing ("RH") loan programs are designed to ensure adequate housing for individuals of low and moderate incomes in rural areas of the United States by providing mortgage insurance to lenders who make home loans to these individuals. Like FHA insured loans, USDA guaranteed mortgage loans are more attractive to investors in the secondary mortgage market, despite their increased risk, because investors know that such loans are guaranteed by the full faith and credit of the United States in the event of a default.
- 12. RH loans are limited to areas in the United States which are designated as rural and to applicants with incomes up to 115% of the median income for that area. Unlike FHA insured loans, RH loans do not require a down payment and may exceed 100% of the value of the collateral if certain eligible fees are included.
- 13. Only USDA approved lenders may process and submit loans for RH guarantees. Like FHA DE's, USDA approved lenders are delegated the authority to make underwriting decisions for the RHS.
- 14. Approved RH lenders and their borrowers must complete and sign a written application known as a Form RD 1980-21. As a part of the application for a RH insured mortgage loan, USDA requires that home buyers/borrowers disclose their income, assets and liabilities, including wages, non-wage income, bank accounts, real property owned, loans (including mortgage loans), and any other type of asset and debt (collectively the "borrower's information"). The approved lender's authorized representative signs a certification that the loan submitted for guarantee has been originated and underwritten in compliance with all of USDA's loan requirements.
- 15. An approved RH lender underwrites and closes the RH mortgage loan prior to submitting it to RHS under the guarantee program. RH lenders use an automated underwriting

system known as the Guaranteed Underwriting System ("GUS"). GUS includes RHS underwriting criteria such as the borrower's income eligibility, independent verification of credit scores, debt-to-income ratios and other data to establish the ability and capacity of the borrower to repay the loan. The integrity of this loan data is crucial to the automated underwriting process. Because USDA loans may be issued for more than 100% of the collateral's value, accurate real estate appraisals are especially important when underwriting USDA loans.

16. During the application process for a RH guaranteed mortgage loan, USDA requires that lenders independently verify a borrower's income, credit and other pertinent financial information such as rental income and credit history. USDA regulations also require that independent verifications must be collected from reliable and disinterested third parties.

Other Regulations Applicable to FHA and USDA Loans:

17. Under federal and North Carolina laws, lenders and brokers must disclose material terms of the loans to the borrower(s) before the loan closing. Material terms that must be disclosed include the interest rate, length of the loan, the amount of down payment, the amount of the monthly payment, and the amount that the borrower must bring to the closing from their own funds.
18. Under HUD regulations, loan origination fees are limited to one percent of the loan amount. HUD and USDA regulations allow a lender to charge "discount points" in addition to an origination fee. Discount points are paid by a borrower to lower the interest rate in connection with a home mortgage loan. Discount points charged to lower the interest rate are not considered to be a loan origination fee. North Carolina law requires fees disclosed as discount points on the HUD-1 result in a *bona fide* reduction of the borrower's interest rate

PHG's Scheme to Defraud Consumers:

19. PHG—through PARRIS, SPARROW, McKEOWN, Bailey and others—solicited consumers to visit PHG's sales centers, a/k/a stores, by misrepresenting financing terms with ads such as "\$500 Down, Move in Today" and a rent-to-own program that did not exist. These ads were designed to entice consumers with poor credit into PHG sales offices. Once inside a PHG sales office, consumers were subjected to scripted sales presentations and schemes designed to convince those who might not otherwise attempt to purchase a home at that time, to purchase a home from PHG. PARRIS approved "rent-to-own" advertisements published by PHG's sales centers and directed PHG salespersons to follow scripted sales pitches.
20. After consumers came to its sales centers, PHG used different means to gather personal financial information from consumers in order to check their credit. PHG also used various sales techniques to focus consumers on how much they could afford to pay monthly rather than on the actual cost of the home. PHG used training videos to instruct its salespersons on how to obtain personal financial information from potential customers

without disclosing the true costs associated with purchasing a PHG home. PARRIS appeared in some of these instructional videos.

21. Customer information was often compiled on forms used by PHG, commonly known to the conspirators as "mini apps." Mini-apps were transmitted to VINSON, McCuen, Klakulak and certain other loan officers along with supporting documents such as the borrower's driver's license and documents verifying the borrower's employment, rent, income, expenses and assets.
22. PHG salespersons would quote monthly payments to consumers that would often be less than the consumers' actual payments after the loan closed. Consumers were not always told the true costs of the transaction, such as the cost of the land, the cost of the home, the amount of the monthly payments, and the cost of obtaining a mortgage loan. PHG's contract sales prices were often driven by the maximum loan amount for which a borrower would qualify based on false information submitted by PHG, as opposed to the actual cost of the home.
23. PHG often collected \$500 or more from consumers at the time they signed a PHG sales contract. Consumers understood this money to be a down payment or earnest money on their real estate purchase, but, in most sales, the documents used in connection with the real estate financing would not show the consumers receiving credit for this payment. Purchase agreements were often changed at closing to match the HUD-1 settlement statement. PHG often retained the consumer's down payment as profit.
24. PHG had consumers sign promissory notes promising to pay hundreds and, sometimes, thousands of dollars if they failed to close the transactions. PHG then used the threat of collecting on the promissory notes to coerce consumers to sign closing documents on loans with payments that were often larger than previously promised and to undermine the consumers' statutory right to cancel their real estate purchase contracts.
25. PARRIS, SPARROW, McKEOWN, Bailey and/or their conspirators, either personally or through others, defrauded PHG's customers in their purchase and financing of PHG homes through one or more of the following means, among others:
 - a. Soliciting the solicitation of customers through advertisements that misrepresented the nature and financing of PHG's real estate sales;
 - b. Misleading customers about the price of the real estate sales, the amount of the loan, and the total amount of the monthly payments, including taxes and insurance;
 - c. Misleading customers about the mortgage loan fees added on to the loan principal, including the payment of "discount points" purportedly for lower interest rates when in fact such fees were profit to the mortgage loan company which did not purchase the consumers a lower interest rate;

- d. Concealing the used or foreclosed status of homes being sold and misrepresenting such homes to customers as new or "spec" homes;
- e. Preparing and submitting false financial information and loan documentation without customers' knowledge; and
- f. Inflating the price of the land and homes sold by PHG through fraudulent real estate appraisal reports arranged and influenced by PARRIS, SPARROW, McKEOWN, Bailey and other PHG officers and employees.

