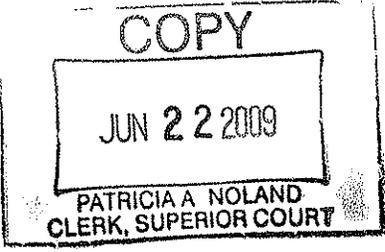


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Attorneys for Plaintiff



ARIZONA SUPERIOR COURT
COUNTY OF PIMA

State of Arizona, ex rel. Terry Goddard,
Attorney General,

Plaintiff,

vs.

AZI Rent2Own L.L.C. dba Arizona
Investments and dba AZI; Anthony
Zandonatti and Mrs. Jane Doe
Zandonatti; Andrew T. Silverstein and
Mrs. Jane Doe Silverstein; Andrew
Silverstein P.L.L.C.; VinLan Ventures
Inc. dba RE/MAX All Executives; Vince
Volpe P.C.; Vincent R. Volpe and Mrs.
Jane Doe Volpe; Tucson Mortgage
Company L.L.C.; WGA Enterprises,
L.L.C.; William Anastopolous and Mrs.
Jane Doe Anastopolous; Dave L. Klein
and Mrs. Jane Doe Klein; Thomas S.
Piazza and Mrs. Jane Doe Piazza;
Amaury Leon and Mrs. Jane Doe Leon;
Daren Breen and Mrs. Jane Doe
Breen; RTO Search.com; and Does 1-
25,

Defendants.

No. C20076497

COMPLAINT FOR INJUNCTIVE AND
OTHER RELIEF

(Unclassified Civil)

Assigned to the Honorable Leslie Miller

JURISDICTION AND VENUE

1. The State of Arizona brings this action pursuant to the Arizona Consumer
Fraud Act, A.R.S. § 44-1521 et seq., and the Arizona Racketeering Act, A.R.S. § 13-

1 2314 et seq., to obtain restitution, injunctive relief, civil penalties, attorneys' fees and
2 costs, investigative expenses and other relief to prevent the unlawful acts and
3 practices alleged herein and to remedy the consequences of such unlawful practices.

4 2. Venue is proper in Pima County, Arizona.

5 3. The Superior Court has jurisdiction to enter appropriate orders both prior to
6 and following a determination of liability pursuant to the Arizona Consumer Fraud Act,
7 A.R.S. § 44-1528, and the Arizona Anti-Racketeering Act, A.R.S. § 13-
8 62314.04(S)(3), respectively.

9 **PARTIES**

10 4. Plaintiff is the State of Arizona, ex rel. Terry Goddard, who is authorized
11 to bring this action under the Arizona Consumer Fraud Act, A.R.S. § 44-1521 et seq.

12 5. Defendant AZI Rent2Own L.L.C. ("AZI") is an Arizona corporation that
13 does business in Pima County, Arizona. AZI Rent2Own L.L.C. does business as AZI
14 Rent2Own L.L.C., as Arizona Investments, as AZI, and as RTO Search.com L.L.C.

15 6. Defendant RTO Search.com L.L.C. is an Arizona corporation that does
16 business in Pima County, Arizona.

17 7. Defendant Anthony Zandonatti is the principal owner and manager of
18 AZI and RTO Search.com L.L.C..

19 8. Defendant Andrew T. Silverstein was at all relevant times alleged herein
20 a licensed real estate agent in the State of Arizona, and was the owner of Defendant
21 Andrew Silverstein P.L.L.C. Defendant Silverstein was a real estate agent for
22 RE/MAX All Executives, a licensed real estate broker in Arizona.

23 9. Defendant RE/MAX All Executives is a trade name for VinLan Ventures
24 Inc., an Arizona corporation doing business in Pima County, Arizona. VinLan
25 Ventures Inc. was incorporated in December of 2002.

26 10. Defendant Vincent R. Volpe aka Vince Volpe is both the President of
27 VinLan Ventures Inc. and/or RE/MAX All Executives and is the designated licensed
28

1 real estate broker for RE/MAX. Vincent R. Volpe is the President of Vince Volpe P.C.
2 Vince Volpe P.C. became the designated broker of RE/MAX on January 17, 2003.

3 11. Defendant Amaury Leon was an employee of Infinity Funding L.L.C, a
4 mortgage banker that does and/or did business in Pima County, Arizona. Defendant
5 Leon also originated, processed and/or funded loans for Infinity Funding L.L.C.

6 12 Defendant Daren Breen was an employee of Red House Lending, a
7 mortgage brokerage company that does and/or did business in Pima County, Arizona.
8 Defendant Breen also originated, processed and/or funded loans for Red House
9 Lending.

10 13. Defendant Tucson Mortgage Company L.L.C. is a licensed mortgage
11 banker which does and/or did business in Pima County, Arizona.

12 14. Defendant William Anastopolous is the managing partner of, and the
13 licensed mortgage banker for, Tucson Mortgage Company. Defendant Anastopolous
14 is an owner and member of WGA Enterprises, L.L.C., which is the majority owner of
15 Tucson Mortgage Company L.L.C.

