



**United States Department of Justice  
United States Attorney's Office  
District of Minnesota**



# News Release

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## **Lakeville man sentenced for operating \$80 million Ponzi scheme with bank money**

Earlier today in federal court in Minneapolis, Corey N. Johnston, age 41, of Lakeville, was sentenced to a total of six years for operating a Ponzi scheme that defrauded 18 lenders in Minnesota and several other states. According to the government, the lenders suffered losses in excess of \$79.9 million. United States District Court Judge David S. Doty sentenced Johnston to 72 months in prison on one count of bank fraud and one count of filing a false income tax return. Johnston was charged on August 6, 2010, and pleaded guilty on September 2, 2010. Johnston will also be ordered to pay restitution.

In his plea agreement, Johnston admitted that from 2005 through March of 2009, he oversold participation in large commercial and personal loans arranged by him through his company, First United Funding ("FUF"). Loan participation is a common banking practice through which a bank pays the original lender all or a portion of the subject loan and then assumes that loan, along with its associated risk. From that point on, the bank, not the original lender, receives the loan payments from the borrower, as if the bank had made the loan in the first place.

Johnston's scheme involved selling more than 100-percent participation in at least ten different loans arranged through FUF. In other words, he purportedly sold loan participation to banks after already selling that same participation to other banks. In each instance, Johnston failed to disclose that the total participation exceeded 100 percent of the original loan, making it impossible for the participating banks to receive the money expected.

For example, Johnston oversold loan participation for a project known as White Out Way Investments. The original White Out Way loan, arranged through FUF, was for \$7 million.

Johnston sold 100-percent participation in that loan to Western National Bank. At the same time, however, he convinced several other banks to participate in the loan, including 100-percent participation by The National Bank in Bettendorf, Iowa, as well as partial participation by four other lending institutions. In all, Johnston solicited and received \$23.65 million from six banks for that one \$7 million loan.

In addition, Johnston oversold loan participation for a project known as JM Land Development II. The original JM Land Development loan was for \$8 million, and once again, Johnston sold 100-percent participation in the loan to Western National Bank. However, he simultaneously obtained full loan participation from Choice Financial, The National Bank, and Hillcrest Bank, along with partial participation from four other banks. Johnston solicited a total of \$38.65 million for an \$8 million loan. Six additional lenders also were defrauded during the course of this scheme by overselling participation in other loans.

Johnston used some of the proceeds of the fraud to repay other loans and perpetuate the scheme. He also diverted fraud proceeds for his personal use as well as for use by family members. Furthermore, Johnston failed to report the fraudulent income on his 2005 federal income tax return. That failure resulted in an underpayment of taxes to the U.S. in 2005 of approximately \$508,905.

This case was the result of an investigation by the Federal Bureau of Investigation, the Internal Revenue Service-Criminal Investigation Division, and the Federal Deposit Insurance Corporation. A receiver also was appointed by the Hennepin County District Court in a related civil case. The case was prosecuted by Assistant U.S. Attorney Robert M. Lewis.

This law enforcement action is in part sponsored by the interagency Financial Fraud Enforcement Task Force. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. It includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch and, with state and local partners, investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

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