The Scheme to Defraud Lenders:

- 26. In order to qualify PHG customers for FHA and USDA loans, PARRIS, SPARROW, McKEOWN, Bailey and others at PHG would allow PHG employees—often with the agreement and assistance of VINSON, Klakulak and McCuen—to manipulate and control the mortgage loan application process by one or more of the following means, among others:
 - a. Handling all of the loan application process on behalf of customers and preventing them from speaking with loan officers and from seeing false documents that PHG employees forwarded to mortgage loan lenders;
 - b. Manipulating customers' credit scores by purchasing secured credit cards on behalf of customers that would be repaid after closing and allowing customers to "piggy-back" existing credit card accounts of PHG salespersons and/or loan officers as their "authorized users";
 - c. Soliciting local businesses and acquaintances to submit fictitious letters of credit for borrowers with whom they had no credit relationship in order to manipulate borrowers' credit worthiness;
 - d. Creating and suggesting the creation of false gift letters to hide from the lender and/or FHA the nature and true source of funds received from borrowers;
 - e. Forging consumers' signatures on documents containing false information that were submitted to lenders;
 - f. Obtaining and advancing funds—from their own companies, companies owned by PHG contractors, or individuals—for customers' down payments or payments to customers' loans and lines of credit, and then concealing the repayment of such funds—sometimes disbursed from loan proceeds at closing—via false information on the HUD-1 and/or fictitious and/or inflated invoices, or fictitious second liens;
 - g. Arranging for real estate appraisal reports that overvalued the land and homes sold by PHG;

- h. Soliciting unqualified PHG customers to find a friend or relative, who would not be a resident in the PHG home, to sign on the loan as a straw borrower or a co-borrower; and/or
 - i. Employing an assistant through PHG to forward false loan documentation to loan officers in order to expedite loan processing and PHG sales.
- 27. WRSB used a certain credit service to pull, analyze and supplement borrowers' credit histories. The credit service would produce a report instructing the user on how certain changes in the borrower's credit information would affect his/her overall credit score. The AUS used by VINSON, Klakulak, McCuen and other loan officers automatically pulled credit reports and analyzed them as part of the underwriting process. VINSON and McCuen gave their logons and passwords for this credit reporting service to certain PHG managers so they could pull credit reports for prospective customers themselves. Bailey and others at PHG used the credit service described above to manipulate the borrower's overall credit score. Some of the techniques used by SPARROW, McKEOWN, Bailey and others included opening pre-paid credit cards with funds that would be repaid after closing, submitting fictitious lines of credit to the reporting service, or adding or "piggy-backing" the names of customers as authorized users to existing credit accounts belonging to Bailey, his salespeople and others.
- 28. SPARROW, PARRIS, and other PHG and First Priority officers created and owned companies that were not directly associated with PHG. These companies and individuals and contractors who relied on PHG for business were used to advance or pay money to or on behalf of PHG customers who wanted or needed to (1) pay off loans and other lines of credit prior to closing in order to afford the mortgage on their new PHG home or to qualify for federally insured loans or (2) bring additional funds to settlement in order to close on loans financing their PHG purchases. Funds were advanced to PHG customers by cash, check or sometimes directly to the creditor. Sometimes funds were paid to the borrower outside of closing. PHG would raise the price of the house to cover at least the amount of advanced funds needed to qualify the borrower. The individuals and companies who advanced funds to or on behalf of PHG companies were repaid by PHG through various means, including disbursements directly from PHG or from the settlement agent at closing, such disbursements sometimes being aided by false information on the HUD-1 as well as by the creation and use of false and/or inflated invoices, for services purportedly associated with the home sold by PHG, or fictitious second liens.
 - a. Eagle's Nest Homebuilder's, Inc. (Eagle's Nest"), was a North Carolina corporation owned by SPARROW. Eagles Properties of Chatham, LLC, was a North Carolina corporation owned by SPARROW and PARRIS.
 - b. Saint Valentine Properties, Inc. a/k/a St. Valentines Properties (hereinafter "Saint Valentines") was a North Carolina corporation used by PARRIS and SPARROW to advance loan assistance to certain PHG customers. Saint Valentines was

owned by RA. Saint Valentines would file a fictitious second lien against the property to be repaid at closing.

- c. Funds advanced to or for some PHG customers in the manner described in the paragraphs above were reimbursed at closing by checks payable to Eagle's Nest, Saint Valentines and certain contractors.

29. It was part of the conspiracy that VINSON, McCuen and Klakulak would directly and indirectly assist PHG managers and salespersons with financing for the sale and purchase of their own property in order to maintain access to PHG's business, including the following transactions:

- a. Klakulak allowed a certain PHG salesman who worked for Bailey to "piggy-back" his own personal credit card as an authorized user in order to qualify the salesman for a mortgage loan.
- b. Klakulak assisted McKEOWN in creating a false pay statement to qualify a borrower that was purchasing McKEOWN's personal home.
- c. McCuen assisted a certain construction coordinator supervised by Bailey by accepting a gift letter falsely claiming that Bailey was the construction coordinator's relative in order to qualify the construction coordinator for a mortgage loan to purchase a PHG home.