16 15. Defendant Thomas L. Piazza was a supervisor at Defendant Tucson
17 Mortgage Company L.L.C. Thomas Piazza is a member of Thomas Piazza
18 Consulting L.L.C., which formed in 2004 and owns a 1 percent interest in Tucson
19 Mortgage Company L.L.C. Piazza originated, processed and/or funded loans for
20 Defendant Tucson Mortgage Company L.L.C.

21 16. Defendant David S. Klein was a Tucson Mortgage Company employee
22 who originated, processed and/or funded loans for Tucson Mortgage.

23 17. "Defendant Tucson Mortgage Company" hereafter collectively refers to
24 Defendants Tucson Mortgage Company L.L.C., William Anastopolous, WGA
25 Enterprises, L.L.C., and Thomas Piazza Consulting L.L.C.

26 18. "Defendants" hereafter collectively refers to the individual and corporate
27 Defendants named in Paragraphs 5 through 17, and all members, officers, directors,
28 shareholders, owners, managers, employees, independent contractors and agents of

1 these named individuals and corporations which facilitated the deceptive and/or
2 fraudulent acts and/or schemes which are the subject of this complaint. Spouses are
3 named for community property purposes only.

4 INTRODUCTION

5 19. Defendants, individually or in concert, implemented and/or participated
6 in a sophisticated fraud involving three separate but related schemes in which they
7 profited from the fraudulent purchase, financing, and rental of millions of dollars of real
8 estate by deceiving novice real estate investors, deceiving lenders in order to both
9 profit and further deceive novice investors, and rent-to-own homebuyers.

10 20. First, Defendants solicited and defrauded numerous under-qualified
11 novice real estate investors into participating in a purportedly "worry free" and hands-
12 off investment system involving the purchase and future sale of "rent-to-own" homes.
13 Second, Defendants defrauded lenders by obtaining millions of dollars of fraudulent
14 financing for these investment rental homes. Third, Defendants deceived financially
15 unqualified rent-to-own homebuyers with the false promise of easy home ownership
16 and deceptively offered the investors' rental homes as "no qualifying" rent-to-own
17 opportunities. Ultimately, these fraudulent schemes caused incalculable harm to
18 many investors, to the lenders, and to numerous rent-to-own homebuyers.

19 BACKGROUND

20 21. In 2002, Andrew Silverstein became a licensed Arizona real estate
21 agent. In March 2004, he began working for RE/MAX All Executives (hereafter
22 RE/MAX), a franchise of the nationally recognized RE/MAX real estate company.

23 22. Silverstein worked out of a RE/MAX office at 8245 N. Silverbell Road in
24 Tucson, Arizona, which he advertised on the internet as Silverstein Inc./RE/MAX All
25 Executives. Silverstein advertised his RE/MAX team consisting of Lori Benjamin,
26 Rachel Hartless, Dacia McBride, and Hannah Menke. By the end of 2006, Silverstein
27 was recognized as one of the top ten agents in terms of sale volume in the Tucson
28

1 area, having facilitated the purchase or sale of approximately thirty-one million dollars
2 (\$31,000,000.00) of residential property.

3 23. Defendants Silverstein and Zandonatti were the key individuals who
4 orchestrated the investment scheme. Silverstein and Zandonatti lived virtually across
5 the street from one another, socialized and were members, along with Defendants
6 Leon and Klein, of the Tucson Stars baseball team. In February 2006, Silverstein and
7 Zandonatti were partners in establishing ASAZ Holdings L.L.C.

8 24. Defendant Zandonatti incorporated AZIRent2Own in March 2006.
9 During the relevant period alleged, Zandonatti was not a licensed real estate agent,
10 and neither AZI nor Zandonatti worked under the supervision of a licensed real estate
11 broker. Zandonatti hired sales people ("RTO Specialists") and others to recruit
12 investors and market investment homes to rent-to-own homebuyers. Defendant Klein
13 worked for Tucson Mortgage Company from June 19, 2006 to September 1, 2007. In
14 July of 2007, Klein represented in a loan application that he was a "real estate sales
15 consultant" to AZI with a purported monthly income of \$7,000 - \$8,500.

16 25. Defendant Volpe was a manager and associate broker for Defendant
17 RE/MAX All Executives in 2004. In 2006, Defendant Volpe became the designated
18 broker for Defendant RE/MAX All Executives.

19 26. Defendant William Anastopolous is the managing partner of, and the
20 licensed mortgage banker for, Tucson Mortgage Company. Defendant Anastopolous
21 is a member of WGA Enterprises, L.L.C., which is majority owner of Tucson Mortgage
22 Company.

23 27. Thomas Piazza is a member of Thomas Piazza Consulting L.L.C., which
24 formed in 2004 and owns a 1 percent interest in Tucson Mortgage Company.

25 ALLEGATIONS

26 I. THE REAL ESTATE INVESTMENT FRAUD

27 28. Defendants deceived under-qualified, novice investors with false
28 promises and assurances of a legitimate and "worry free" investment system that

1 required little or no capital investment (promising 100 percent financing) and virtually
2 no involvement in the transaction or in the subsequent management of the
3 investment. The investment scheme relied extensively on fraudulently obtaining
4 financing to buy investment homes for these investors.

