



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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Media Inquiries: 202-927-8940

Twitter: @SIGTARP

Web: www.SIGTARP.gov

OFFICERS OF ARIZONA MORTGAGE ORIGINATOR SENTENCED FOR \$28 MILLION FRAUD CONSPIRACY AGAINST TARP RECIPIENT BNC NATIONAL BANK

WASHINGTON, DC – Christy Romero, Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Acting Assistant Attorney General Mythili Raman 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 that on Friday, Scott N. Powers, the former CEO of Arizona-based mortgage loan originator American Mortgage Specialists Inc. (AMS), and David McMaster, a former officer of AMS, were sentenced to serve 96 and 188 months in prison, respectively, for their roles in a \$28 million scheme to defraud North Dakota-based BNC National Bank (BNC).

Powers and McMaster were sentenced by U.S. District Judge Daniel L. Hovland in the District of North Dakota. In addition to their prison terms, Powers and McMaster were each ordered to pay a money judgment to the government of approximately \$28,564,470 and also to pay restitution to BNC bank in that same amount.

Powers and McMaster pleaded guilty on Oct. 19, 2012, to conspiracy to commit bank fraud and wire fraud affecting a financial institution.

“Powers and McMaster will have significant time in prison to think about how the fraud scheme they orchestrated for their mortgage business AMS left TARP recipient BNC National Bank with \$28 million in losses and expenses and unable to repay TARP or make its TARP dividend payments for three years,” said Christy Romero, Special Inspector General for TARP (SIGTARP). “BNC funded new mortgage loans by AMS and was supposed to be repaid when AMS sold the loans. However, AMS had a giant, multi-million dollar hole on its books and looked to BNC to fill that hole with more and more money by lying to BNC about the sale of loans. American taxpayers invested \$20 million of TARP funds in BNC to stabilize the bank, not to provide an opportunity to fund crime. SIGTARP and our law enforcement partners will bring to justice and hold accountable those who look at TARP as an opportunity to finance criminal activity.”

According to court documents, Powers and McMaster conspired from October 2007 to April 2010 to defraud BNC by making false representations regarding the financial and operational condition of AMS in order to obtain funding from BNC and personal benefits for themselves. Using funds provided by BNC under a participation agreement, AMS made residential real estate mortgage loans to borrowers and then sold the loans to banks and other lenders. As part of their fraud, Powers and McMaster caused AMS to inflate the dollar amount of the sales and to delay sending email notifications to BNC when specific loans were sold, and then used funds from newly sold loans to make payments on the earlier-

sold loans. Powers and McMaster also caused false financial information about AMS to be sent to BNC, overstating AMS's cash-on-hand and disguising delinquent tax payments being made to the Internal Revenue Service as marketing and advertising expenses.

BNC was a national bank with headquarters in Bismarck, N.D., and offices in several states, including Arizona. The bank was a member of the Federal Home Loan Bank of Des Moines, one of 12 regional banks established by Congress to support mortgage lending. BNC's holding company received approximately \$20 million in federal funds from TARP, and the holding company injected approximately \$18 million of the TARP funds into BNC.

The fraud resulted in a loss of over \$28 million to BNC. As a result of the loss, BNC had to sell off some of its assets and the bank was unable to make its required dividend payments to TARP for three years on approximately \$17 million the bank had received from TARP.

Lauretta Horton, the former Director of Accounting for AMS, and David Kaufman, the external auditor for AMS, were previously sentenced for offenses related to the fraud.

The investigation was conducted by agents of SIGTARP and FHFA-OIG. 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 Attorneys Ann Marie Blaylock and Darrin McCullough 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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