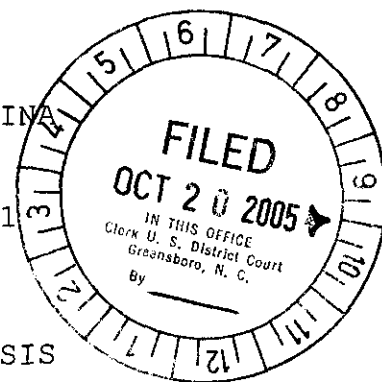


IN THE UNITED STATES DISTRICT COURT  
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

UNITED STATES OF AMERICA : 1:05CR230-1  
 :  
 v. :  
 :  
 CHARLES RICHARDSON, JR. : FACTUAL BASIS



NOW COMES the United States of America, by and through Anna Mills Wagoner, United States Attorney for the Middle District of North Carolina, and as a factual basis under Rule 11, Federal Rules of Criminal Procedure, states the following:

Investigation by federal law enforcement officials, including review of voluminous documents and interviews with numerous individuals, revealed that from approximately August 1999, through January 2001, Defendant Charles Richardson, Jr. and Phillip Wayne Middlebrooks, with the assistance of others, caused multiple fraudulent real estate transactions in and around Guilford County, North Carolina, resulting in losses to mortgage lenders. As part of the scheme, Defendant Richardson and Middlebrooks identified real property for sale, recruited straw-buyers to obtain mortgage loans to purchase the real property at prices substantially above the actual sales prices, and provided or caused the provision of false information to mortgage lenders about the straw-buyers (for example, as to the straw-buyers' employment and the straw-buyers' intent to use the real property as a primary residence) to secure mortgage loans in the straw-

buyers' names to finance the transactions. During this process, Defendant Richardson and Middlebrooks routinely completed paperwork (such as sales contracts) reflecting that they owned the various properties when in fact they then did not, thus concealing from mortgage lenders that the properties were being "flipped" at inflated prices under suspicious circumstances.

Unbeknownst to the mortgage lenders, Defendant Richardson and Middlebrooks (with assistance from their real estate closing attorney Rick Franklin Shumate) structured the transactions as "double-closings" in which they nominally purchased the real property at the lower price and simultaneously resold it to the straw-buyers at the higher price. As part of this process (again without the knowledge of the mortgage lenders), mortgage loan funds intended for the use of the straw-buyers were redirected to cover the payments from Defendant Richardson and Middlebrooks to the original sellers (and/or the original sellers' mortgage lenders). After the payment of closing costs, Defendant Richardson and Middlebrooks skimmed off the fraudulently-created "equity," i.e., the difference between the original sales prices and the amounts of the mortgage loans in the straw-buyers' names.

Defendant Richardson and Middlebrooks paid (or promised to pay) kick-backs to the straw-buyers for participating in the scheme and deceived the straw-buyers into believing that Defendant Richardson and Middlebrooks would make the mortgage

payments and would transfer the real property out of the straw-buyers' names. Although Defendant Richardson and Middlebrooks collected rents for real property held in the names of straw-buyers, they did not keep up mortgage payments and instead allowed real property to go into foreclosure (causing losses to mortgage lenders and damaging the straw-buyers' credit, not that of Defendant Richardson and Middlebrooks).

The transactions involved in the scheme included the purchase of 3220 Cross Tree Way, Winston-Salem, North Carolina, in the name of Paul Hairston on or about July 26, 2000. In securing the mortgage loan that led to a wire transfer in the amount of \$239,305 to Shumate's trust account from Wilmington National Finance to finance that transaction, Defendant Richardson and Middlebrooks provided and caused the provision of material false information to the mortgage lender, including that Hairston worked for a trucking company operated by associates of Defendant Richardson and Middlebrooks (when in fact they knew Hairston was unemployed), that Hairston was purchasing the property as a primary residence (when in fact Defendant Richardson and Middlebrooks had agreed to pay Hairston to allow the use of his name in connection with real estate transactions and this particular transaction represented the third of four such straw-purchases they conducted with Hairston during less than two months), and that Defendant Richardson and Middlebrooks

owned the property prior to the date of the double-closing (when in fact they did not then own said property).