5 **A. THE INVESTMENT FRAUD**

6 29. The investment scheme primarily consisted of Defendants Silverstein
7 and agents from his Re/Max team, Zandonatti, AZI and his AZI RTO Specialists, along
8 with Leon and others, including Does 1-25. These parties collaboratively identified
9 investment properties and/or consumers to purchase the investment homes for a
10 purportedly legitimate rent-to own system managed by Zandonatti and AZI.

11 30. Defendants Zandonatti, AZI, Silverstein, his RE/MAX associates, and
12 Defendants Breen, Klein, Leon, Piazza, RE/MAX, and Tucson Mortgage Company
13 collaborated in various ways, including the following:

- 14 (a) referring possible investors;
- 15 (b) selecting investment properties;
- 16 (c) executing and/or using RE/MAX purchase contracts for the purchase of
17 AZI investment properties; and
- 18 (d) processing and/or obtaining financing for investors to establish the rent-
19 to-own inventory advertised by AZI.

20 31. Defendants Silverstein, Zandondatti, Breen, Klein, Leon, Piazza, AZI,
21 RE/MAX, and Tucson Mortgage, along with Red House Lending, deceived investors
22 into believing that they could legitimately purchase multiple investment homes and get
23 100 % financing with a maximum of \$1000 earnest money.

24 32. Defendants Silverstein, Zandondatti and AZI represented to AZI
25 investors that Zandonatti and AZI would solicit consumers to enter purchase and
26 rental agreements, perform all property management duties, and handle all aspects of
27 the investment in their properties. The Defendants represented that they would find
28 rent-to-own buyers to purchase the investment properties. As part of the solicitation to

1 some investors, Defendants Silverstein and Zandonatti made verbal and/or written
2 agreements to split profits from anywhere between 10 to 50 percent with the investors
3 from the future sale of the investment home(s) in exchange for the AZI services.

4 33. Defendants Silverstein, Zandonatti, AZI, Breen, Klein, and Leon
5 deceived investors into purchasing homes in a fraudulent investment system which
6 deceptively targeted rent-to-own buyers who could not qualify to purchase the homes.
7 These defendants created a system that fraudulently targeted unqualified consumers
8 with "no qualifying" and no "credit check" offers and fraudulently failed to conduct
9 credit checks or otherwise evaluate rent-to-own buyers for their ability to purchase the
10 homes.

11 34. Defendants Silverstein, Zandonatti, and AZI misrepresented to investors
12 and/or to the public that the investment system was legitimate by taking various
13 measures, including but not limited to:

- 14 a. using RE/MAX business cards;
- 15 b. using licensed real estate professionals (RE/MAX, Tucson
16 Mortgage, etc.);
- 17 c. telling investor(s) they "do this [investments] all the time";
- 18 d. telling investor(s) that they (e.g., Defendants Silverstein,
19 Zandonatti, AZI), were professionals;
- 20 e. telling investor(s) not to worry about discrepancies on
21 paperwork stating property would be owner-occupied;
- 22 f. representing and/or implying that Zandonatti and/or AZI's
23 real estate agency and/or property management services
24 were legitimate and authorized; and
- 25 g. recruiting investors by claiming that they would be helping
26 the rent-to-own (RTO) consumers who could not qualify to
27 buy a home by helping improve the RTO buyers' credit.

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1 35. Defendants Silverstein, Zandonatti, and AZI deceptively induced some
2 investors to purchase multiple homes in the system. One such inducement, a "rent
3 guarantee," promised that the investor would receive his or her rent every month,
4 whether rent was actually collected or not. Another inducement was the defendants'
5 offer to cover the advertised nominal out-of-pocket cost to the investor - a maximum of
6 \$1000 to purchase a property. If the investor did not have the earnest money, the
7 money was "fronted" to them by Defendants Silverstein, Zandonatti, and Klein. More
8 than half of the approximately 130 investors bought multiple homes.

9 36. Defendants Silverstein and Zandonatti facilitated the purchase of
10 multiple homes by investors in specific geographic areas as part of an effort to control
11 market prices in those areas, which would allow them to manipulate the ultimate sales
12 prices for the rent-to-own homes and artificially inflate the prices in the future.

13 37. Few investors fully read all of the loan documents that were presented to
14 them for signing. The loans that Defendants Leon, Klein, and Piazza obtained for
15 investors often contained unfavorable terms for the investor, such as high interest
16 rates, adjustable rates, prepayment penalties, and balloon payments. These terms
17 permitted mortgage brokers such as Red House Lending, and Defendant Tucson
18 Mortgage and their representatives to receive compensation from lenders in the form
19 of yield spread premiums and other fees.

20 38. Defendants Silverstein, Zandonatti, and AZI told investors not to worry
21 about the amount of the mortgage payments because the sizeable non-refundable
22 "down payments" paid by the rent-to-own homebuyers were intended to be used to
23 offset the deficiency between the monthly rental payment and the amount of the
24 investor's mortgage payment. Once the down payment money was depleted,
25 however, the investor no longer received rental amounts sufficient to cover the
26 amount of the investors' increasing mortgage payments.