Fraudulent Practices at PHG Granite Falls and elsewhere:

30. In approximately 140 FHA insured loans totaling in excess of \$16 million, PARRIS and Bailey worked with VINSON, McCuen and Klakulak to obtain financing for PHG Granite Falls consumers who would not otherwise qualify for a mortgage loan.

- a. PARRIS negotiated and approved an arrangement with VINSON whereby PHG hired a loan processor to work in its Granite Falls store to collect and process information for loan applications on behalf of PHG customers which should have been obtained by lenders, such as WRSM, from independent third parties or directly from the borrowers. WRSM reimbursed PHG for its loan processing help through marketing programs such as a lead generation agreement through which WRSM paid PHG for names purported to be potential loan customers. It was the intent of the conspirators to replicate this arrangement—known as the Bailey/McCuen process—in other PHG locations, including Burlington and Asheboro.
- b. In order to facilitate and expedite WRSM's processing of the loans, Bailey submitted or assisted WRSM's loan officers in submitting false financial information to WRSM's underwriters, including false information about the borrower's credit history, income, assets, and liabilities. Bailey and others acting under his supervision created and submitted forged and altered pay stubs, W-2

forms, social security income letters, down payment gift letters, letters explaining late payments and other credit issues, budget letters and verifications of rent, employment, and bank deposits.

- c. Moreover, PARRIS, VINSON, Bailey, McCuen, Klakulak and their co-conspirators knew that WRSM loan officers and processors could not receive borrower information and third party verifications from PHG—the seller—and were concerned that facsimiles of documents sent by PHG would include a header showing the transmission originated from PHG. Consequently, VINSON knew that McCuen and other WRSM employees under his supervision, including WRSM loan processors, would cut off facsimile headers to conceal the fact that PHG was the source of the information and not the borrower or an independent third party.
- d. PARRIS and other senior officers at PHG used McCuen and Bailey, and what they called the “McCuen-Bailey process,” as a model for other PHG stores. PARRIS and other senior officers at PHG had Bailey and McCuen present their process during at least one meeting of PHG general managers so that the managers could see how the process worked. PARRIS and other senior officers at PHG supplied samples of letters of explanations that Bailey created for Granite Falls customers suggesting that the PHG managers use these samples in their own stores.
- e. PARRIS convinced WRSM to hire Klakulak as loan officer because he knew that Klakulak would assist PHG in qualifying its customers for mortgage loans using fraudulent practices if necessary.

Obstruction of the HUD Investigation at PHG Granite Falls:

- 31. It was part of the conspiracy that beginning in and around September 2008, VINSON, PARRIS, SPARROW, Bailey, McCuen and others would attempt to obstruct the Government’s investigation of WRSM’s and PHG’s fraudulent activities at PHG Granite Falls by destroying and attempting to destroy pertinent WRSM and PHG documents and instructing witnesses to lie to investigators.
 - a. In and around July 2008, the HUD Office of the Inspector General (“HUD/OIG”) received a complaint from a PHG Granite Falls customer—known to the Grand Jury as PM—alleging that false rental income from his existing home had been added without his knowledge to his application for a mortgage loan to purchase a second residence from PHG.
 - b. In and around September 2008, WRSM’s compliance officer in Plano, Texas was contacted by an agent with HUD/OIG concerning the complaint. WRSM’s compliance officer conducted an internal investigation, which included telephone calls to McCuen. WRSM confirmed that several loans originated by WRSM, including PM’s, contained suspicious leases and other supporting documents for

mortgage loans secured by manufactured or modular homes sold by PHG Granite Falls.

- c. One of the issues in the HUD/OIG investigation was whether WRSM loan officers and processors in North and South Carolina were falsely certifying that WRSM had communicated directly with borrowers who were requesting FHA insured loans. Evidence of such false statements would include "short papers" left in WRSM's original mortgage loan files. Short papers were copies of supporting loan documents sent via facsimile from PHG to WRSM loan officers. Such copies were called short papers because WRSM loan processors were instructed to cut off the facsimile headers from these documents sent by PHG before forwarding them to WRSM's underwriters. Underwriters would not accept loan verification documents that originated with an interested party, such as the seller of the collateral property, as opposed to an independent third party, such as an employer or landlord.
 - d. On or about September 15, 2008, McCuen received several telephone calls from VINSON and other PHG managers advising her that a representative from HUD would be visiting WRSM's Asheville office "in the next few days." VINSON instructed McCuen to remove and destroy all "cut-papers" a/k/a "short papers" and other loan documents from any of her "pipeline" or "working" files—meaning files for loans in process. VINSON also instructed McCuen to take all closed files from WRSM's Asheville office to her house. VINSON further instructed McCuen, if visited by a HUD representative asking for WRSM files relating to PHG, to falsely state that the files were destroyed because WRSM was no longer doing business with PHG and that the loan documents had been electronically imaged. Finally, VINSON instructed McCuen to contact Bailey and tell him of the HUD investigation and advise him to be absent from his office the following day and to turn off his mobile telephone.
 - e. McCuen instructed her loan processor to remove "short papers" from WRSM's files. McCuen and her staff were unable to purge short papers from all of WRSM's files while they were in WRSM's Asheville office. Therefore, McCuen moved the files from WRSM's office to the basement and garage in her home. She also called Bailey to warn him that a HUD representative may visit him in the next few days.
32. On or about September 16, 2008, a Special Agent with HUD/OIG went to the WRSM office in Asheville, North Carolina, to interview McCuen and review loan files and other documents relating to FHA insured loans secured by PHG homes, particularly pipeline files related to PHG. As instructed by VINSON, McCuen falsely stated to the HUD/OIG agent that all of the WRSM files he had been seeking had been destroyed.
- a. When advised that the files had been destroyed, the HUD agent asked McCuen to call VINSON, which she did. The HUD agent identified himself to VINSON over the telephone and asked about the disposition of "pipeline loans" related to

PHG. VINSON falsely told the HUD agent that he had directed McCuen to shred the files because WRSM was no longer doing business with PHG and would not be able to complete the pipeline transactions.

