

Rezko-Obama deal questions linger

Fallout from his relationship with politically connected Rezko dogs him still

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Tony Rezko was obviously in trouble. He was a defendant in at least a dozen lawsuits, federal investigators in Chicago were poking around, and his name was in newspaper articles about corruption and fraud.

None of that stopped Mr. Rezko, a politically connected developer, and Senator Barack Obama from completing real estate deals a few years ago that resulted in the Obamas obtaining their dream house and the Rezkos buying an empty lot next door.

Nearly three years later, fallout from Mr. Obama's relationship with Mr. Rezko, who raised more than \$150,000 for Mr. Obama's campaigns, continue to dog Mr. Obama on the presidential campaign trail. That distraction promises to linger as Mr. Rezko goes on trial on corruption charges starting Monday.

Mr. Obama, a Democrat, is not part of the case against Mr. Rezko, who is accused of shaking down companies seeking business with the State of Illinois. Mr. Obama has conceded that it was a mistake to bring Mr. Rezko into his personal real estate dealings, although he has insisted that there was nothing unusual about the developer's decision to buy a sought-after lot in an upscale neighborhood.

But a review of court records, including new details of Mr. Rezko's finances that emerged recently, show that the lot purchase occurred as he was being pursued by creditors seeking more than \$10 million, deepening the mystery of why he would plunge into a real estate investment whose biggest beneficiary appears to have been Mr. Obama.

As Mr. Obama and Mr. Rezko were completing the property purchases in June 2005, Mr. Rezko was fighting to keep lenders and investors at bay over defaulted loans and failing business ventures. But he side-stepped that financial dragnet by arranging for the land to be bought in his wife's name, making it the only property she owned by herself, according to land records.

As a result, when the Obamas bought part of the land from Mrs. Rezko seven months later to widen their yard, the money they paid was beyond the reach of Mr. Rezko's creditors, including one conducting a court-ordered hunt for his assets to recover a \$3.5 million debt.

Two lawyers involved in the civil litigation against Mr. Rezko said they believed that the property was subject to possible seizure on the premise that Mr. Rezko had been trying to hide behind his wife, Rita, who had little money of her own to complete the \$625,000 purchase.

The lawyers, both of whom requested anonymity because they did not have their clients' permission to speak about the cases, said there was little purpose in pursuing it because the legal costs would have outweighed the value of the property, which was encumbered by a \$500,000 mortgage.

Lawyers representing Mr. Rezko in the civil litigation declined to comment.

When the property deals first surfaced in late 2006, Mr. Obama said he had done nothing wrong. In a statement at the time, he also said: "It was a mistake to have been engaged with him at all in this or any other personal business dealing that would allow him, or anyone else, to believe that he had done me a favor." Mr. Obama's campaign emphasized Saturday that the criminal proceeding against Mr. Rezko "is not a case about Senator Obama."

The statement added: "Senator Obama knew Tony Rezko for two decades in very different circumstances, none of which involve the actions with which Mr. Rezko has been charged."

The fuller picture of Mr. Rezko's financial maneuverings emerged from an examination of civil suits in state and federal courts, as well as newly filed documents in his criminal case.

Mr. Rezko, a longtime confidant and fund-raiser for Gov. Rod R. Blagojevich of Illinois, a Democrat, has pleaded not guilty to charges of extorting campaign contributions and payoffs from companies looking to do business with the Blagojevich administration.

Mr. Obama's name is likely to surface during the trial, if only because \$10,000 of the money Mr. Rezko is accused of extorting wound up in Mr. Obama's 2004 Senate campaign. There is nothing to indicate that Mr. Obama did any favors for Mr. Rezko, but there is ample evidence that Mr. Rezko did favors for Mr. Obama.

The two men became friends in the early 1990s when Mr. Rezko tried to hire Mr. Obama to work on his low-income housing developments. When Mr. Obama turned to politics, Mr. Rezko was an early supporter and fund-raiser. Mr. Rezko also stepped in when Mr. Obama, a newly elected United States senator, and his family found a Georgian mansion for sale in the Kenwood section of Chicago.