27 39. Defendants Silverstein and Zandonatti and AZI encouraged investors
28 who were struggling financially to purchase additional investment homes in order to

1 generate additional "cash-flow" (income). In other instances, consumer investors
2 found that properties had been procured in their names without their knowledge.

3 40. Defendants Silverstein, Zandonatti and AZI profited from the sale of
4 homes to investors by receiving commissions and fees from these transactions.
5 Zandonatti and AZI also profited from a steady supply of rent-to-own homes that they
6 advertised for sale and which generated additional income for them.

7 41. Defendants Zandonatti and Doe Defendants 1 through 5 deceptively
8 profited and received substantial proceeds from the sale of certain investment homes
9 which were owned in title by straw-buyers but which were owned and/or controlled by
10 Zandonatti. Defendant Zandonatti deceptively failed to disclose to investors who
11 purchased these homes that he had a secret ownership interest in the homes.

12 42. Defendants Silverstein, Volpe, and RE/MAX, and RE/MAX agents
13 including Dacia McBride, Hannah Menke, Lori Benjamin, Rachel Hartless, and Andrea
14 Coates profited from the purchase by and/or sales of property to AZI investors in the
15 investment system. Defendants RE/MAX and Volpe profited from the sale of the
16 homes to investors by receiving commissions and fees.

17 43. Defendant ReMax, and its respective broker, owner(s) and/or
18 supervisor(s), including Defendant Volpe, had a legal duty of reasonable supervision
19 and control, as well as a duty to review and approve contracts and commissions,
20 pursuant to A.R.S. § 32-2151.01 (broker requirements) and Arizona Administrative
21 Rule R4-28-1103 (broker supervision and control), among other laws and regulations,
22 and knew or should have known that fraud was occurring due to numerous red flags,
23 including the following: the extraordinarily high volume of Defendant Silverstein's
24 and/or his associates' transactions and/or sales; the extraordinarily high volume of
25 sales associated with relatively inexperienced sales agent(s); the numerous purchase
26 contracts for multiple home investors; discrepancies and/or blanks in various
27 documents; the receipt of HUD1 statements containing information indicative of
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1 fraudulent financing; and the fact numerous multiple home investors were purchasing
2 homes all within short time periods.

3 44. Defendants Piazza, Klein, Leon, Breen, and Tucson Mortgage Company
4 deceptively profited from the purchase by and/or sales of property to AZI investors by
5 arranging the loans.

6 45. Defendants, by building the investment and rent-to-own system with
7 fraudulently-obtained loans for financially under-qualified investors and by targeting
8 rent-to-own opportunities to consumers with credit issues, ensured that the fraudulent
9 investment and rent-to-own system was destined to fail. Numerous investors have
10 faced bankruptcy, foreclosure and other harm.

11 **B. DECEPTIVELY OFFERING UNLAWFUL SERVICES**

12 46. Defendants Silverstein, Zandonatti, and AZI deceptively and unlawfully
13 offered investors property management and real estate services from Zandonatti and
14 AZI for which they were neither qualified nor licensed to offer. In addition, Defendants
15 Zandonatti and AZI engaged in deceptive practices including:

- 16 a) deceptively concealing RTO evictions from investors;
- 17 b) retaining RTO consumers down-payments and rent payments after
18 deceptively promising to provide such payments to investors or their
19 mortgagors;
- 20 c) misappropriating and/or diverting payments for self-use or gain;
- 21 d) misrepresenting to investors the occupancy and/or changes in
22 occupancy in the investors' properties; and
- 23 e) misrepresenting to investors and/or RTO consumers whether certain
24 investors' mortgages were delinquent.

25 **C. DECEPTIVE REAL ESTATE AND OWNERSHIP PRACTICES**

26 47. Defendant Zandonatti and RTOsearch.com deceptively offer real estate
27 and property management services for which they are not qualified or licensed to
28 provide.

1 48. Defendant Zandonatti and RTOsearch.com deceptively obtain fractional
2 ownership interests in investor properties as part of a scheme or artifice to defraud
3 owners into believing that Defendant Zandonatti and RTOsearch.com can manage,
4 sell and/or advertise consumers' real property.

5 **II. THE FRAUD AGAINST LENDERS IN ORDER TO FRAUDULENTLY**
6 **SECURE PROPERTIES FOR UNQUALIFIED NOVICE INVESTORS**

7 49. The second deceptive scheme involved defrauding and deceiving
8 lenders in order to fraudulently obtain the financing for millions of dollars of
9 "investment" properties purchased by numerous investors.

10 **A. DECEPTIVE ACTS AND ILLEGAL PRACTICES**

11 50. Defendants Silverstein and his ReMax agents, Zandonatti, and various
12 mortgage brokers and/or loan originators took deceptive actions designed to ensure
13 that financially under-qualified investors would obtain loans to purchase homes.
14 These Defendants and Defendants Piazza, Klein, Leon, Breen, and Tucson Mortgage
15 Company arranged for numerous novice investors (along with some straw buyers) to
16 simultaneously buy multiple homes.