- b. McCuen called VINSON and other managers at WRSM after the HUD agent left to tell them that the HUD agent was not pleased with the information she had given him. McCuen was advised by VINSON and the other WRSM managers that a WRSM employee would come to her home to pick up the "pipeline" files and was told to advise the HUD agent that he could pick them up at the WRSM office in Asheville.
 - c. However, the HUD agent unexpectedly arrived at McCuen's house later the same day just as she was carrying out a box of pipeline files to be returned to the WRSM office. McCuen provided these files to the HUD agent and consented to a search of her house during which the rest of the WRSM files were recovered.
33. PARRIS, Bailey, Sparrow, PHG's President and other PHG officers took the following actions to impede, obstruct and/or influence a potential HUD investigation into WRSM and PHG:
- a. On or about September 16, 2009, PARRIS learned that HUD was conducting an investigation involving WRSM loans to PHG customers. PARRIS called Bailey in Granite Falls and told him that he had learned from VINSON that a HUD representative could be coming to PHG Granite Falls. PARRIS told Bailey that he wanted all documents not directly associated with PHG's sales contract "gone"—meaning that Bailey should destroy all documents in PHG's files relating to mortgage financing.
 - b. Bailey understood PARRIS to mean that he and other PHG Granite Falls employees should destroy customer documents in PHG's files that were related to the mortgage financing of PHG sales transactions and not directly related to the sale and construction of a PHG home. Bailey's staff subsequently purged, shredded and burned documents relating to loan processing at PHG's and PARRIS' direction knowing that they may be pertinent to an ongoing government investigation.
 - c. Sometime on or after September 16, 2008, PARRIS participated in conference call(s) with SPARROW and/or other PHG's sales managers, in which it was stated that HUD officials were conducting an investigation. Sales center managers were instructed to put all customer information collected during the sales process in boxes to be picked up and delivered to PHG-headquarters in Greensboro. It was explained that the only customer data that should be in PHG files was information associated with the sales contract. In one of these calls, managers were told to "read between the lines"—meaning that mortgage financing information should not be retained in PHG's files.

- d. On or about September 17, 2008, the HUD/OIG agent went to PHG Granite Falls to obtain and preserve documents relevant to the investigation. The HUD/OIG agent was not informed of PARRIS' instructions to Bailey.
34. As a result of the HUD/OIG investigation, WRSM ceased doing business with PHG and fired McCuen, VINSON and others responsible for originating fraudulent loans to PHG customers. PHG fired Bailey and closed its Granite Falls location. Klakulak, however, quit WRSM and immediately began work as a loan officer at Prospect. Meanwhile, the North Carolina Attorney General and the Commissioner of Banks filed lawsuits against PHG and WRSM, PARRIS, VINSON, McCuen and certain other individuals. Despite notice of their fraudulent activities and an ongoing criminal investigation centered on Granite Falls, PARRIS, SPARROW, McKEOWN and other PHG officers, managers and employees continued their fraudulent consumer practices and loan activities at other PHG locations with Klakulak, DT and LT, and other loan originators.

Fraudulent Practices at PHG Burlington and Elsewhere:

35. In approximately 152 FHA and 21 USDA insured loans totaling in excess of \$25 million, PARRIS and SPARROW worked with WRSM loan officers VINSON and Klakulak, New South loan officer DT, and other loan officers to obtain financing for PHG Burlington customers who would not otherwise qualify for a mortgage loan. WRSM loans were processed and/or closed through WRSM's Charlotte Office. In these sales and loans, PARRIS and SPARROW used one or more of the following fraudulent practices, among others:
- a. PARRIS approved an arrangement whereby PHG hired a loan processor to work in its Burlington store to collect loan verification documents on behalf of PHG customers that should have come from disinterested third parties and/or directly from the borrowers.
 - b. SPARROW would manipulate PHG customers' credit ratings by various means, including temporarily adding them to his own credit card accounts and advancing them funds through Eagle's Nest, Saint Valentines, and PHG contractors who were repaid via disguised disbursements at closing. PARRIS would approve false and inflated invoices that SPARROW submitted for payment to Eagle's Nest and other companies for construction services, or would approve the use of Saint Valentines to pay off customers' liabilities and be repaid through closing as a second lienholder, when, in fact, PARRIS and SPARROW then well knew the invoices and second liens were for repayment of advanced funds used to qualify PHG customers for federally insured mortgage loans. The costs to reimburse funds advanced to customers through bogus invoices and second liens were incorporated into the price that PHG charged for its homes.
 - c. SPARROW, PARRIS, and their co-conspirators solicited, or directed others to solicit, unqualified PHG customers to find a friend or relative, who would not be a

resident in the PHG home, to sign on the loan as a straw borrower or a co-borrower.

- d. SPARROW, PARRIS and their co-conspirators knew that loan officers and processors could not receive borrower information and third party verifications from PHG—the seller. Nevertheless, SPARROW routinely collected borrower verification documents from PHG customers, including employment verifications, pay stubs, W-2s and tax returns, as well as references from landlords and borrowers' letters of explanation for credit issues. Consequently, WRSM loan officers and processors would cut off the facsimile headers to conceal the fact that PHG was the source of the information and not the borrower or an independent third party
- e. SPARROW, PARRIS and other senior officers at PHG would cause PHG Burlington customers to use VINSON, Klakulak, DT and other mortgage loan officers they could trust to ignore sound lending practices and qualify otherwise unqualified PHG customers for mortgage loans.

