

NEWS

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Montclair Man Pleads Guilty to \$139 Million Scheme that Bankrupted New Jersey Mortgage Company

(More)

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NEWARK, N.J. – A Montclair man pleaded guilty today to mail and wire fraud and money laundering charges in connection with a \$139 million fraud scheme that bankrupted Pine Brook-based U.S. Mortgage Corp. and its subsidiary, CU National Mortgage, LLC, Acting U.S. Attorney Ralph J. Marra, Jr. announced.

Michael J. McGrath, Jr., 46, the former president and director of U.S. Mortgage, pleaded guilty before U.S. District Judge Katharine S. Hayden to one count of mail and wire fraud conspiracy, which carries a statutory maximum prison sentence of 20 years, and one count of money laundering conspiracy, which carries a statutory maximum prison sentence of 10 years.

Under his plea agreement, McGrath faces an actual sentencing range of between 150 and 240 months in federal prison. He also will have to pay restitution to the victims and has agreed to forfeit to the United States the contents of several bank and brokerage accounts and his interest in a Hoboken property. The plea agreement does not bind Judge Hayden, who must consult the advisory sentencing guidelines but has discretion in imposing a sentence within, above or below the determined guidelines range.

Judge Hayden scheduled sentencing for Oct. 1. Judge Hayden allowed McGrath to be released on a \$1 million secured bond and ordered home confinement with electronic monitoring until sentencing.

McGrath admitted that during January 2004 through Jan. 28, 2009, he conspired with several others to fraudulently sell loans belonging to various credit unions and use the proceeds to fund U.S. Mortgage's operations and his personal investments and investments he made on U.S. Mortgage's behalf. McGrath further admitted that the scheme started with the diversion of funds that should have been paid to various credit unions for mortgage loans they had made and authorized CU National to sell to Fannie Mae. McGrath explained that he began withholding these funds to help U.S. Mortgage address cash flow problems caused by losing investments in mortgage-backed securities he had made on the company's behalf.

McGrath further admitted that when U.S. Mortgage's financial condition continued deteriorating, he sold hundreds of mortgage loans to Fannie Mae without the knowledge and consent of the credit unions that owned the loans.

“This was truly a massive fraud, a giant shell game by McGrath,” said Marra. “McGrath deftly and fraudulently moved these mortgage assets around and sold them while the institutional owners had no idea they no longer held the assets. The goal was to prop up his own company, which instead sunk deeper into trouble as his scheme grew larger and ultimately collapsed.”

To accomplish the fraudulent loan sales, he executed documents assigning the loans from the credit unions to U.S. Mortgage in which he pretended to be an officer of the credit unions in question. He also caused subordinates at U.S. Mortgage to execute documents purporting to assign the loans from U.S. Mortgage to Fannie Mae. And he sold some of these loans a second time, to an institution based in New Jersey. All told, the scheme netted approximately \$139 million.

In addition, McGrath admitted that he took numerous steps to conceal the scheme. Those steps included: directing U.S. Mortgage's servicing manager to generate reports for the credit unions falsely stating that loans that had been sold to Fannie Mae were still in their portfolios; directing the servicing manager to modify data in U.S. Mortgage's servicing system; directing U.S. Mortgage's chief financial officer to pay off or make monthly payments to the credit unions for the fraudulently-sold loans; and causing the chief financial officer and another subordinate to falsify documents.

McGrath further admitted that he transferred some of the proceeds of the scheme to bank and brokerage accounts controlled by or benefitting him. McGrath stated that he used the transferred proceeds to invest in, among other things: 1 million shares of Fannie Mae common stock; millions of shares of common and preferred stock of a New Orleans-based company; and a Hoboken property. McGrath conceded that approximately \$13 million in funds that the government has frozen or seized to date were involved in, derived from or traceable to his offenses.

McGrath's guilty plea is the latest step in an investigation by the U.S. Postal Inspection Service, the IRS Criminal Investigations, the FBI and the U.S. Department of Housing and Urban Development Office of Inspector General (HUD-OIG) that became public on Jan. 27, 2009, when dozens of law enforcement agents executed a search warrant at U.S. Mortgage's and CU National's Pine Brook headquarters. Shortly after the search, McGrath indicated that he would take responsibility for the scheme. In the following weeks, U.S. Mortgage and CU National commenced bankruptcy proceedings.

Marra credited Postal Inspectors of the U.S. Postal Inspection Service, under the direction of Postal Inspector in Charge David L. Collins; Special Agents of the IRS Criminal Investigation Division, under the direction of Special Agent in Charge William P. Offord; Special Agents of the FBI, under the direction of Special Agent in Charge Weysan Dun; and Special Agents of the HUD-OIG, under the direction of Special Agent in Charge Rene Febles, for their vigorous investigation leading to this guilty plea. Marra also thanked the United States Postal Service Office of Inspector General for assisting the investigation.

The government is represented by Assistant U.S. Attorney Mark E. Coyne of the U.S. Attorney's Commercial Crimes Unit.

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Defense Counsel: Michael Critchley and John M. Vazquez, Roseland