17 51. Defendants Silverstein, Zandonatti, Breen, Klein, Leon, Piazza, AZI,
18 RE/MAX, and Defendant Tucson Mortgage Company, along with Red House Lending,
19 took deceptive actions to ensure that investors would qualify to buy multiple
20 investment properties even though the investors were financially unqualified and/or
21 under-qualified, including:

- 22 a. The loan originator (e.g., Defendants Breen, Klein, Piazza, and Leon)
23 would simultaneously process the investors' multiple loan applications
24 with different lenders (i.e., "shot-gunning") to conceal pending or
25 completed purchases from other lenders to hide the investors' true
26 liabilities and to ensure funding. On other occasions, Defendants
27 Silverstein and his ReMax team and Zandonatti split investors' multiple
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1 loan applications among loan originators for separate processing to
2 accomplish the same result.

3 b. Defendants Silverstein, Zandonatti, Breen, Klein, Leon, Piazza, and
4 Tucson Mortgage Company deceptively misrepresented to lenders the
5 financial status of investors; and

6 c. Defendants Silverstein, Zandonatti and Klein deceptively provided
7 earnest money to certain investors so it would appear to lending
8 institutions that these borrowers (investors) were qualified and ready to
9 secure financing, and to ensure that the deals went through.

10 52. Silverstein and Zandonatti also used straw-buyers to buy multiple homes
11 for AZI's inventory. Silverstein and Zandonatti also deceptively provided the earnest
12 to some of the straw buyers and the loans were similarly processed.

13 53. Defendants often submitted the investors' multiple loan applications to
14 the lender(s) as owner-occupied properties, when they were not, to deceptively obtain
15 100 percent financing (i.e., "80/20" financing) as promised. This deceptive conduct
16 also fraudulently obtained residential interest rates for investment rental properties.

17 54. The lender fraud could not have been successfully implemented without
18 the knowledge and participation of the real estate agents and loan originators, and/or
19 the corporate entities and owners and/or brokers and supervisors under whose control
20 and supervision the agents and/or loan originators ostensibly worked. The various
21 Defendants, individuals and entities involved profited by receiving real estate and/or
22 loan commissions, fees, and yield spread premiums from the purchase transactions.

23 55. As alleged in Paragraphs 42 and 43 and incorporated here, the
24 owner(s), broker and supervisor(s) at Re/Max were aware or should have known of
25 the evidence of fraud being perpetrated against lenders, including the pattern and
26 sheer volume of sales Silverstein and/or his fellow Re/Max agents derived from their
27 role as agents for buyers acquiring multiple homes virtually at the same time, as well
28 as discrepancies in documents and/or other red flags.

1 56. Defendant Tucson Mortgage and its owner(s) and/or supervisor(s) and
2 agents, including Defendant Anastapolous, knew or should have known fraud was
3 occurring in these transactions. Defendant Tucson Mortgage Company, and its
4 mortgage banker, owner(s) and/or supervisor(s), including Defendant Anastapolous,
5 had a legal duty to exercise reasonable supervision and control over employees,
6 including the duty to ensure compliance with law, the duty to not make false promises
7 or misrepresentations or conceal material facts, the duty to review loan applications
8 and related commissions, and to review records and logs that the banker is required
9 to maintain, pursuant to A.R.S. § 6-947 (mortgage banker requirements) and Arizona
10 Administrative Rules R20-4-102 (definitions) and R-20-4-1806 (recordkeeping),
11 among other laws and regulations. A review of the logs, business records, and other
12 files would have revealed many red flags, including the following: numerous loan
13 applications for multiple home investors; discrepancies and/or blank spaces in loan
14 applications and related documents; receipt of HUD1 statements with information
15 indicative of fraudulent financing; and the fact that numerous multiple investors were
16 buying multiple homes all within short time periods.

17 **III. THE RENT-TO-OWN FRAUD**

18 57. Defendants Zandonatti, AZI, and RE/MAX agents deceived AZI rent-to-
19 own homebuyers with misrepresentations, false advertising, misleading and illusory
20 purchase contracts and documents, and other deceptive practices which misled
21 consumers to believe that they were getting an unprecedented opportunity to buy a
22 home through a legitimate "no qualifying" or "no credit-check" rent-to-own program.

23 58. Hundreds of consumers were harmed and lost their down-payments and
24 homes. Despite promises of "no qualifying," these consumers still needed financing
25 but could not repair their credit or qualify for financing within the AZI contract period.

26 **A. FRAUD AGAINST RENT-TO-OWN HOMEBUYERS**

27 59. In the rent-to-own scheme, Defendants Zandonatti, Silverstein, AZI and
28 others deceptively offered the AZI investment homes purchased by investors to RTO

1 consumers with the promise of easy home ownership. The rent-to-own scheme
2 deceptively targeted unqualified and under-qualified consumers (rent-to-own
3 homebuyers) and relied on a high turnover, as RTO consumers lost their homes, to
4 obtain new "down-payments" as profit, which kept the scheme afloat. Out of hundreds
5 of RTO consumers, perhaps only one was able to buy a home in the RTO system.

