

Cloud of fraud hangs over investor

Regulators allege that a Twin Cities man is involved in investment and mortgage fraud. But his lawyer claims that his client is the victim.

By [Chris Serres](#), Star Tribune

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For years, Adam LaFavre cultivated an image as a successful real estate dealmaker and a man of faith.

He drove luxury cars, wore a Rolex watch and owned a \$7.5 million mansion on Lake Minnetonka in Wayzata. He spoke openly of his belief that he was called by God to minister to world leaders, according to former business associates.

But federal regulators, in an affidavit submitted in support for a search warrant of his home and businesses, describe a far different LaFavre. The IRS' criminal investigation division alleges that he helped raise money for an illegal investment scheme that promised high monthly returns in offshore banking programs at no risk.

A court-appointed receiver estimated that 1,300 individuals and investment groups nationwide (including 238 in Minnesota) were defrauded of more than \$150 million.

LaFavre, 41, is also under investigation by the state Department of Commerce for violations of state real estate laws, after state and federal regulators uncovered what they believe is evidence of a multimillion-dollar mortgage fraud at a Burnsville firm.

That company is LHS Mortgage Inc., which LaFavre founded.

In June, the Commerce Department permanently barred Ronald Clark Joseph, who worked for LHS, from originating or servicing mortgages. Earlier this year, two LHS loan officers pleaded guilty to federal wire fraud and money laundering charges.

LaFavre's attorney, Doug Kelley, said in an interview Friday that his client had sold LHS by then and was unaware of any wrongdoing. Kelley also said that, contrary to the IRS' claims, LaFavre was a victim, losing "a substantial part" of the money he invested with Travis Correll, an Atlanta man indicted in June on federal charges of money laundering and mail fraud.

"If Adam made a mistake, it was placing his trust in Travis Correll," Kelley said.

The allegations against LaFavre, who referred all questions to his attorney, have attracted attention in Twin Cities real estate circles, where LaFavre was once considered one of this market's most proficient dealmakers.

Lavish lifestyle

In 1997, he closed more than 300 transactions and had more listings than any real estate agent in the state, according to the Twin Cities edition of "Broker Agent" magazine. In his first nine months at Edina Realty, he made \$6 million in sales -- a "company record for a new agent in such a short time," the magazine said.

LaFavre was also known for his lavish lifestyle. When IRS agents executed a search warrant of his home in March, they seized a large amount of valuable property, including five Rolex watches, 62 plastic containers of silver coins and some solid silver bars, among many other items. They also seized bank statements and other financial documents from his business address in Wayzata.

The IRS said in its affidavit that LaFavre reported no taxable income in 2003 and 2004, yet he made a \$1.2 million down payment on a 32,000-square-foot Wayzata home in October 2004 and was to make monthly payments of \$50,000 under a contract for deed. LaFavre bought the home from auto dealer Denny Hecker, and paid off the financing in less than three years, Hecker said.

Hecker said he never met LaFavre before selling him the home. "He said he was in real estate and he drove up in a new Bentley" on the day of the sale, Hecker said. "That impressed me."

Scotty Wiers of Shakopee, a former personal assistant and property manager for LaFavre Homesellers, said in an interview that he never understood how LaFavre amassed his wealth. In the final three years that he worked for LaFavre, Wiers said, he saw him driving more than a half-dozen luxury cars, including a Hummer, Cadillac Escalade, Bentley and Mercedes.

"When I asked, he just said it was land deals," Wiers said. "He continued to buy all those cars when we weren't selling a whole lot of houses."

LaFavre talked openly about trips he made to countries such as El Salvador and Russia as part of a mission to spread the Gospel to foreign countries, Wiers recalled. "He felt that God blessed him to be financially successful," Wiers said.

Pyramid allegations

There are differing accounts of LaFavre's alleged involvement in a plan to bilk investors of millions of dollars.

The alleged scheme first came to light in October 2005, when the Securities and Exchange Commission filed a civil enforcement action in Texas against Correll. The SEC alleges that Correll, a former college referee, offered stakes in foreign bank deposit programs, which the promoters said would generate monthly returns of between 4 and 12 percent.

Investigators claim that the money never went to the deposit programs. Instead, Correll used new investor money to pay back previous investors, a traditional pyramid, or "Ponzi" scheme. In December 2005, a federal court in Sherman, Texas, appointed S. Gregory Hays as a trustee to liquidate Correll's business and recover as much money as possible for investors.

Correll and his firm, Horizon Establishment, owe investors an estimated \$153 million, including \$20 million to \$30 million in cash losses, Hays said. Hays estimates he has recovered \$4 million

for investors.

In June, a federal grand jury in Minneapolis indicted Correll and a Forest Lake resident, Neulan Midkiff, founder of the Feast of Tabernacle Ministries, on charges of conspiracy to commit mail fraud and conspiracy to commit money laundering. Correll admitted to investigators that he was involved in a Ponzi scheme.

According to the affidavit filed by the IRS, LaFavre worked together with another real estate investor, Jason Ripley of Andover, to "seek out investors, pool the money together, and send large sums of money" to Arnulfo Acosta, who was indicted for his role in the bank deposit program. Together, LaFavre and Ripley brought in between \$15 million to \$20 million, according to the IRS document.

The IRS also claims that LaFavre and Ripley continued to collect investor money after they received letters from Correll detailing a loss to their investments in 2003 and 2004. "Ripley and La- Favre were well aware of the fictitious and fraudulent nature of such schemes," the IRS wrote in its affidavit.

Ripley and LaFavre, through his attorney, dispute this account and insist they were victims, not perpetrators, of fraud.

"When things started going south, Adam was the No. 1 person in this state chasing after Travis Correll to get money back -- not only for himself, but also for others that he had raised money from," said Kelley, his attorney.

But others dispute LaFavre's innocence. In a lawsuit filed in Dakota County District Court in December, Joseph Miller of Lakeville alleged that LaFavre pitched bank deposit programs very similar to the investment programs described by the SEC in its enforcement action brought against Correll.

Miller said LaFavre and his firms, including Wildly Favred Ventures LLC and Creative Wealth Ventures LLC, failed to return his investment principal of \$3.83 million as promised. LaFavre and Miller settled the dispute recently but have kept the terms confidential.

Ripley said he was once convinced that LaFavre was a victim of fraud, but now he's not so sure. Since investing in Correll's venture, Ripley said, he has been unable to recover about \$2 million that he gave to LaFavre to invest in several properties in the Twin Cities. He has filed separate lawsuits against LaFavre and Correll, accusing both of fraud.

In March, IRS agents executed a search warrant on Ripley's home, seizing about \$600,000 worth of jewelry. Ripley said he never actively solicited investors for Correll; however, about a dozen of his friends and family members expressed interest after learning of the high monthly returns offered by Correll, Ripley said. Ripley also said he never received letters notifying him of losses.

"It was a triple whammy to get hurt by Travis, then by Adam, then by the feds," he said. "To say I feel violated is an understatement."

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