



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

September 9, 2015

**MEMORANDUM NO:**  
2015-CF-1805

*Memorandum*

TO: Craig T. Clemmensen  
Director, Departmental Enforcement Center, CACB

*//signed//*

FROM: Kimberly Randall  
Director, Joint Civil Fraud Division, GAW

SUBJECT: Property Owner Debarred for Violating Federal Housing Administration  
Insurance Requirements for Multifamily Properties

<p>This report was revised on September 25, 2015, to make corrections to the recommendation. The correction does not require additional HUD action.</p>
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**INTRODUCTION**

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, assisted the U.S. Attorney's Office, Northern District of Illinois, in the investigation of Lakeview Sheridan, LLC, and Fremont Sheridan Properties. Lakeview Sheridan is a multifamily property located in Chicago, IL, and Fremont Sheridan was the management company for Lakeview Sheridan.

**BACKGROUND**

Under section 223(f) of the National Housing Act, HUD insured the mortgage on Lakeview Sheridan in May 2006 through its Federal Housing Administration (FHA) insurance program. Section 223(f) of the Act insures lenders against loss on mortgage defaults. The program allows HUD to insure long-term mortgages of up to 35 years. To participate in the program, Lakeview Sheridan was required to execute a regulatory agreement with HUD. The agreement required Lakeview Sheridan to use tenant rent payments only for payments on the HUD-insured mortgage or to pay for reasonable and necessary expenses and necessary repairs to the property. Payments

made from property rents for items other than those defined by the regulatory agreement could be paid only from surplus cash.<sup>1</sup>

Beginning about February 2008, Lakeview Sheridan defaulted on its HUD-insured mortgage. However, the property continued to collect tenant rents and generate income. At the time of default, the property did not have surplus cash.

### **RESULTS OF INVESTIGATION**

In June 2014, a former owner of Lakeview Sheridan pled guilty to equity skimming,<sup>2</sup> under 12 U.S.C. (United States Code) 1715z-19, and wire fraud,<sup>3</sup> under 18 U.S.C. 1343, for fraudulently diverting Lakeview Sheridan rents, assets, proceeds, and income. Specifically, from February 2008 through June 2009, the former owner violated HUD's regulatory agreement by using the property funds for a luxury car purchase, a personal PayPal account, and other expenses not related to the insured property in lieu of paying the HUD-insured mortgage.

In January 2015, the former owner was sentenced to 78 months incarceration and ordered to pay restitution of more than \$1.86 million to multiple entities, including \$543,214 to HUD. Our office recommended that HUD's Departmental Enforcement Center take administrative action against the former owner based on his guilty plea and the resulting sentence imposed by the U.S. District Court.

In April 2015, the Departmental Enforcement Center notified the former owner of his proposed debarment from future participation in procurement and nonprocurement transactions, as a participant or principal, with HUD and throughout the Executive Branch of the Federal Government. In July 2015, HUD affirmed the proposed debarment and notified the former owner that he had been debarred.

### **RECOMMENDATION**

We recommend that HUD's Departmental Enforcement Center

- 1A. Ensure that HUD completes the debarment process and appropriately notifies the property owner of the debarment decision.

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<sup>1</sup> Surplus cash is defined as the cash remaining after all necessary and reasonable expenses of the project have been paid or funds have been set aside for such payment. Specifically, the regulatory agreement defines surplus cash as any cash remaining after (1) the payment of all sums due under the terms of any mortgage, all amounts required for any reserve accounts, and all obligations of the project and (2) the segregation of an amount equal to the aggregate of all special funds required to be maintained by the project and the segregation of all tenant deposits held. Surplus cash is computed as of the end of an annual period.

<sup>2</sup> Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from an FHA-insured multifamily property for purposes other than to meet actual or necessary expenses.

<sup>3</sup> Wire fraud occurs when fraud is committed using means of electronic communication, such as telephones or computers.

HUD has implemented the recommendation and the final action will be recorded in HUD's Audit Resolution and Corrective Actions Tracking System; therefore, the recommendation is closed concurrently upon issuance of this memorandum.