Fraudulent Practices at PHG Asheboro and elsewhere:

- 36. In approximately 38 FHA and 21 USDA insured loans totaling in excess of \$8.7 million, PARRIS and McKEOWN worked with loan officers Klakulak, McCuen, DT and others to obtain financing for PHG Asheboro customers who would not otherwise qualify for a mortgage loan. WRSM loans were processed and/or closed through WRSM's Charlotte Office. In these sales and loans, PARRIS and McKEOWN used one or more of the following fraudulent practices, among others:
 - a. Soliciting customers through advertisements that misrepresented the nature and financing of PHG's real estate sales;
 - b. Misleading customers about the price of the real estate sales, the amount of the loan, and the total amount of the monthly payments, including taxes and insurance;
 - c. Preparing and submitting false financial information and loan documentation;
 - d. Inflating the price of the land and homes sold by PHG through fraudulent real estate appraisal reports arranged and influenced by PARRIS, McKEOWN and other PHG officers and employees;
 - e. Controlling the loan application process by routinely collected borrower verification documents from PHG customers, including employment verifications, pay stubs, W-2s and tax returns, as well as references from landlords and borrowers' letters of explanation for credit issues; and

- f. Causing PHG Asheboro customers to use Klakulak, McCuen, DT and other mortgage loan officers they could trust to ignore sound lending practices and qualify otherwise unqualified PHG customers for mortgage loans.

COUNT ONE

Violation: 18 U.S.C. § 371
(Conspiracy)

37. Paragraphs 1 through 36 of the Introduction to this Superseding Bill of Indictment are hereby realleged and incorporated by reference into Count One.
38. Beginning on or about April 1, 2005 and continuing through on or about October 31, 2010, in Caldwell, Burke, Buncombe and Mecklenburg Counties, within the Western District of North Carolina, and elsewhere, the defendants

(1) DENNIS WAYNE PARRIS
(2) FABIAN DAVID SPARROW
(3) ANDREW B. McKEOWN and
(4) ISSAC A. VINSON, IV,
a/k/a "Ike Vinson"

conspired, combined, confederated and agreed with each other, and with Bailey, certain PHG salespersons, employees and corporate officers; McCuen, Klakulak, RA and certain loan officers, processors, brokers, real estate appraisers and mortgage companies; and other persons known and unknown to the defendants to:

- a. defraud the United States by impairing and impeding the functions of HUD and FHA, and USDA and RD, agencies and instrumentalities of the United States,
- b. commit offenses against the United States, including violations of Title 18, United States Code, Sections 1001 (Making False Statements to a Federal Agency); 1010 (Submitting False Statement to HUD) and 1519 (Destruction of Records in a Federal Investigation).

MANNER AND MEANS

39. The defendants, unindicted co-conspirators and others, known and unknown to the Grand Jury, carried out the conspiracy in the manner and means described in Introductory paragraphs 1 through 36 of this Superseding Bill of Indictment, among others.

OVERT ACTS

40. In furtherance of this conspiracy and to effect the objects thereof, there was committed by PARRIS, SPARROW, McKEOWN, VINSON, Bailey, McCuen, Klakulak and/or at least

one of the unindicted co-conspirators named herein, in the Western District of North Carolina and elsewhere, at least one of the following overt acts, among others:

- a. In and around July 2005, PARRIS and other PHG officers learned from a PHG employee in the Granite Falls store that Bailey and others in the Granite Falls store were using inaccurate and misleading information to make sales and get customers approved for mortgage loans. PHG fired this employee and retained Bailey as Manager of the Granite Falls store.
- b. On or about September 17, 2007, PARRIS approved an advertisement to run in the *Hickory Daily Record* for homes with a "rent to own" option, when he then well knew that (1) PHG did not have homes for rent and (2) the true purpose of the advertisement was to entice customers into the Granite Falls store where various deceptive practices would be used to sell them a PHG home.
- c. In and around November 2007, PARRIS and VINSON approved the hiring of a loan processor in PHG's Granite Falls store, whom PARRIS instructed not to disclose her true position and job duties. PARRIS also instructed the Granite Falls loan processor "to do the bank's job before the bank got the [customer's loan] package."
- d. On or about November 28, 2007, PARRIS signed an agreement with WRSM for PHG to sell WRSM lists of potential customers; when in fact the agreement was intended and used as a means for WRSM to reimburse PHG for the expense of hiring a loan processor. Moreover, PARRIS and VINSON then knew that the amount WRSM paid to PHG was based on the number of loans generated by the Granite Falls store and not the number of customers referred.
- e. Between on or about August 31, 2007 and on or about September 10, 2007, in order to obtain an FHA loan through CTX for a PHG customer known to the Grand Jury as KK, SPARROW and a certain PHG salesperson directed, approved and/or caused the following acts:
 - i. Accepted a \$500 down payment from KK without giving KK credit on the HUD-1 for this payment;
 - ii. The PHG salesperson, with SPARROW's agreement, provided funds on behalf of the borrower at or before closing in order for the loan to close;
 - iii. Instructed the settlement agent to disburse a check at closing to "Tile Works," a vendor who did business with PHG, for work purportedly done by Tile Works on the home to be purchased by KK, knowing that Tile Works had performed no such work and the check was a disguised reimbursement for funds advance by the PHG salesperson on behalf of the borrower;

