

TESTIMONY OF MR. HOUSE – A CONFIDENTIAL WITNESS
BEFORE THE SENATE FINANCE COMMITTEE
JUNE 22, 2004

Testimony of Mr. House:

Mr. Chairman and Senators, thank you very much for inviting me to testify today.

I am a licensed financial professional with over 23 years of experience and I have been in the prime position to witness a non-profit run amuck. I will talk about how a seemingly good idea gets twisted and perverted in the hands of the wrong individuals. The story involves fraud, deception, waste and abuse – all cloaked in the shroud of a non-profit organization. The organization I am speaking about is Ameridream, Inc., a public charity and the largest home purchase, down-payment assistance non-profit in America.

I should make it clear before I begin that my story is about Ameridream as it was 18 or so months ago. Things have now changed at this organization for the better. It is a much different and a much better organization than the one I will describe today.

My testimony will focus on two key individuals, the founders of Ameridream, who I will call Mr. Red, and Mr. White – both who made millions from the charity they controlled.

First, though let me begin by describing what Ameridream does. Ameridream provides down-payment gifts to low and

moderate income families who cannot save enough to provide the down-payment themselves.

In the simplest of terms, the gift program works like this: a home seller has a buyer who has sufficient earnings to pay a monthly mortgage payment. For whatever reason, though, the buyer cannot scrape together enough money for a down-payment and the home seller through their real estate agent or potential mortgage lender, enrolls the property in the Ameridream gift program. In turn, Ameridream provides a down-payment to the buyer of up to 3% and receives a 3.75% "fee" in return from the home seller.

HUD requires that the home seller cannot give the buyer the down-payment directly. In order for HUD to insure the buyer's mortgage loan, HUD's regulations require a 501(c)(3) organization to act as a go between for the buyer and seller.

On the face of the transaction, everyone is a winner. The home seller sold his home, the buyer is now a new homeowner, the real estate agent receives a commission and the mortgage lender loans their money and receives "points".

Let me give you a typical example, Joe has a house he wants to sell that should sell for \$100,000. The selling agent knows about AmeriDream. The seller finds a buyer, Mary, who does not have the funds for a downpayment but can make the monthly

payments.

Then Joe's house is enrolled in the AmeriDream program. It is enrolled and the transaction goes forward. The price then is "massaged" for \$103,750. Or alternatively it is set for \$103,750 initially with an eye to the AmeriDream program and the fact that the \$100,000 will ultimately be the amount going to Joe as money back. The reason for this is as part of enrolling, Joe needs to pay AmeriDream 3.75% -- \$3,750.

So at the end of day, Mary buys the \$100,000 home for \$103,750. And of the \$3,750 – it all goes to AmeriDream which then retains \$750 itself and reimburses itself for the \$3000 it paid the bank earlier for Mary's down payment.

Now let me talk to you about what the insiders, Mr. Red and Mr. White did at AmeriDream to fleece the charity from the revenues it got from this program (I estimate in the \$20 million range).

The founders and board members of AmeriDream, Mr. Red and Mr. White first set up along with Mr. Blue a marketing company called Synergistic Marketing, LLC (and now Inc).

Mr. Red and Mr. White ensured that Synergistic Marketing received a contract from AmeriDream. Synergistic's contract was to market to real estate agents, mortgage brokers and homebuilders.

According to Ameridream's Form 990 in 2002, Synergistic was getting \$1 million a month -- \$12 million for the year. Out of the million a month, approximately \$600,000 to \$700,000 would go to those three individuals or \$6 or \$7 million to those three for the year. The rest went to employee salaries and operating expenses at Synergistic.

At the same time, Mr. Red and Mr. White were getting a salary of \$175,000 approximately per year from AmeriDream. This inside deal where they got millions more in outside contracts was at best approved by a rubber stamp board that was dominated by Mr. Red and Mr. White.

This is only one example. At a time when Mr. Red and Mr. White had a desire for more cash they created a fake investment company, Valao Mortgage and transferred \$4 million from AmeriDream to Valao. Mr. Red borrowed a million dollars from Valao through – Avalar Properties, LLC . Mr. White, through his business partner, also borrowed a million dollars.

I understand Mr. Red and Mr. White used this money, in part, to pay \$250,000 each to become percentage owners in the Playboy golf scramble. Mr. Red defaulted on his loan.

In my limited time to speak, this gives you a general flavor of the situation at AmeriDream that I saw from the front row where insiders took advantage of a weak and absent board to enrich

themselves with the assets of a charity.

Let me end by noting, that while the good news is that Mr. Red and Mr. White are no longer at AmeriDream, unfortunately, to my knowledge there has been no actions taken against Mr. Red or Mr. White at either the State or Federal level.

Thank you Mr. Chairman.