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U.S., States Probe Real-Estate Loan Broker

'Advance Fee' Plan Is Said To Have Cost Borrowers Millions

By JENNIFER LEVITZ and STEVE STECKLOW
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The Federal Bureau of Investigation and securities regulators in California and Pennsylvania are probing a Philadelphia-based loan broker over allegations that more than 100 prospective borrowers lost millions of dollars through a practice in which the firm collected upfront fees for real-estate development but didn't find any funding.

Authorities say they are trying to determine whether Remington Financial Group Inc. and a related firm, BlueStone Real Estate Capital, accepted fees without seriously trying to obtain financing for clients.



Jack Kemp


"We have been made aware of the allegations and we are looking into the matter," says Special Agent Jerri Williams in the FBI's Philadelphia division.

California's Department of Corporations is investigating Remington and BlueStone, and also is looking into LandBridge Equity LLC, a land-investment company based in Washington, D.C., according to a person familiar with the matter. Jack Kemp, the former U.S. Housing and Urban Development secretary and vice-presidential candidate, is a senior adviser and director of LandBridge.

Remington is named as a defendant in six civil lawsuits filed in California's Superior Court that allege the company conducted an "advance fee scheme" by collecting nonrefundable fees from would-be borrowers with "no intention of providing the financing." The company has denied the plaintiffs' allegations.

Former San Diego Acting Mayor Ed Struiksma says he paid Remington \$25,000 in fees, and received no financing from the company for land he wanted to buy for a housing development. A Toronto developer, Greg Heller, says he paid Remington \$20,000 and didn't secure financing for a hotel project in Egypt. Both men say the soured deals cost them much more in penalties and delays.

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Andrew Bogdanoff, Remington's founder and chairman, says he isn't familiar with either deal, but that dissatisfied clients could seek arbitration under their agreements with the company.

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• [See the desist and refrain order¹](#) filed by the California Department of Corporations against Remington Financial Group Inc.

On its Web site, BlueStone lists LandBridge, which also employs Mr. Kemp's son, James, as a "specialty partner." Mr. Kemp's Washington consulting firm, Kemp Partners, has referred business to both Remington and BlueStone in exchange for fees, according to Mr. Bogdanoff. The referrals led to about \$400 million to \$500 million in deals, according to Matthew McManus, BlueStone's chairman.

The chairmen of Remington and BlueStone deny any wrongdoing and say they weren't aware of any probes of the companies. James Kemp, who also is a principal at Kemp Partners, said his father was unavailable for comment, and "our policy is that we don't talk about the contractual agreements" with clients.

Regulators say it is generally legal for loan brokers to charge upfront fees, but it is illegal to take fees but not seriously pursue financing.

Several companies say they have had good experiences dealing with Remington and BlueStone. Bart Blatstein, chief executive of Tower Investments Inc. in Philadelphia, says the head of BlueStone helped him obtain \$75.8 million in financing for a student housing complex. A spokeswoman for CNL Financial Group Inc. in Orlando says Remington provided mortgage brokerage services for a \$170.5 million refinancing of its headquarters in 2006.

In interviews, the chairmen of BlueStone and Remington gave conflicting accounts of the relationship between the two firms, which share the same Philadelphia office. Mr. McManus, chairman of BlueStone, said BlueStone is "100% separate, 100% owned by me" and was formed with former Remington employees. Mr. Bogdanoff said BlueStone is "a wholly owned subsidiary of Remington." An attorney for both companies later said Mr. McManus was correct.

On its recently created Web site to generate business in India, Remington described itself as "one of America's top investment banking companies." But Mr. Bogdanoff, who works in Remington's Scottsdale, Ariz., office, says it is "not a big company," and the Web site claim is not "an accurate statement."

Mr. Bogdanoff says Remington has a three-stage process for helping clients finance projects. Remington charges \$5,000 to \$10,000 for initial due diligence that includes an "in depth" analysis of the project, he says. In the second phase, clients pay further due-diligence fees of generally \$15,000 and also pay for an on-site inspection.

He says clients progress to "phase two" only if "we're all comfortable that this thing makes sense." He says that only about "15 to 20%" of the clients end up closing deals. "We wish they all closed," he says. "We make our money on closings."

Thomas Neece, who conducted site visits as an independent contractor for Remington last year, says he recommended about eight projects for funding, and isn't aware of any that received it.

"They would just string people along," he says, adding, "Clients would call me back months and months later saying they never got funding."

Mr. Bogdanoff says he wasn't familiar with Mr. Neece's cases, and says Mr. Neece is "certainly not one of our regulars."

Several Remington clients say that after paying upfront fees and being told they had reached phase two, their discussions with Remington inexplicably collapsed. As a result, they say they lost the fees and either never completed the projects or were forced to pay penalties for missing deadlines.

Mr. Struiksma, a former acting mayor and city councilman of San Diego, says he lost \$500,000 in February trying to keep a housing-development project alive after talks with Remington suddenly fell apart.

Mr. Struiksma, a 60-year-old developer who now lives in Orange County, Calif., says an Illinois broker referred him to Remington. He applied for \$14.8 million to buy 565 acres for a housing development outside Modesto, Calif. On Oct. 16, 2007, Remington sent him a letter advising him of "our lender's interest to provide financing" and asking Mr. Struiksma to wire \$10,000 for due diligence, which he did.

Remington has been under a "desist and refrain order" from offering financing in California since 2003 after it failed to provide as much as \$3 million in funding to an investor who had paid an advance fee of \$15,000. Mr. Bogdanoff says Remington didn't stop doing business in California until about three months ago.

In November, Mr. Struiksma says, he wired Remington an additional \$15,000, which he says Remington told him it needed to "lock up" the deal. He also paid for Mr. Neece to do a site visit -- which Remington's Web site describes as a final step before closing. Mr. Neece recommended the project to Remington.

But Mr. Struiksma says by January, "suddenly we were no longer getting our calls returned." Mr. Bogdanoff says he wasn't familiar with the case, but that it isn't unusual for additional concerns about a project to crop up prior to financing. He says positive site inspections are a "major component" of approval, but not the only factor. Mr. Struiksma says the project continues to languish while he searches for funding.

Mr. Heller, vice president of Sea Sun Capital Corp. in Toronto, says he applied to Remington for \$2 million to complete an addition and landscaping at the Sea Sun Resort & Hotel in Dahab, Egypt, on the Red Sea. He says Remington told him it had Middle Eastern investors interested in the project. He paid \$20,000 in upfront fees, and nearly \$3,000 for Mr. Neece to travel to Egypt in April 2007.

Mr. Neece recommended funding. Mr. Heller says that after the site visit, Remington "wouldn't return phone calls." He says when he finally reached someone at Remington, he was told, "We're having a tough time selling this."

Mr. Heller says he had to find a short-term lender at "exorbitant" rates for the project, which was recently completed, when talks with Remington fell through. He also says he had to give a roughly \$1.5 million equity interest in the project to a lender because Remington's failure to provide funding caused him to miss a financing deadline.

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