



Print this Page

[Return to story](#)

DEAD END FOR INVESTORS?

May 14, 2009 12:35 am

BY CATHY JETT

Investors who lost millions in an alleged mortgage fraud scheme that operated in Spotsylvania County and elsewhere may never get much money back.

While funds poured in to Metropolitan Dream Homes' offices in Washington and eight states for its purported mortgage payment program, it poured out just as quickly, said Raymond J. Peroutka, who is heading the court-ordered investigation into its finances.

"We have not identified pots of cash out there that are subject to recovery," he said.

Most of the funds apparently were used to pay off the mortgages of people who got involved early, and on such lavish expenditures as a fleet of chauffeured luxury cars. Both moves appear to have been calculated to convince later investors that the scheme was profitable.

"That's the nature of a Ponzi scheme," said Peroutka, who is managing director of Invotex, a Baltimore firm specializing in financial analysis.

Last month a federal grand jury in Maryland indicted Isaac Jerome Smith, 46, formerly of Spotsylvania, and three others for their roles in the scheme, which involved about 1,000 investors and \$70 million.

Using such names as Metropolitan Grapevine LLC, Metro Dream Homes and POS Dream Homes (known collectively as MDH), they are accused of tricking homeowners into investing a minimum of \$50,000 per home in their other business ventures with the promise that revenues would be used to pay off the mortgages within five to seven years. After that, the home buyer and MDH would own equal interests in the home.

According to a Justice Department summary of the indictments, the other businesses never generated meaningful income, and funds from later investors allegedly were used to pay the mortgages of earlier investors, as well as to provide perks for employees.

Smith was president of POS Dream Homes, which had an office that has since closed near Chancellor Center on State Route 3 in the county. He later sold his nearly \$1 million home in Spotsylvania and moved to Conyers, Ga.

The other officers who were indicted are Andrew Hamilton Williams Jr., of Hollywood, Fla., founder and owner of MDH; Michael Anthony Hickson, 46, of Commack, N.Y., chief financial officer; and Alvita Karen

Gunn, 31, of Hanover, Md., vice president of operations.

In addition, a criminal information--a document normally filed as part of a plea agreement--was filed against Carole Nelson, 50, of Washington, the chief financial officer for POS Dream Homes. She has since pleaded guilty to money laundering. On Monday, Charlotte Hardmon, 39, of Bowie, Md., a business consultant for a Dream Homes program called Metro POS, pleaded guilty to conspiracy to commit wire fraud.

The majority of the Dream Home program's alleged activity took place from 2005 through 2007, when the Maryland attorney general's office shut it down and the court appointed Invotex to examine MDH's finances.

Many records were missing or in disarray by the time Peroutka and his staff arrived at the MDH home office in Laurel, Md. Since then, they have turned up related Ponzi-type investment activities involving 31 corporate entities operating in Maryland, Washington, Virginia, Delaware, North Carolina, New York, Georgia, California and Florida.

Invotex established ancillary receiverships in California, New York, Virginia and Washington to facilitate its investigation and asset recovery.

The staff analyzed 97 bank accounts and approximately 14,000 transactions to reconstruct the activities of the defendants and their business associates, according to a recent post on the Web site pos-receiver.org, which Invotex established to keep investors abreast of developments.

"We have a very good idea of how they operated," Peroutka said. "There were two principle modes. They initially sought investors and brought money into the main companies, then essentially paid what amounted to commissions to persons who were identifying the investors and bringing them in."

As the operation grew and expanded, the satellite offices in Virginia and other states either sought investors, collected funds and stripped off a percentage before sending the rest to the home office in Laurel, or forwarded the money and received a cut in a return payment, he said.

"I think the scheme itself as well as the level of documentation suggests a fairly sophisticated group of individuals," said Peroutka.

He added that it was also more elaborate than an earlier scheme that got Williams in similar trouble with Maryland, and that Williams used some of the proceeds to reimburse people owed money from that venture. That was a violation of the order that shut down MDH.

Peroutka said that Invotex has liquidated all of MDH's assets, such as its fleet of cars, but the sales did not bring in much income.

"We're pursuing some recovery actions and may bring others," he said. "They could produce some assets, but if an action that we were to bring produced a half a million dollars, which is a substantial amount of money, it would not be a material payment when divided among \$70 million worth of claimants."

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