- iv. Signed the HUD-1 stating the information on it was true and accurate, knowing the HUD-1 did not report the \$500 down payment, that KK was not the source of borrower funds paid at closing and the payment to Title Works was not for work related to the home purchased by KK; and
 - v. Allowed a PHG salesperson to accept a check from Tile Works as reimbursement for funds advanced on behalf of KK, which Tile Works had agreed to write in exchange for a fee.
- f. Between on or about December 21, 2007, and on or about July 23, 2008, in order to obtain an FHA Loan for a PHG customer known to the Grand Jury as AM—an employee of PHG's Granite Falls store—PARRIS, Bailey and McCuen directed, approved and/or caused the following acts:
- i. Stated an inflated monthly wage and rental income on AM's mortgage loan application;
 - ii. Created and submitted two fictitious pay stubs;
 - iii. Created and submitted a false verification of employment statement;
 - iv. Created and submitted a residential lease for AM's existing home which falsely inflated the amount of rental income AM was receiving;
 - v. Created and submitted a fictitious gift letter claiming that Bailey, as AM's cousin, was gifting \$53,598 to AM, when, in fact, Bailey was neither AM's relative nor gifting any amount of money to her as part of this transaction;
 - vi. Created and submitted copies of a fictitious letter and cashier's check purported to be from Wachovia Bank and falsely verifying sufficient funds in Bailey's account for the \$53,598 as a gift to AM;
 - vii. Inflated the appraised value of the real property purchased by AM by arranging for real estate appraisal reports that overvalued the land and home used as collateral to secure this loan; and
 - viii. In order to allow AM to obtain cash out of the transaction to pay off existing debts, Bailey and McCuen created the false appearance on a HUD-1 Settlement Statement that AM was refinancing an existing loan, when in fact AM was obtaining this FHA mortgage for her new purchase of a PHG land/home package.
- g. In and around March 2008, PARRIS, SPARROW, McKEOWN, VINSON, Bailey McCuen, Klakulak and others attended a PHG General Manager's meeting in which they discussed the "McCuen Team/Roger Bailey Team Process" (the

"McCuen/Bailey Process"). The McCuen/Bailey process included that (1) PHG employees would take original mortgage loan mini-applications from PHG customers and verify their employment and rent and (2) PHG would employ loan processors in its sales centers to "assist" WRSM loan officers in processing mortgage loans for PHG customers. PARRIS, SPARROW, McKEOWN, VINSON, Bailey McCuen, and Klakulak then well knew that it was a conflict of interest for PHG—the seller—to select WRSM as the lender for its customers and then provide WRSM with information and/or verifications that should have come from the borrower or disinterested third parties. PARRIS then approved the hiring of loan processors for PHG Burlington and later PHG Asheboro.

- h. On numerous occasions between January 2008 and June 2008, PARRIS instructed the Granite Falls loan processor to send lists of names to WRSM so that PHG would be reimbursed for the expenses of the loan processor.
- i. Between in or about February 2008 and in or about August 2008, in order to obtain an FHA Loan for PHG customers known to the grand jury as JS and CW, PARRIS, McKEOWN, McCuen and/or persons acting under their supervision did or directed the following acts, knowing that WRSM would submit information obtained in this FHA Loan to FHA for insurance and to investors who might purchase JS and CW's loan:
 - i. Used PHG advertisements for homes at \$500 a month to induce JS and CW to travel to PHG Asheboro, at which point McKEOWN or a PHG employee acting under his supervision advised JS And CW that their payment would be about \$600 or "something" a month, even though their payment was ultimately substantially more;
 - ii. Caused JS and CW to attend two different closings, each time paying \$500 to McKEOWN, even though the total of \$1000 in two \$500 payments is not accounted for on a settlement statement; and
 - iii. Submitted letters of explanation of credit and a budget letter to WRSM, knowing that JS and CW did not prepare, nor were they aware of, the letters, which identified a non-existent insurance claim and which did not budget or account for a liability in the form of a monthly vehicle payment of approximately \$536.
- j. Between on or about July 24, 2008, and on or about July 31, 2008, in order to obtain an FHA loan through CTX for PHG customers known to the Grand Jury as CB and MB, SPARROW and certain PHG officers and employees directed, approved and/or caused the following acts:
 - i. Misrepresented to CB and MB that the home being sold to them was a previously unoccupied "spec" home, knowing the home was previously

- occupied, foreclosed, and then purchased by PHG or SPARROW as a foreclosure prior to its sale to CB and MB;
- ii. Agreed to pay certain of the borrowers' creditors as an inducement for the borrowers' agreement to purchase a PHG home;
 - iii. Inflated the appraised value of the home being sold to CB and MB;
 - iv. Instructed the settlement agent to disburse a check at closing to "Tile Works," for work purportedly done on the home to be purchased by CB and MB, knowing that Tile Works had performed no such work and the check was a disguised reimbursement for funds on behalf of the borrower;
 - v. Caused a PHG salesperson to sign a HUD-1 stating that the information on it was true and accurate, knowing that the payment to Tile Works was not for work related to the home purchased by CB and MB; and
 - vi. Accepted checks from Tile Works payable to CB's and MB's creditors, which Tile Works had agreed to write in exchange for a fee.
- k. On or about July 26, 2008, in order to obtain an FHA Loan for PHG Burlington customers known to the Grand Jury as JM and FM—SPARROW and PARRIS directed, approved and/or caused the following acts:
- i. SPARROW raised the purchase price of the home to allow JM and FM to receive \$5,000 from FHA loan proceeds to pay off a car loan;
 - ii. Because FHA does not permit borrowers to obtain cash from loan proceeds, SPARROW and PARRIS caused Eagle's Nest to issue a fictitious invoice to PHG for \$15,000 to be paid at closing;
 - iii. After closing, SPARROW gave JM and FM a check in the amount of \$5,000 which they used to pay off the car loan; and
 - iv. WRSM originated the loan to JM and FM from its Myrtle Beach, South Carolina office, but the closing package was generated in WRSM's Charlotte, North Carolina offices.
- l. On or about September 15 and 16, 2008, VINSON learned that a HUD representative would be visiting WRSM's Asheville office and instructed McCuen to remove, alter and destroy records pertinent to a HUD investigation or audit and to mislead HUD's representative with respect to the true disposition of such records.
- m. On September 16, 2008, PARRIS told Bailey about the HUD investigation and stated that all documents unrelated to PHG's sales contract should be "gone."

