



United States Department of Justice  
United States Attorney's Office  
District of Minnesota



## News Release

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### **Two Bloomington residents indicted in mortgage fraud scam**

MINNEAPOLIS—Two Bloomington residents have been indicted in U.S. District Court for allegedly defrauding financial institutions and homeowners under the guise of a program to rescue homes from foreclosure. Richard Scott Spady, age 38, and Michele Denise Sengstock, age 48, were charged with one count of conspiracy to commit wire and mail fraud, one count of wire fraud, one count of mail fraud, and one count of money laundering. Yesterday, both defendants made their initial appearances in federal court.

The indictment alleges that the scheme occurred between 2005 and October of 2007. Allegedly, Spady identified homeowners facing mortgage foreclosure or already in foreclosure proceedings and then counseled them that Unified Home Solutions (“UHS”), a purported non-profit business he owned, could help them. Through UHS, he then purportedly found third parties to purchase the homes, telling the original homeowners that the homes would be sold back to them after one or two years. During that time, the original homeowners were to regain their financial footing.

At the time the transactions were closed, checks were issued to the original homeowners for the proceeds of the sale minus the outstanding mortgage loan. However, those homeowners were then allegedly instructed to sign over the proceeds checks to the buyers. If they refused to do so, they were not allowed to take part in the program and remain in their homes. Once the proceeds—the homeowners’ equity—had been paid over to the buyers, a “risk fee” was paid to the buyers with the rest divided between the buyers and UHS. The buyers allegedly used the money to repay their down payments and to make monthly mortgage payments. The scheme purportedly stripped the original homeowners of the equity they had earned in the property.

Spady allegedly misled the original homeowners as to the likelihood of them regaining ownership of their properties. In fact, only six percent of the homeowners who used the UHS program were able to repurchase their homes. In addition, Spady and his associates allegedly concealed material information from lenders who financed the third-party purchases. Through Spady's company, Spady provided false information to those lenders about the third parties' financial circumstances and routinely arranged to provide down-payments for them without informing the lenders of that action. Spady also allegedly concealed from lenders the payments flowing to UHS and the third parties from the sale proceeds.

According to the indictment, Spady and Sengstock, who was one of the third parties who purchased properties, also made it more difficult for original homeowners to buy back their homes. The two are alleged to have borrowed additional funds against the properties and to have filed liens in favor of MLAA Holdings, Sengstock's company, against at least one of homes involved in the UHS program. In total, the indictment states, lenders and original homeowners were defrauded out of more than \$ 8 million.

If convicted, the defendants face a potential maximum penalty of 20 years in prison on the conspiracy, wire fraud, and mail fraud counts and ten years for money laundering. All sentences will be determined by a federal district court judge. This case is the result of an investigation by the United States Postal Inspection Service and the Internal Revenue Service-Criminal Investigation Division. It is being prosecuted by Assistant U.S. Attorney Robert M. Lewis.

This law enforcement action is in part sponsored by the interagency Financial Fraud Enforcement Task Force. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. It includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and, with state and local partners, investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

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*An indictment is a determination by a grand jury that there is probable cause to believe that offenses have been committed by a defendant. A defendant, of course, is presumed innocent until he or she pleads guilty or is proven guilty at trial.*