



September 19, 2003

**Former mortgage company owners plead guilty to
check kiting scheme and tax fraud**

State regulators shut down Diversified Mortgage in 2000

Michael Marzocchi, and **Lorie Mercier**, former owners and principal officers of **Diversified Mortgage Company**, of East Greenwich, Rhode Island, and **Sunstate Mortgage Company**, of Daytona, Florida, pleaded guilty today to a multi-million dollar check-kiting scheme and federal tax fraud.

The Office of the United States Attorney, Kenneth W. Kaiser, Special Agent in Charge of the Federal Bureau of Investigation, and Joseph A. Galasso, Special Agent in Charge of the Internal Revenue Service, Criminal Investigations, jointly announced the guilty plea and a two-count information that was filed against Marzocchi and Mercier on September 4.

Marzocchi, 47, of 52 Harbor Lake Circle, Safety Harbor, Florida, and Mercier, 46, of 21 Brightside Avenue, Warwick, entered their guilty pleas today before U.S. District Court Judge Mary M. Lisi. Both are free on unsecured bond pending sentencing, which is scheduled for December 19.

Check kiting

Assistant U.S. Attorney Andrew J. Reich said at today's plea hearing that Marzocchi and Mercier defrauded Greenwood Credit Union, of Warwick, and First Union National Bank, of North Carolina, by engaging in an extensive check-kiting scheme in which mortgage company

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employees were directed to deposit worthless checks written against various Sunstate and Diversified bank accounts into other accounts held by the companies. Marzocchi and Mercier would then cause additional checks to be written against the accounts into which the deposits had been made, taking advantage of the artificially inflated account balances.

In this manner, Marzocchi and Mercier had employees make an intricate series of deposits over a six-month period, moving non-existent money among 19 company accounts at five banks, kiting checks for increasingly larger amounts as the scheme progressed and the amount that had to be covered increased. The scheme unraveled in October 2000, when Colonial Bank held up a deposit because a bank employee did not recognize the payor signature. As a result, checks totaling \$1,372,875 deposited in corporate accounts at Greenwood and First Union bounced.

Assistant U.S. Attorney Reich said that the vast majority of checks written against the company accounts were used to transfer funds from one corporate account to another, for no legitimate business reasons. Sunstate employees were instructed to separate deposits made each day, depositing some with an inside teller, some at a drive-up window, and others at different bank branches. The objective of the split deposits was to avoid a single, large deposit that may have caused a bank to place a hold on the funds until the checks cleared. Employees were also instructed to make deposits before 2:00 PM, so the accounts would be credited that day rather than the following day.

As a result of the check-kiting scheme, Greenwood Credit Union suffered a loss of \$308,073, and First Union National Bank lost \$1,064,802. After the account discrepancies were revealed, the Rhode Island Department of Business Regulation terminated Diversified's operations and placed the company under receivership.

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Withholding taxes

Reich said that Marzocchi and Mercier also defrauded the IRS by failing to report all the wages paid to company employees and failing to remit to the IRS appropriate amounts of employee withholding taxes, Social Security taxes and Medicare taxes. A review of the federal employment tax records of Diversified and Sunstate for 1999 and 2000 revealed that a total of \$522,318 in employment taxes were not reported or paid to the IRS.

Marzocchi and Mercier pleaded guilty to conspiracy to commit bank fraud and conspiracy to defraud the Internal Revenue Service. The statutory maximum penalty for each count of conspiracy is five years in federal prison and a fine of \$250,000 or twice the amount of gain or loss. The defendants' sentences will be determined on the basis of federal sentencing guidelines, which take into account such factors as the specific nature and impact of an offense and a defendant's criminal background, if any.

The **Federal Bureau of Investigation** and the **Internal Revenue Service, Criminal Investigations** investigated the case. Assistant U.S. Attorney Reich is prosecuting it.

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