Thereafter, Bailey purged, removed and destroyed documents relating to mortgage financing from files located at PHG Granite Falls.

- n. Between on or about February 11, 2009 and on or about April 2, 2009, in order to obtain a USDA Loan for PHG customer AP, Klakulak and McKEOWN and/or persons acting under their supervision did or directed the following acts, knowing that Prospect would submit such false information to FHA for insurance and to investors who might purchase AP's loan:
 - i. Caused PHG to select a certain appraiser who inflated the market value of the property by a significant amount; and
 - ii. Submitted a Form RD 1980-21 to Prospect and USDA certifying that Klakulak or other Prospect employees had independently verified and collected borrower's information from disinterested third parties, whereas Klakulak and McKEOWN then well knew that McKEOWN and/or other PHG employees had provided the information needed to qualify AP for a USDA mortgage loan.
- o. Between on or about April 30, 2009 and on or about August 27, 2009, in order to obtain a USDA Loan for PHG customer SH, Klakulak and McKEOWN and/or persons acting under their supervision did or directed the following acts, knowing that AmericaHomeKey would submit such information to USDA for insurance and to investors who might purchase SH's loan:
 - i. Used PHG advertisements for homes at \$500 a month to induce SH to travel to PHG Asheboro, at which point McKEOWN or a PHG employee acting under his supervision advised SH that her payment would be about \$800, even though her payment was ultimately substantially more;
 - ii. Willingly omitted from SH's URLA her spouse's income, knowing that the disclosure of this income might disqualify SH from obtaining a USDA loan;
 - iii. Submitted information regarding a fictitious and/or "repaired" credit history from McKEOWN and/or other PHG employee—which information he or an AmericaHomeKey employee did not independently verify with SH or any disinterested third party;
 - iv. Submitted a Form RD 1980-21 to AmericaHomeKey and USDA certifying that Klakulak or other AmericaHomeKey employees had independently verified and collected borrower's information from disinterested third parties, whereas Klakulak and McKEOWN then well knew that McKEOWN and/or other PHG employees had provided the information needed to qualify SH for a USDA loan; and

- v. Accepted a \$500 down payment from SH and signed a HUD-1 that did not give SH credit on the HUD-1 for this payment.
- p. On or about July 22, 2009, in order to obtain a USDA loan for PHG Burlington customers known to the Grand Jury as MC and TS—PARRIS, SPARROW, RA and certain PHG officers directed, approved and/or caused the following acts:
 - i. When PHG raised the purchase price quoted to MC and TS by \$10,000, SPARROW proposed that PHG add another \$10,000 to the price of the home in order to provide the borrowers with \$10,000 cash from loan proceeds to pay off debt;
 - ii. When the lender would not allow MC and TS to receive cash from the loan proceeds, PARRIS suggested to SPARROW that a relative of MC and TS make a “fake” \$10,000 loan to the couple—falsely stating that the amount was for “land improvements;”
 - iii. SPARROW relayed PARRIS’ suggestion regarding a relative’s false loan to MC and TS, who agreed to approach a relative; and
 - iv. When the relative refused to participate in mortgage fraud, PARRIS, SPARROW, RA and certain PHG officers devised a plan whereby Saint Valentines placed a fictitious second lien against the property PHG sold to MC and TS in the amount of \$10,550, which lien appeared on the HUD-1 and was paid at closing. The closing attorney deposited the closing check payable to Saint Valentines into her trust account and wrote another check payable to the borrowers in the amount of \$10,000.
- q. Between on or about August 28, 2009, and on or about October 30, 2009, in order to obtain a USDA Loan for PHG customer KL, McKEOWN, Klakulak and/or persons acting under their supervision did or directed the following acts, knowing that AmericaHomeKey would submit such information to USDA for insurance and to investors who might purchase KL’s loan:
 - i. Knowingly omitted from KL’s URLA her spouse’s monthly income, knowing that the disclosure of this income might disqualify KL from obtaining a USDA mortgage;
 - ii. Caused PHG to select the appraiser who inflated the market value of the property;
 - iii. Submitted a URLA to AmericaHomeKey and USDA stating that he met with borrower “face-to-face” to obtain KL’s information whereas he knew that McKEOWN and/or other PHG employees had provided the information needed to qualify KL for a USDA loan; and

- iv. Submitted a Form RD 1980-21 to AmericaHomeKey and USDA certifying that he or other AmericaHomeKey employees had independently verified and collected borrower's information from disinterested third parties, then well knowing that McKEOWN and/or other PHG employees had provided the information needed to qualify KL for a USDA loan.
- r. Between on or about October 28, 2009 and on or about January 28, 2010, in order to obtain a USDA Loan for PHG customer CR, McKEOWN, Klakulak and/or persons acting under their supervision did or directed the following acts, knowing that AmericaHomeKey would submit such information to USDA for insurance and to investors who might purchase CR's loan:
 - i. Used PHG advertisements for homes at \$500 a month to induce CR to travel to PHG Asheboro, at which point McKEOWN or a PHG employee acting under his supervision advised CR that her payment would be about \$ 600, even though her payment was ultimately substantially more;
 - ii. Willingly omitted from CR's URLA her spouse's income, knowing that the disclosure of this income might disqualify CR from obtaining a USDA loan;
 - iii. Created or caused to be created a fictitious letter of explanation regarding joint income tax returns—which information Klakulak or another AmericaHomeKey employee did not independently verify with CR or any disinterested third party;
 - iv. Created or caused to be created a fictitious letter of explanation from CR's spouse's unemployment—which information Klakulak or another AmericaHomeKey employee did not independently verify with CR or any disinterested third party;
 - v. Created or caused to be created a fictitious letter of explanation from CR explaining why she had multiple loan entries on USDA's GUS system—knowing that no explanation or a truthful explanation of these entries might disqualify CR from obtaining a USDA loan;
 - vi. Submitted a URLA to AmericaHomeKey and USDA stating that Klakulak met with the borrower "face-to-face" to obtain her information whereas he then well knew that McKEOWN and/or another PHG employee had provided the information needed to qualify CR for a USDA loan;
 - vii. Submitted a Form RD 1980-21 to AmericaHomeKey and USDA certifying that Klakulak or other AmericaHomeKey employees had independently verified and collected the borrower's information from disinterested third parties, then well knowing that McKEOWN and/or another PHG employee had provided the information needed to qualify CR for a USDA loan; and

- viii. Accepted a \$500 down payment from CR and signed a HUD-1 that did not give CR credit on the HUD-1 for this payment..