6 **B. DECEPTIVE, FALSE, AND MISLEADING ADVERTISING**

7 60. Defendants Zandonatti and AZI deceptively recruited rent-to-own
8 homebuyers by using misleading representations in advertisements that Defendants
9 disseminated by newspapers, radio, internet, bus-stop benches, and street signage.
10 AZI and Zandonatti made similar deceptive representations orally and through
11 documents. Defendants Zandonatti and AZI deceptively solicited consumers to pay
12 substantial down-payments (from \$1,500 to \$10,000) on RTO homes for which these
13 RTO buyers could not ultimately qualify.

14 61. Defendants Zandonatti and AZI advertised in the classified section of the
15 *Arizona Daily Star*, *The Tucson Shopper*, the *Dandy Dime*, the *Arizona Bi-lingual*
16 *Magazine*, and the *Tucson Weekly*, deceptively offering rent-to-own opportunities with
17 "No Qualifying," "No Credit Check," and "No applications," among other things. The
18 advertisements generally referred to "AZ Investments" and directed consumers to the
19 website, "AZI Rent2Own.com." This advertising deceptively targeted consumers who
20 were financially unqualified and/or under-qualified to obtain financing to buy a home,
21 including consumers who had negative issues with their credit history.

22 62. The AZI Rent2Own.com website was operative and advertised AZI's
23 services from approximately December, 2006, through at least May, 2008. On the
24 website, Defendant AZI and Zandonatti misrepresented that consumers could "own
25 your own home today" and "own the home for as little as \$2,000" and "build equity" in
26 their lives with a rent-to-own purchase. Among other things, AZI misrepresented that:

27 a. "Our program allows you to receive a 50% share of future equity in the
28 home of your dreams;"

- 1 b. "Own your own home for as little as \$2000,"
2 c. "100% financing is very easy to get;" and
3 d. "100% financing is very easy to get! I do it for my investors and I can do
4 it for you."

5 63. Defendant Zandonatti and AZI misrepresented that they were owners of
6 AZI rent-to-own inventory by advertising and/or representing "We carry the loan while
7 you are renting to own!" and "We are happy to carry the loan for you while you repair
8 credit, wait for interest rates to drop, or build up equity toward your purchase."

9 64. Defendants AZI and Zandonatti deceptively offered free "credit
10 counseling" and "credit repair" services to rent-to-own consumers. AZI provided
11 similar misrepresentations to the BBB, which listed the self-reported "credit repair"
12 service information on the BBB's business profile for AZI.

13 65. AZI's radio ads stated the following:

14 What if I told you that you could move into a house today with as little as
15 zero down? Is that something you might be interested in?

16 What if I also told you that instead of throwing all your money away
17 renting, that you could receive hundreds of dollars every month towards the
 future purchase of that home?

18 Interested now?

19 Arizona Investments is the #1 rent-to-own specialist. They have
20 beautiful rent-to-own homes in all areas of Tucson.

21 Call 743-3392 or view their homes on-line at AZIrent2own.com.

22 Stop throwing your money away renting and put yourself on that fast
23 track to owning your own home.

24 No credit checks make it easy for you to start your investment today.

25 With payments starting as low as \$795 per month, Rent-to-own has
26 become the preferred program for thousands of Tucsonans.

27 AZI has the biggest selection of homes and the most flexible move-in
28 arrangements.

1 Call them today at 743—3392, that's 743-3392 or go on-line to
2 AZIrent2own.com. That's AZIRent, the number 2, own.com

3 Stop throwing your money away and call today.

4 66. AZI and Zandonatti, by advertising investment homes as legitimate
5 ownership opportunities with a down-payment, were able to command above-market
6 rental amounts on properties for which consumers could not pay the entire down-
7 payment up front by including the remainder of the payment into the rental amount.

8 67. Defendants AZI and Zandonatti deceived certain rent-to-own consumers
9 as to the owner of the home(s) and who would profit from the sale of the property.

10 68. AZI and Zandonatti deceptively represented that a portion of the rental
11 payment would be used toward the balance on the down-payment.

12 69. The representations that AZI and/or Zandonatti provided "credit repair",
13 could arrange for easy "100 percent financing", and that rent-to-own consumers would
14 not be "[throwing] their money away on rent," were false and misleading. Unlike their
15 investor counterparts, virtually none of the rent-to-own consumers was able to obtain
16 100 % financing, much less ever complete the purchase of the property through AZI's
17 rent-to-own system.

18 70. By targeting individuals with credit issues and ignoring their financial
19 qualifications, the rent-to-own scheme virtually guaranteed that rent-to-own
20 consumers would not be able to purchase the homes. Despite promises of "no
21 qualifying," rent-to-own consumers needed to obtain financing for the final purchase
22 but could not qualify under the time-period set forth in the purchase agreements. This
23 ensured that the rent-to-own consumers would have to either pay additional funds to
24 extend their purchase agreement to continue renting or vacate the home, which
25 allowed for AZI to solicit new tenants with new down payments.

