

Mr. House's Testimony before the Senate Banking Committee Hearing at the Senate Hearing on Charity Oversight and Reform June 22, 2004:

The CHAIRMAN. Now we go to ``Mr. House.``

STATEMENT OF ``MR. HOUSE,`` A CONFIDENTIAL WITNESS, TO DISCUSS EXPLOITATION OF CHARITABLE ASSETS FOR PRIVATE GAIN

Mr. HOUSE. Mr. Chairman and Senators, thank you very much for inviting me to testify today. I am a licensed financial professional with over 23 years of experience, and I have been in a prime position to witness a nonprofit run amuck. I will talk about how a seemingly good idea gets twisted and perverted in the hands of the wrong individuals. The story involves fraud, deception, waste, and abuse, all cloaked in the shroud of a nonprofit organization.

The organization I am speaking about is AmeriDream, Inc., a public charity and the largest home purchase, down-payment assistance nonprofit in America. I should make it clear before I begin that my story is about AmeriDream as it was 18 or so months ago. Things have changed at this organization for the better. It is a much different and a much better organization than the one I will describe today.

My testimony will focus on two key individuals, the foundations of AmeriDream, who I will call Mr. Red and Mr. White, both who made millions from the charity they controlled.

First, though, let me begin by describing what AmeriDream does. AmeriDream provides down-payment gifts to low and moderate income families who cannot save enough money to provide the downpayment themselves. In the simplest of terms, the gift program works like this. A home seller has a buyer who has sufficient earnings to pay a monthly mortgage payment. For whatever reason, though, the buyer cannot scrape together enough money for a down-payment, and the home seller, through their real estate agent or potential mortgage lender, enrolls the property in the AmeriDream gift program. In turn, AmeriDream provides a down-payment to the buyer of up to 3 percent and receives a 3.75 percent ``fee`` in return from the home seller.

HUD requires that the home seller not give the buyer the downpayment directly. In order for HUD to insure the buyer's mortgage loan, HUD regulations require a 501(c)(3) organization to act as a go between for the buyer and the seller. On the face of the transaction, everyone is a winner. The home

seller sold his home, the buyer is now a new homeowner, the real estate agent receives a commission, and the mortgage lender loans their money and receives ``points.``

Let me give you a typical example. Joe has a house he wants to sell that should sell for \$100,000. The selling agent knows about AmeriDream. The seller finds a buyer, Mary, who does not have the funds for a down-payment, but can make the monthly payments. Then Joe's house is enrolled in the AmeriDream program. It is enrolled as the transaction goes forward. The price is then massaged to \$103,750, or alternatively it is set for \$103,750 initially with an eye to the AmeriDream program and the fact that the \$100,000 will ultimately be the amount going to Joe as money back. The reason for this is, as part of enrolling, Joe needs to pay AmeriDream 3.75 percent, or \$3,750. So at the end of the day, Mary buys the \$100,000 home for \$103,750, and of the \$3,750, it all goes to AmeriDream, which then retains \$750 itself and reimburses itself the \$3,000 it paid the bank earlier for Mary's downpayment.

Now, let me talk to you about what the insiders, Mr. Red and Mr. White, did at AmeriDream to fleece the charity from revenues it got from this program, I estimate in the \$20 million range. The founders and board members of AmeriDream, Mr. Red and Mr. White, first set up, along with Mr. Blue, a marketing company called Synergistic Marketing, LLC, now a corporation located in Ohio. Mr. Red and Mr. White ensured that Synergistic Marketing received a contract from AmeriDream. Synergistic's contract was to market to real estate agents, brokers, and homebuilders.

According to AmeriDream's Form 99 in 2002, Synergistic was getting \$1 million a month, \$12 million for the year. Out of a million a month, approximately \$600,000 to \$700,000 would go to these three individuals, or \$6 or 7 million to those three for the year. The rest went to employees, salaries, and operating expenses at Synergistic. At the same time, Mr. Red and Mr. White were getting a salary of \$175,000 approximately per year from AmeriDream. This inside deal where they got millions more in outside contracts was at best approved by a rubber stamp board that was dominated by Mr. Red and Mr. White. This is only one example.

At a time when Mr. Red and Mr. White had a desire for more cash, they created a fake investment company, Valao Mortgage, and transferred \$4 million from AmeriDream to Valao. Mr. Red borrowed a million dollars from Valao through Avalar Properties,

LLC. Mr. White, through his business partner, also borrowed a million dollars.

I understand Mr. Red and Mr. White used part of this money to pay \$250,000 each to become percentage owners in the Playboy golf scramble. Mr. Red defaulted on his loan. In my limited time to speak, this gives you a general flavor of the situation at AmeriDream that I saw from the front row, where insiders took advantage of a weak and absent board to enrich themselves with the assets of the charity.

Let me end by noting that while the good news is that Mr. Red and Mr. White are no longer at AmeriDream, unfortunately, to my knowledge, there have been no actions taken against Mr. Red or Mr. White at either the State or Federal level.

Thank you, Mr. Chairman.

[The prepared statement of Mr. House appears in the appendix.]

The CHAIRMAN. Thank you very much.

We will have five minute rounds of questioning.

Mr. House, I understand that AmeriDream had a jet. Could you please explain?

Mr. HOUSE. Yes. AmeriDream had a jet, and it was Mr. Red and Mr. White who enjoyed it. Mr. Red wanted to buy a jet. He found one to purchase. But he and Mr. White could not have financed it by themselves, and had the chairman of the board of AmeriDream sign off on a statement that made AmeriDream effectively a cosigner of the loan. The jet was used almost exclusively by Mr. Red and Mr. White for personal pleasure, for example, using it to fly to Mexico for golfing. As a side note, the then-chairman of the board is a former fraternity brother of Mr. White and lives in Mr. White's basement. The then-board chairman was allowed to invest \$1 million of AmeriDream assets for which he received a monthly management fee of \$3,000 for managing these assets. It is not disclosed in the Form 990. He then lost over \$700,000 of the million dollars.

<http://finance.senate.gov/hearings/95482.pdf>

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