



IN THE UNITED STATES DISTRICT COURT FOR THE  
EASTERN DISTRICT OF VIRGINIA

Alexandria Division

UNITED STATES OF AMERICA	)	CRIMINAL NO. 1:13-CR-366(CMH)
	)	
v.	)	Count 1: 18 U.S.C. §1349
	)	(Conspiracy to Commit Wire Fraud
	)	Affecting a Financial Institution)
MICHAEL STEPHEN KRAUSE,	)	
	)	Counts 2-3: 18 U.S.C. §1343
Defendant.	)	(Wire Fraud Affecting a Financial
	)	Institution)
	)	
	)	Forfeiture Notice

**INDICTMENT**

September 2013 Term - At Alexandria

**INTRODUCTION**

THE GRAND JURY CHARGES THAT:

At times material to this indictment:

1. Purchasers of homes typically financed their purchases by submitting loan applications to lending institutions to obtain mortgages. Loan applications required borrowers to truthfully disclose information such as employment, income, assets, monthly expenses, the source and amount of the borrower's down payment and settlement charges, and whether the home being purchased would be the borrower's primary residence, secondary residence, or an investment property.
2. Escrow agents, also known as settlement or closing agents, oversaw the settlement of real estate transactions, commonly referred to as settlements or closings. An escrow agent was

responsible for receiving and holding in trust, typically in a federally-insured financial institution, mortgage loan proceeds from the lending institution, and disbursing funds only to those individuals and entities who are entitled to receive payments from the mortgage loan proceeds. At the closing of escrow, the escrow agent was required to complete and distribute to all parties a Settlement Statement (HUD-1) which truthfully and accurately listed the final payments disbursed from the mortgage loan proceeds for items such as taxes, release of lien holders, broker and realtor commissions, insurance, and title and escrow fees. Prior to the closing of escrow, the escrow agent was required to prepare an estimated HUD-1 and provide it to the lending institution. Funds were not permitted to be disbursed at the close of escrow until the lender approved the payments as listed in the estimated HUD-1.

3. SunTrust Bank was a financial institution, the accounts of which were insured by the Federal Deposit Insurance Corporation, an agency of the United States established to protect depositors by insuring deposits in member banks. All mortgages originated by SunTrust Mortgage were funded by SunTrust Bank. Whenever SunTrust Mortgage originated a new mortgage loan, SunTrust Mortgage submitted a funding request to SunTrust Bank. After the funding request was submitted, SunTrust Bank transferred by wire the requested funds in interstate commerce to the escrow agent.

4. MICHAEL KRAUSE ("KRAUSE") worked at First Alliance Title, Incorporated ("First Alliance"), located in Annandale, Virginia. KRAUSE worked with his aunt, co-conspirator A. M., who was the owner and settlement agent at First Alliance. KRAUSE and A.M. also provided settlement services through K&M Title and Escrow, Incorporated ("K&M Title"), located in Annandale, Virginia, which they owned and operated as partners. First

Alliance maintained an escrow account at Commerce Bank located in Fairfax, Virginia.

5. KRAUSE purchased the real property located at 3308 Clayborne Avenue, in Alexandria, Virginia, on or about March 24, 2006 for \$810,000. KRAUSE financed the transaction with two mortgage loans funded by Bear Stearns Residential Mortgage in the amounts of \$648,000 and \$162,000.

6. On or around November 15, 2006, KRAUSE refinanced 3308 Clayborne Avenue with two loans that were originated by SunTrust Mortgage in the amounts of \$676,800 and \$125,000. The refinancing settlement was conducted by A.M. at First Alliance. SunTrust Bank funded KRAUSE's loans by wire transfer into First Alliance's escrow account on or about November 20, 2006.

7. In conducting the closing of KRAUSE's refinance, A.M. failed to pay off the Bear Stearns loans that KRAUSE had obtained when he purchased 3308 Clayborne Avenue. Instead, a series of unauthorized disbursements were made from First Alliance's escrow account into the personal bank accounts of KRAUSE and A.M and to other unauthorized third parties. Those unauthorized disbursements totaled approximately \$789,000.

8. The above introductory allegations are re-alleged and incorporated in each count of this Indictment as if fully set forth in each count.

COUNT 1

(Conspiracy to Commit Wire Fraud Affecting a Financial Institution)

THE GRAND JURY FURTHER CHARGES THAT:

9. Beginning in or about November 2006, and continuing through in on or about January 2007, in the Eastern District of Virginia and elsewhere, defendant MICHAEL STEPHEN KRAUSE and coconspirator A.M. did knowingly and intentionally combine, conspire, confederate and agree with each other and with others known and unknown to the Grand Jury, to commit a certain offense against the United States; namely, knowingly to devise and intend to devise a scheme and artifice, affecting a financial institution, to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, and for the purpose of executing the scheme and artifice to defraud, knowingly to transmit and cause to be transmitted by means of wire communications in interstate commerce, certain writings, signs, signals and sounds, in violation of Title 18, United States Code, Section 1343.

Manner and Means of the Conspiracy

It was a part of the conspiracy that:

10. KRAUSE submitted and caused to be submitted to SunTrust Mortgage two Uniform Residential Loan Applications, dated November 15, 2006, for loan number XXXXXX7614, in the amount of \$676,800, and loan number XXXXXX7788, in the amount of \$125,000. On both applications, KRAUSE represented that 3308 Clayborne Avenue was his primary residence, and that he would be providing funds at closing of approximately \$22,000.