26 71. Defendants misled consumers about the purported offer of credit repair,
27 and the availability of lenders and financing to complete the purchase of the rent-to-
28 own consumers' homes. Because Defendants made more short-term profit by

1 obtaining additional renters, there was no real incentive to actually have rent-to-own
2 buyers complete the purchase agreements. Defendants Silverstein, Zandonatti, and
3 AZI deceived rent-to-own consumers with the promise of home ownership via their
4 rent-to-own plan when in fact the plan was designed to be rental-only. While one
5 renter may have purchased his home, hundreds of others were evicted and/or lost
6 their earnest money. Rent-to-own home-buyers, in contrast with the defrauded
7 investors, were not provided easy home financing as promised.

8 72. Defendants Zandonatti and AZI deceptively collected rental payments
9 from rent-to-own consumers who believed their money was being timely applied
10 toward the mortgage, when it was not. Defendants AZI and Zandonatti deceptively
11 applied rental payments on other properties, which resulted in late fees to the
12 investors' and/or straw-buyers' mortgages, and in some cases, default notices.

13 73. Defendant AZI and Zandonatti placed some rent-to-own consumers in
14 properties already facing foreclosure or likely to be foreclosed before the consumers
15 could ever be in a position to fulfill their obligations and buy the home. For example,
16 in July 2007, G.N. gave AZI \$1,200 as down-payment to enter a purchase agreement.
17 A foreclosure notice was filed the very next month. In many, if not most, of these
18 situations, AZI refused to refund the fees obtained in relation to the transaction. Most
19 RTO home-buyers were also unable to obtain any refund from the investor(s) who
20 owned the property.

21 C. MISLEADING AND ILLUSORY PURCHASE CONTRACTS

22 74. Defendants AZI, Zandonatti, and/or Silverstein used deceptive and
23 misleading real estate purchase contracts for the rent-to-own deals. Zandonatti and
24 AZI deceived RTO home buyers about the payment status of the mortgage and
25 certainty of eviction and loss of down-payment if the true owner (investor) defaulted on
26 the mortgage.

27 75. The written purchase agreements included artificially-inflated purchase
28 prices qualified by addenda which stated that the price would be adjusted at the time

1 of the eventual sale. The agreements, in concert with misleading advertising and
2 representations, misled consumers into believing they signed legally enforceable
3 purchase agreements. The contracts were written in such a way that the material
4 term of price was variable and subject to change at a much later date, which made
5 these contracts illusory as they were only "agreements to agree."

6 76. The purchase agreements used in the rent-to-own scheme contained
7 fraudulent and misleading language and terminology, including:

- 8 a. A misleading price, sometimes artificially inflated, which was variable
9 and subject to change at closing (which could be years later);
- 10 b. Language stating "Buyer may make any alterations that are in the best
11 interest of the property resale value," which failed to disclose that any
12 improvements could actually increase the buyer's price and could
13 negatively impact their ultimate ability to buy the property;
- 14 c. Incomprehensible language, such as "Buyer shall have the right to 15%
15 of the rent and 100% of their down-payment. However, buyer shall
16 forfeit all equity/equitable rights if the contract is breached" and "Buyer
17 has 12 months to obtain financing/renew or contract is null n [sic] void.";
- 18 d. Incomprehensible mathematical formulas: the price in the agreements
19 included an asterisk, which was qualified in addenda with confusing and
20 deceptive mathematical formulas purportedly designed to account for
21 future appreciation in equity. For example, one formula stated: "Full
22 purchase will be the starting price plus a 50/50 share of the future value.
23 Not to be less than the original price. $F_v - P_v - A A^* . 50 = B B = P_v = P$."
24 Another stated "Full purchase price will be the starting price plus a 50/50
25 share of the future accrued equity. Sale price not to be less than the
26 original price. $F_v - P_v = E / E^* / 50 + E (B = P_v - 15\% RC - OM = SP)$ "; and
- 27 e. Misleading and confusing terminology: for example, Defendants
28 deceptively referred to "earnest money" and "escrow" in contracts, and

1 misled consumers into believing that down-payment amounts were
2 placed in escrow for their property purchase.

3 **COUNT ONE**

4 **VIOLATIONS OF THE CONSUMER FRAUD ACT**

5 77. Plaintiff re-alleges the prior allegations of this Complaint as though fully
6 set forth herein.

7 78. The deceptive acts, practices and transactions alleged above in
8 Paragraphs 17 through 76 violated the Arizona Consumer Fraud Act.

9 79. A.R.S. § 44-1522 (A) of the Arizona Consumer Fraud Act, states the
10 following:

11 The act, use, or employment by any person of any deception, deceptive
12 act or practice, fraud, false pretense, false promise, misrepresentation, or
13 concealment, suppression or omission of any material fact with intent that
14 others rely upon such concealment, suppression or omission, in connection
with the sale or advertisement of any merchandise whether or not any person
has in fact been misled, deceived, or damaged thereby, is declared to be an
unlawful practice.

15 80. In all matters alleged above, Defendants falsely and deceptively acted in
16 violation of the Arizona Consumer Fraud Act, A.R.S. § 44-1522(A).

17 81. In all matters alleged above, Defendants acted willfully in violation of the
18 Arizona Consumer Fraud Act, A.R.S. § 44-1531(A).

19 **COUNT TWO**

20 **ARIZONA CIVIL RICO VIOLATIONS**

21 82. Plaintiff re-alleges the prior allegations of this Complaint as though fully
22 set forth herein.

