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Credit union seeks compensation due to 'Oklahoma' fraud

What could be one of the largest real estate frauds in Ontario history is now playing itself out in a complex court case started by the liquidators of the Croatian (Toronto) Credit Union Limited.

The lawsuit seeks recovery of \$6.5 million in damages for fraud from the former general manager of the credit union, five lawyers, a real estate broker, and dozens of individuals alleged to be involved in 27 cases of mortgage fraud.

According to the statement of claim, between 2003 and 2008, at least 27 mortgage value frauds commonly known as "Oklahomas" were perpetrated against the credit union by the defendants. The total amount of loans advanced by the credit union in the scheme is about \$8.2 million, while the underlying values of the properties involved is only \$586,000.

An example of a typical mortgage transaction is set out in the statement of claim. A rural piece of undeveloped land in Haliburton, not on any body of water, was purchased by one participant for \$11,000 on Sept. 21, 2004 in a legitimate transaction. Two minutes later, ownership was transferred to an accomplice for \$461,000. Simultaneously, the credit union advanced a first mortgage of \$299,650 based on the fictitious inflated value of \$461,000 rather than the true underlying value of \$11,000. One lawyer acted for the buyer, the seller and the credit union.

This same type of scheme was repeated on 27 properties — in some cases two or three times on the same property.

In its court case, the credit union claims that "all of its loans were for amounts hundreds of thousands of dollars in excess of the true value of the properties. But for the fraudulent acts of the defendants and the false documents and information used to perpetrate the 'Oklahoma' frauds, the sham loans would not have been made."

Some of the proceeds of the loans were invested in other properties in Croatia and Toronto.

The alleged frauds came to light when owners of neighbouring properties received notices of assessments of their properties from the Municipal Property Assessment Corp. When the owners saw the paper values of their properties skyrocket from \$10,000 or \$15,000 to \$400,000 based on the nearby fictitious sales, they complained to the authorities and the police became involved.

Detailed charts in the statement of claim itemize each purchase, each Oklahoma resale or "flip," and the mortgage amounts advanced by the credit union.

In order to conceal the suspect loans from the credit union's board of directors and the regulatory authorities, sporadic monthly payments were made in the form of overnight cash deposits by "unknown persons." This kept the accounts from appearing to be delinquent.

Although none of the allegations has yet been proven in court, three of the defendants in the case were charged in September with fraud and conspiracy to commit fraud. Police are still looking for several suspects.

One of the five lawyers involved is no longer practicing law, while the other four continue to practice real estate law as members in good standing of the Law Society.

The Croatian (Toronto) Credit Union office closed its doors for the final time late this week. Registered retirement plans were transferred to another credit union and the records of the Croatian Credit Union have now been transferred to the Deposit Insurance Corp. of Ontario, which is supervising the court case and the liquidation of the organization's assets.

The Deposit Insurance Corp. of Ontario protects each depositor to a maximum of \$100,000.

The Croatian Credit Union was founded in 1958 by a group of young immigrants who were unable to qualify for loans at the major banks. Over the years, it issued thousands of mortgages and the profits were returned to the local Croatian community.