

## **Minneapolis sues firm over mortgages: 'It's personal'**

By **STEVE BRANDT**, Star Tribune

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The city of Minneapolis and three of its neighborhoods allege in a lawsuit filed Wednesday a vast conspiracy to illegally drive up housing prices in north Minneapolis, cash in and leave the area devastated by foreclosures.

They allege that Roseville-based TJ Waconia, owners Thomas J. Balko and Jonathan E. Helgason, and associated firms converted 140 owner-occupied homes into rental units, which are now dragging down the housing values of remaining residents and leaving the neighborhoods' fabric tattered.

The civil lawsuit is the most sweeping action taken to date against TJ Waconia, which has been the target of smaller lawsuits by individuals as well as city license revocations.

Mayor R.T. Rybak compared the suit's importance for the North Side to the city's successful airport noise litigation on behalf of south Minneapolis.

"This time it's personal," he said, flanked by City Council members from the North Side and representatives of two nonprofits, Family Housing Fund and Greater Metropolitan Housing Corporation, who joined Folwell, Webber-Camden and McKinley neighborhood organizations as plaintiffs.

The lawsuit asks that 98 properties that were bought and resold at allegedly inflated prices by TJ Waconia be put in the hands of a receiver to inspect, fix and rent them. It also claims triple money damages under allegations of racketeering and asks that defendants be barred from unlawful activities.

### Tangled web of deals alleged

According to the lawsuit, Balko and Helgason formed more than 20 limited liability corporations that were used in a "complex and fraudulent real estate and mortgage fraud scheme" between 2003 and 2006. According to property records, the company also purchased other properties from southern Anoka County to eastern Dakota County.

The lawsuit said the scheme worked like this: TJ Waconia bought the houses, then flipped them quickly at fraudulently inflated prices to straw buyers, engaging in wire and mail fraud. The firm used nearby properties it purchased at inflated prices to support the inflated appraisals.

The firm promised to buy the properties back from the buyers, and an associated company collected rents but failed to pay mortgages. By last fall, mass foreclosures against the properties began, and tenants were left without a management company.

The transactions were sufficiently complex that Folwell Neighborhood Association staffers who initially noticed the patterns sought city help. A forensic real estate investigator was hired to flesh out TJ Waconia's paper trail.

The city last fall began rental licensing enforcement action against the firm's properties and so far have revoked the licenses of 45 houses, most of them currently vacant.

The lawsuit alleges that the collapse of the market abetted by TJ Waconia's foreclosures has hurt nearby homeowners, citing national studies. For example, the average list price from a single family home in the Folwell neighborhood jumped from \$103,721 in 2001 to \$155,997 in 2005, then fell to \$113,657 in 2007.

Some North Side blocks had up to five TJ Waconia properties. Eleven of the 140 properties are condemned, 89 have been foreclosed and at least 108 are vacant, the suit claimed.

"That just has this terrible effect on the neighborhood," said Mary Yeager, a lawyer who assembled the case. The city alleges that the impact is hard on the city budget because of unpaid water bills, assessments for unkept yards and unshoveled walks, and the costs of inspecting and policing vacant properties.

"TJ Waconia stands out as a special blemish on this community," said Folwell neighborhood group leader Robert Englund, who worked with another staffer, Bonnie Moore, to sift through the web of puzzling deals. About \$41,000 was spent to research the firm.

No charges announced

Although federal investigators have had the neighborhood group's work for a year and have indicated that they suspect the firm and the owners of mortgage fraud, no charges have been announced.

Firm owners Helgason of Chisago City and Balko of Rogers have declined to comment since the allegations surfaced last summer.

The suit cites the case of Webber-Camden plaintiff Elandria Gilchrist, who bought her home at 3838 Bryant Av. N. in 2003 for \$213,000. TJ Waconia then flipped five houses within 450 feet of her. Three are still vacant.

She put her house for sale last year at \$234,900, cutting that to \$159,900 by January before canceling the listing. The house is now in foreclosure. Gilchrist refused to comment.