23 83. The acts, practices and transactions alleged above constituted unlawful
24 racketeering acts and constituted a pattern of chargeable and/or indictable unlawful
25 racketeering activity committed by Defendants Zandonatti, AZI, Silverstein, Andrew
26 Silverstein P.L.L.C., RTOSearch.com, Klein, Piazza, Breen, and Leon in violation of
27 the Arizona Anti-Racketeering Act, including but not limited to, the following:
28

- 1 a. engaging in acts constituting the illegal conduct of an enterprise by
2 associating with an enterprise and conducting the enterprise's affairs
3 through racketeering, or directly or indirectly participating in the conduct
4 of the enterprise that the Defendants knew was being conducted through
5 racketeering, in violation of A.R.S. §§ 13-2312 and 13-2314 *et seq*;
- 6 b. fraudulently inducing investors to invest funds in an investment system
7 to purchase and resell rental investment properties, which constituted
8 racketeering defined as "intentional or reckless sale of unregistered
9 securities or real property securities" in violation of A.R.S. §13-2301
10 (D)(4)(b)(xix);
- 11 c. fraudulently selling rental investment properties to rent-to-own buyers,
12 which constituted racketeering defined as the "resale of realty with intent
13 to defraud," in violation of A.R.S. §13-2301 (D)(4)(b)(xvii); and
- 14 d. defrauding investors, lenders, and rent-to-own homebuyers with a
15 "scheme or artifice to defraud," which constituted racketeering as
16 defined by A.R.S. §13-2301 (D)(4)(b)(xx).

17 **COUNT THREE**

18 **IN PERSONAM FORFEITURE**

19 84. Plaintiff re-alleges the prior allegations of this Complaint as though fully
20 set forth herein.

21 85. Defendants Zandonatti, AZI, Silverstein, Andrew Silverstein P.L.L.C.,
22 Klein, Piazza, Breen, and Leon acquired monetary proceeds from the unlawful acts
23 and/or pattern of unlawful activity alleged above. The proceeds, derived primarily
24 from the fraudulent purchase, financing, and rental of homes, is estimated to be from
25 \$2,000,000.00 to \$ 10,000,000.00 (two to ten million dollars).

26 86. Since the time Defendants' acquired their respective interests in the
27 proceeds of the schemes, the proceeds either cannot be located, have been
28 transferred or conveyed to third parties, have been placed beyond the jurisdiction of

1 the Court, have been substantially diminished in value by Defendants' acts or
2 omissions, or have been commingled with other property that cannot be divided
3 without difficulty.

4 **RELIEF REQUESTED**

5 WHEREFORE, the State respectfully requests that the Court:

6 1. Prohibit Defendants from violating the Consumer Fraud Act, A.R.S. § 44-
7 1521 *et seq.*, and 13-2314.

8 2. Prohibit Defendants from engaging in the course of conduct alleged
9 herein as a violation of A.R.S. § 44-1522(A).

10 3. Prohibit Defendants from offering real estate and investment services,
11 credit repair, property management and similar services.

12 4. Order Defendants to restore to all persons any money or property, real or
13 personal, acquired by any means or practice alleged to be in violation of A.R.S. § 44-
14 1522(A) as deemed proper by the Court pursuant to A.R.S. § 44-1528.

15 5. Order Defendants to pay the Attorney General a civil penalty of up to
16 \$10,000 for each violation of the Consumer Fraud Act pursuant to A.R.S. § 44-1531.

17 6. Order Enterprise Defendants, jointly and severally, to pay treble damages
18 to those persons injured by illegally conducting an enterprise as alleged herein,
19 pursuant to A.R.S. § 13-2314.

20 7. Order Defendants to pay treble damages to those persons injured by the
21 acts of racketeering alleged in the Complaint, pursuant to A.R.S. § 13-2314.

22 8. Pursuant to A.R.S. §§ 13-2314, 13-4312 and 13-4313, enter an order
23 forfeiting to the State of Arizona all interests of Defendants in property constituting
24 proceeds traceable to offenses included in the definition of racketeering in A.R.S. § 13-
25 2314, property used or intended to be used to facilitate the commission of such
26 offenses, and, pursuant to A.R.S. §§ 13-4313 and 13-2314(D)(6)(d) and (E), any other
27 property up to the value of the Defendants' property that the Court finds is subject to
28 forfeiture if any of the circumstances enumerated therein exist.

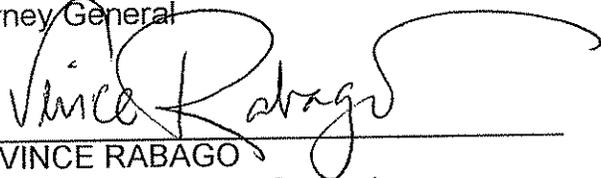
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9. Order Defendants to reimburse the Attorney General for costs of investigation and reasonable attorneys' fees pursuant to A.R.S. § 44-1534.

10. Order any other and further relief as the Court may deem just and proper.

DATED this 22nd day of June 2009.

TERRY GODDARD
Attorney General

BY: 

VINCE RABAGO
Assistant Attorney General