



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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www.SIGTARP.gov

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3 ATTORNEYS CHARGED IN CALIFORNIA LOAN MODIFICATION SCAM

WASHINGTON, DC – The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and California Attorney General Kamala D. Harris today announced the arrests of the owners and managing attorney of a law firm that took thousands of dollars in up-front loan modification fees for services that were never performed for homeowners, many of whom ended up losing their homes.

Gregory Flahive of El Dorado Hills, 39; Cynthia Flahive of Folsom, 41; and Mike Johnson of Elk Grove, 42; were arrested today on 19 felony counts, including grand theft by false pretense, conspiracy, and false advertising. They were booked at the Sacramento County Jail with bail set at \$50,000 bail each.

"The Flahives and their co-conspirator are charged with being wolves in sheep's clothing," said Christy Romero, Deputy Special Inspector General for SIGTARP. "Through advertisements and a radio show, they allegedly targeted and later deceived homeowners by leading them to believe that, as attorneys, they would advocate on homeowners' behalf with their lenders and put homeowners in a position to obtain mortgage modifications under TARP's housing program, HAMP. Even though they took thousands of dollars for their services, the Flahives and their co-conspirator did little, if any, legal work, and the result was disastrous as trusting homeowners lost what little money they had left and, in some cases, lost their homes to foreclosure. SIGTARP and its law enforcement partners are shutting down mortgage modification fraud, and holding a degree in law will not be a sufficient defense against prosecution."

"Homeowners facing foreclosure are being targeted by predators, including those who use their law license to gain credibility and scam innocent Californians," Attorney General Harris said. "My office's Mortgage Fraud Strike Force is dedicated full-time to cracking down on these deceptive practices and protecting homeowners from fraud like this."

Gregory and Cynthia Flahive, ex-spouses and owners of Flahive Law Corporation, and Johnson, the firm's managing attorney, took up-front fees of up to \$2,500 from homeowners in Placer, Sacramento, Butte, and Yuba counties for loan modification services that were never performed. In California, it is illegal for foreclosure consultants to collect money for services before they are performed.

The Folsom-based law firm advertised their services on flyers, radio, and televised infomercials, offering to provide loan modification services and help clients with bankruptcy, IRS tax relief, and credit card modification.

In a 2010 infomercial, the Flahives said that, as a law firm, they had “extra leverage” with the banks. They described one of their unique services as a “mortgage violation audit” in which they reviewed a client’s loan documents to find bank violations that could be used as leverage to modify a client’s home loan.

In fact, the investigation revealed that, in some instances, the client’s lender had no record of contact with the Flahive Law Corporation.

Former clients of the Flahive Law Corporation filed complaints with the Attorney General’s office, as well as with the Better Business Bureau and the State Bar of California.

The State Bar of California launched an investigation, which was turned over to the Attorney General’s Mortgage Fraud Strike Force in summer 2011.

In one example of the firm’s deceptive practices, a victim who sought to lower his mortgage payments was told by Gregory Flahive to reject his lender’s offer of modification. The homeowner was told the Flahive Law Corporation could secure a better interest rate, reduce his principal, and possibly get his second mortgage eliminated. Four months later, the victim lost his home to foreclosure.

The investigation showed that the Flahive Law Corporation processed loan modifications for hundreds of Californians – and investigators believe there may be more victims in this case. If you are a former client of the Flahive Law Corporation, or if you want to report fraud or file a complaint, visit <http://oag.ca.gov/consumers/loan-modification> or call 1-800-952-5225.

Agencies that assisted in serving today’s search and arrest warrants include SIGTARP, the Folsom Police Department, the Rancho Cordova Police Department, and the El Dorado Sheriff’s Department.

In December, SIGTARP, the Consumer Financial Protection Bureau, and the U.S. Department of the Treasury established a taskforce to combat mortgage modification scams exploiting HAMP and to raise public awareness of the scams. The taskforce subsequently issued a Consumer Fraud Alert, which offers tips on how to identify and avoid mortgage modification scams. To view the Consumer Fraud Alert tip sheet, visit www.sig tarp.gov/pdf/Consumer_Fraud_Alert.pdf

Homeowners should be wary of any guarantee that a mortgage can be modified, particularly when that guarantee is extended in exchange for an upfront fee. Advice from federally-approved housing counselors is free, as are mortgage modifications under HAMP. For more information, visit www.makinghomeaffordable.gov.

This prosecution was brought in coordination with President Barack Obama’s Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. SIGTARP is a member of the task force. To learn more about the President’s Financial Fraud Enforcement Task Force, please visit www.stopfraud.gov.

About SIGTARP

The Office of the Special Inspector General for the Troubled Asset Relief Program investigates fraud, waste, and abuse in connection with TARP.

To report suspected illicit activity involving TARP, dial the **SIGTARP Hotline**: 1-877-SIG-2009 (1-877-744-2009).

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