Records reveal that, following the double-closing on or about July 26, 2000, a package containing the executed mortgage documents was sent via Federal Express, a commercial interstate carrier, from Shumate's office in Greensboro, North Carolina, to Wilmington National Finance. The delivery of these materials in this fashion was required by the mortgage lender as part of the transaction and was a reasonably foreseeable step in the process caused by Defendant Richardson and Middlebrooks.

Federal law enforcement officials interviewed Defendant Richardson about his involvement in these activities. Defendant Richardson acknowledged that he and Middlebrooks had operated what he referred to as a "buyer-partner" program. As part of that program, Defendant Richardson and Middlebrooks paid "buyer-partners" for the use of their credit in connection with the purchasing of residences in which the "buyer-partners" would not live. Defendant Richardson admitted that he and Middlebrooks had "buyer-partners" complete the initial loan applications (which, records reflect, falsely represented that the "buyer-partners" intended to occupy the property in question as a primary residence) and provided those applications to a mortgage broker for submission to mortgage lenders. Defendant Richardson also acknowledged that "buyer-partners" were used to conduct multiple

transactions and stated that he knew such transactions had to be done within a 30-day period (indeed, mortgage lenders confirmed that, if such transactions had not occurred in rapid succession, the earlier transactions involving a straw-buyer would have appeared in credit checks run on the same straw-buyer in connection with later transactions, causing the denial of funding). Defendant Richardson further admitted splitting profits from the transactions with Middlebrooks, but failing to keep up mortgage payments for the properties as promised.

According to Defendant Richardson, he and Middlebrooks knew that fraudulent information was provided to mortgage lenders, including as to the income of "buyer-partners." Further, Defendant Richardson admitted that he was present at a meeting in which the mortgage broker who assisted in most of these transactions stated: "these are all phony loans anyway." Defendant Richardson acknowledged becoming angry that the mortgage broker had discussed that fact openly in a meeting.

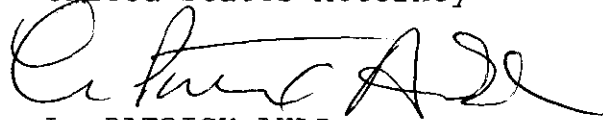
During his interview with federal law enforcement officials, Defendant Richardson denied direct involvement in the creation or submission of false information. Other evidence, however, contradicts that account. Most notably, in several instances, loan applications for straw-buyers falsely included references to employment with and income from a hair salon called Wendy's Hair Explosion. In an interview with law enforcement officials,

Defendant Richardson's ex-wife confirmed that her nickname was Wendy and that she once worked as a hairdresser under the business name Wendy's Hair Explosion. She further stated that, during the time frame in which he and Middlebrooks operated their real estate business, Defendant Richardson asked her to vouch for a female as an employee of Wendy's Hair Explosion in exchange for money. Defendant Richardson explained that this false verification would help him work out a real estate deal.

This the 20<sup>th</sup> day of October, 2005.

Respectfully submitted,

ANNA MILLS WAGONER  
United States Attorney



L. PATRICK AULD  
Assistant United States Attorney  
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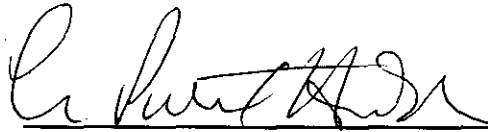
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that he is an employee in the Office of the United States Attorney for the Middle District of North Carolina and is a person of such age and discretion as to be competent to serve papers.

That on the 20<sup>th</sup> day of October, 2005, he served a true and correct copy of the foregoing FACTUAL BASIS by hand-delivery to:

Nils E. Gerber



L. PATRICK AULD  
Assistant United States Attorney  
Deputy Chief, Criminal Division  
United States Attorney's Office

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