11. A.M. prepared and submitted and caused to be submitted to SunTrust Mortgage HUD-1 settlement statements, dated November 15, 2006, for loans number

XXXXXX7614 and XXXXXX7788. The HUD-1 statement for loan number XXXXXX7614 represented that KRAUSE had provided at closing a check in the amount of \$21,960.78.

12. KRAUSE executed check number 1025, dated November 15, 2006, in the amount of \$21,960.78, drawn on his checking account at Commerce Bank, as part of the closing for loans number XXXXXX7614 and XXXXXX7788. KRAUSE's check number 1025 was never negotiated or paid out of KRAUSE's checking account.

13. On or about November 20, 2006, SunTrust Mortgage approved KRAUSE's refinancing and caused funds totaling approximately \$794,000 to be transferred by wire into First Alliance's escrow account at Commerce Bank.

14. On multiple occasions between on or about November 20, 2006 and January 16, 2007, funds representing the proceeds of KRAUSE's refinancing were withdrawn from the First Alliance escrow account and used for unauthorized purposes in violation of the SunTrust Mortgage closing instructions and the approved HUD-1. For example, KRAUSE received approximately \$148,766 into his personal checking account, A.M. received approximately \$174,000 into her personal checking account, and multiple unauthorized disbursements totaling approximately \$466,289 were also made to third parties from the First Alliance escrow account, in violation of the SunTrust Mortgage closing instructions and the approved HUD-1.

(In violation of Title 18, United States Code, Section 1349)

COUNT 2

(Wire Fraud Affecting a Financial Institution)

THE GRAND JURY FURTHER CHARGES THAT:

15. Beginning in or about November 2006, and continuing through in on or about January 2007, in the Eastern District of Virginia and elsewhere, defendant MICHAEL KRAUSE and coconspirator A.M. did knowingly devise and intend to devise a scheme and artifice, affecting a financial institution, to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, and for the purpose of executing the scheme and artifice to defraud, knowingly transmitted and caused to be transmitted by means of wire communications in interstate commerce, certain writings, signs, signals and sounds.

Scheme and Artifice to Defraud

16. The scheme and artifice to defraud is described in paragraphs 10 through 14 of Count 1 of this indictment, which paragraphs are re-alleged and incorporated in this count as if fully set forth.

Use of Interstate Wire Communications

17. On or about November 20, 2006, in the Eastern District of Virginia and elsewhere, defendant KRAUSE and co-conspirator A.M., for the purpose of executing the scheme and artifice to defraud, knowingly and willfully caused SunTrust Bank to wire transfer \$620,269.25 from Atlanta, Georgia to First Alliance Title's escrow account at Commerce Bank in Fairfax, Virginia.

(In violation of Title 18, United States Code, Sections 1343 and 2)

COUNT 3

(Wire Fraud Affecting a Financial Institution)

THE GRAND JURY FURTHER CHARGES THAT:

18. Beginning in or about November 2006, and continuing through in on or about January 2007, in the Eastern District of Virginia and elsewhere, defendant MICHAEL KRAUSE and coconspirator A.M. did knowingly devise and intend to devise a scheme and artifice, affecting a financial institution, to defraud and to obtain money and property by means of materially false and fraudulent pretenses, representations, and promises, and for the purpose of executing the scheme and artifice to defraud, knowingly transmitted and caused to be transmitted by means of wire communications in interstate commerce, certain writings, signs, signals and sounds.

Scheme and Artifice to Defraud

19. The scheme and artifice to defraud is described in paragraphs 10 through 14 of Count 1 of this indictment, which paragraphs are re-alleged and incorporated in this count as if fully set forth.

Use of Interstate Wire Communications

20. On or about November 20, 2006, in the Eastern District of Virginia and elsewhere, defendant KRAUSE and co-conspirator A.M., for the purpose of executing the scheme and artifice to defraud, knowingly and willfully caused SunTrust Bank to wire transfer \$124,202.51 from Atlanta, Georgia to First Alliance Title's escrow account at Commerce Bank in Farifax, Virginia.

(In violation of Title 18, United States Code, Sections 1343 and 2)

FORFEITURE NOTICE

Pursuant to Federal Rule of Criminal Procedure 32.2(a), the defendant is hereby notified that, if convicted of the violations of 18 U.S.C. §§ 1349 and 1343 alleged in this Indictment, he shall forfeit to the United States, pursuant to 18 U.S.C. § 982(a)(2)(A), any property constituting, or derived from, proceeds the person obtained directly or indirectly, as the result of such violations, including, but not limited to, a sum of money equal to at least \$789,000 in United States currency, representing the amount of proceeds obtained as a result of the charged violations.

Pursuant to Title 21, United States Code, Section 853(p), as incorporated by 18 U.S.C. § 982(b), the defendant shall forfeit substitute property, up to the value of \$789,000 if, by any act or omission of the defendant, the property directly derived from the charged violations cannot be located upon the exercise of due diligence; has been transferred, 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.

(In accordance with Title 18, United States Code, Section 982(a)(2)(A) and Rule 32.2(a), Federal Rules of Criminal Procedure.)

A TRUE BILL: Pursuant to the E-Government Act,  
the original of this page has been filed  
under seal in the Clerk's Office.

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FOREPERSON

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Acting United States Attorney

By:

  
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