



Department of Justice

NEWS RELEASE

For Immediate Distribution
April 2, 2009

Thomas P. O'Brien

United States Attorney
Central District of California

Thom Mrozek, Public Affairs Officer
(213) 894-6947
thom.mrozek@usdoj.gov
www.usdoj.gov/usao/cac

FORMER PRESIDENT OF INLAND EMPIRE MORTGAGE COMPANY FOUND GUILTY IN \$23 MILLION MORTGAGE FRAUD SCHEM

RIVERSIDE, CA—The former president of Mortgage One Corporation in Hesperia has been convicted of four federal charges related to a scheme to defraud the United Housing and Urban Development and private lenders by fraudulently obtaining federally insured loans and selling those notes to private lenders.

John Richard Varner, 55, of Hesperia, was found guilty late Wednesday of one count of conspiracy to defraud HUD, one count of bank fraud and two counts of subscriber returns. As a result of the convictions, Varner faces a maximum statutory sentence of 41 years in federal prison. Following the reading of the jury's verdicts after a new United States District Judge Virginia A. Phillips revoked Varner's bond and remanded him into custody after hearing from prosecutors that Varner is realistically facing more than 12 years in prison, and after learning that he remained in the real estate industry following his arrest in this case in 2007.

Varner becomes the fifteenth defendant convicted in a wide-ranging investigation into fraud related to HUD-backed mortgages. Varner was at the center of a scheme Mortgage One Corporation, which was based in Hesperia, and M-1 Capital Corporation, which was based in Riverside and Rancho Cucamonga. From 1997 until 2007, the companies were in the business of approving, funding and then selling home mortgage loans, typically obtaining mortgage insurance of the loans from the Federal Housing Administration within HUD. Mortgage One and M-1 Capital obtained FHA mortgage insurance for their loans without HUD review due to their status as HUD-approved Direct Lenders. They obtained and kept Direct Endorsement Lender status by submitting false documents, including bogus audits, to HUD.

Varner and his co-defendants defrauded HUD by submitting fraudulent loan application documents in order to qualify the loans for FHA insurance. The loans went to banks that did not meet the FHA requirements to qualify for the mortgages and/or were only "straw buyers." Mortgage One and M-1 Capital sold the funded loans to banks, such as First Bank, N.A. and Chase Manhattan Mortgage Corporation, using the same fraudulent documents. More than 1,000 of the 3,813 FHA-insured loans approved by Mortgage One went into foreclosure and, as a result, HUD and private lenders lost at least \$23 million.

Varner was found guilty of filing false tax returns for the years 1999 and 2000 when he failed to report income that he used for personal expenses such as a Corvette, and more than \$150,000 deposited into a personal investment account.

Varner is scheduled to be sentenced by Judge Phillips on June 15. The case is the result of an investigation by the Federal Bureau of Investigation, HUD's Office of Inspector General and the IRS-Criminal Investigation. The investigation received assistance from the Social Security Administration's Office of Inspector General.

CONTACT: Assistant United States Attorney Sheri Pym
(951) 276-6928
Assistant United States Attorney Charles J. Kovats Jr.
(951) 276-6924

[FBI Home Page](#)

[Los Angeles Home Page](#)

[LA Press Releases](#)

[Privacy](#)