All in violation of Title 18, United States Code, Section 371.

COUNT TWO

Violation: 18 U.S.C. §§ 1349, 1343
(Wire Fraud Conspiracy)

41. Paragraphs 1 through 36 of the Introduction to this Superseding Bill of Indictment are hereby realleged and incorporated by reference into Count Two.
42. Beginning on or about April 1, 2005 and continuing through on or about October 31, 2010, in Caldwell, Burke, Buncombe and Mecklenburg Counties, within the Western District of North Carolina, and elsewhere, the defendants

(1) DENNIS WAYNE PARRIS,
(2) FABIAN DAVID SPARROW,
(3) ANDREW B. McKEOWN, and
(4) ISSAC A. VINSON, IV,
a/k/a "Ike Vinson"

conspired, combined, confederated and agreed with each other, and with Bailey, certain PHG salespersons, employees and corporate officers; McCuen, Klakulak, RA and certain loan officers, processors, brokers, real estate appraisers and mortgage companies; and other persons known and unknown to the defendants, to devise the scheme and artifice to defraud consumers and mortgage lenders as described in the Introductory paragraphs of this Superseding Bill of Indictment and to obtain money, funds and credits by materially false and fraudulent pretenses representations and promises.

MANNER AND MEANS

43. It was part of the scheme and artifice to defraud and to obtain money, funds and credits from consumers and mortgage lenders by means of materially false and fraudulent pretenses, representations and promises that the Defendants and their co-conspirators would transmit and cause to be transmitted wire communications in interstate commerce as described in paragraphs 1 through 36 of the Introduction and Count One of this Superseding Bill of Indictment, said signals and sounds having been transmitted for the purpose of executing said scheme and artifice.

44. It was also part of the conspiracy that the scheme and artifice affected financial institutions, including federally insured financial institutions who purchased the fraudulently originated mortgage loans in the secondary market

All in violation of Title 18, United States Code, Sections 1349 and 1343.

COUNT THREE

Violation: 18 U.S.C. §§ 1519 (Destroying Documents in an Investigation) and 2 (Aiding and Abetting).

45. Paragraphs 1 through 36 of the Introduction to this Indictment and Counts One through Two are re-alleged and incorporated by reference into Count Three.
46. On or about September 16 and 17, 2008, in Caldwell, Buncombe and Mecklenburg Counties, within the Western District of North Carolina, and elsewhere, the defendants,

(1) DENNIS WAYNE PARRIS,
(2) FABIAN DAVID SPARROW, and
(4) ISSAC A. VINSON, IV,
a/k/a "Ike Vinson"

aided and abetted by each other and Bailey and McCuen, and others known and unknown to the Grand Jury, did alter, destroy and mutilate records and documents and attempt to alter, destroy and mutilate records and documents in PHG files with the intent to impede, obstruct, and influence the investigation and proper administration of the FHA loan guarantee program, a matter the defendants knew and contemplated was within the jurisdiction of HUD, a department and agency of the United States.

All in violation of Title 18, United States Code, Sections 1519 and 2.

NOTICE OF FORFEITURE AND FINDING OF PROBABLE CAUSE

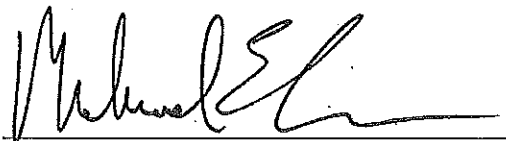
47. Notice is hereby given of 18 U.S.C. § 982 and 28 U.S.C. § 2461(c). Under Section 2461(c), criminal forfeiture is applicable to any offenses for which forfeiture is authorized by any other statute, including but not limited to 18 U.S.C. § 981 and all specified unlawful activities listed or referenced in 18 U.S.C. § 1956(c)(7), which are incorporated as to proceeds by Section 981(a)(1)(C). The following property is subject to forfeiture in accordance with Section 982 and/or 2461(c):
- a. All property which constitutes or is derived from proceeds of the violations set forth in this Superseding Bill of Indictment; and

- b. If, as set forth in 21 U.S.C. § 853(p), any property described in (a) cannot be located upon the exercise of due diligence, has been transferred or sold to, or deposited with, a third party, has been placed beyond the jurisdiction of the court, has been substantially diminished in value, or has been commingled with other property which cannot be divided without difficulty, all other property of the defendant/s to the extent of the value of the property described in (a).
48. The Grand Jury finds probable cause to believe that the following property is subject to forfeiture on one or more of the grounds stated above:
- a. A forfeiture money judgment in the amount of at least \$16 million, such amount constituting the proceeds of the violations set forth in this Superseding Bill of Indictment;
 - b. The real property at 17 Birkdale Way, Pinehurst, North Carolina, more particularly described in a deed recorded at Moore County Register of Deeds, Book 1524, Page 149; and
 - c. All assets in Scottrade Account XXX9901, such account held in the name of Dennis W. Parris.

A TRUE BILL

GRAND JURY FOREMAN

ANNE M. TOMPKINS
UNITED STATES ATTORNEY



Michael E. Savage
Benjamin Bain-Creed
Assistant United States Attorneys