When the transactions were first reported, Mr. Obama said only that he had asked Mr. Rezko, as a developer, whether he thought the house was worth buying. But last month, Mr. Obama's campaign staff said the senator also recalled walking around the house and the adjacent lot with Mr. Rezko.

Mr. Obama has said he did not know why Mr. Rezko decided to buy the lot. Business associates of Mr. Rezko said he gave various explanations, among them that he wanted to help the Obamas expand their backyard and that he thought it would be a good investment to own a lot next to a prominent politician. But Mr. Rezko's involvement was important because the owners of the house and the lot had stipulated that neither could be sold unless a deal for the other closed on the same day.

Michael Sreenan, a lawyer who handled the transaction for Mrs. Rezko, said that the lot was attractive to developers and that the Rezkos had to outbid others to buy it.

Some critics say that given Mr. Obama's longtime emphasis on ethics, it is puzzling that he would have been so involved with the Rezkos on the house and lot deals after questions had begun to crop up about Mr. Rezko's political and business activities.

For at least two years before the property purchases, news articles had raised questions about Mr. Rezko's influence over state appointments and contracts. There had also been reports that the F.B.I. was investigating accusations of a shakedown scheme involving a state hospital board to which Mr. Rezko had suggested appointments.

Also, Chicago officials had announced that they were investigating whether a company partly owned by Mr. Rezko had won public contracts by posing as a minority business.

As a result, said Jay Stewart, executive director of the Better Government Association in Chicago, Mr. Obama "should have been on high alert."

In addition, although Mr. Rezko enjoyed a reputation as a man of means, with a Mediterranean-style mansion, a sprawling chain of fast-food businesses and frequent multimillion-dollar real estate deals, the court records show, he was also sinking in financial quicksand.

Federal prosecutors filed papers last week saying Mr. Rezko had trouble paying creditors for years. At least 12 lawsuits had been filed against Mr. Rezko and his businesses from November 2002 to January 2005, including one by the G.E. Commercial Finance Corporation, which had extended more than \$5 million in loans for Mr. Rezko's pizza franchises.

G.E. obtained a court judgment against Mr. Rezko in November 2004 for the \$3.5 million that it said was outstanding on its loans, but the company put collection efforts on hold in the first half of 2005 as it negotiated with Mr. Rezko, court records show. When the Obamas and Rezkos bought their adjacent parcels that June, Mrs. Rezko put down \$125,000 in cash and financed the rest with a bank loan.

Vincent A. Lavieri, a lawyer who has represented clients in three lawsuits against Mr. Rezko, said Mr. Rezko's creditors could have tried to prove that Mr. Rezko was using his wife as a front to shield assets.

It is unclear where Mrs. Rezko got the money for the down payment and how she carried the loan, considering that she later said in an affidavit that she earned \$37,000 a year and had few assets.

Mr. Rezko, however, had come into money two months earlier, when he obtained a \$3.5 million loan from a Panamanian company controlled by his friend and business partner, Nadhmi Auchi, an Iraqi billionaire who was convicted several years ago in France on fraud charges.

Alasdair Pepper, a lawyer based in London who represented Mr. Auchi, said that Mr. Rezko was expected to use the money for his pizza business, and that "as far as my client is aware, Mr. Rezko used the loan for its intended purpose and not for any other purpose."

Court records in the G.E. case show that a few months after receiving the loan from Mr. Auchi, Mr. Rezko made a \$1 million payment to G.E., but stopped short of repaying everything he owed.

Finally, in October 2005, G.E. obtained an order allowing the company to begin seizing Mr. Rezko's assets. The company's lawyers filed a claim against the Rezkos' home and began issuing subpoenas to banks where Mr. Rezko had accounts, finding very little cash. Court records show that G.E. was due to be in court on Jan. 5, 2006, for example, obtaining an order to seize \$1,297.39 from one of Mr. Rezko's checking accounts.

Less than a week later, Mrs. Rezko sold a 10-foot-wide strip of the empty lot to Mr. Obama, for \$104,500, so he could widen his side yard. The Rezkos had little to show for the entire transaction.

Asked by a judge to give an accounting of his and his wife's assets last year after he was indicted, Mr. Rezko said that his wife had recently sold the remainder of the lot and that the small profit it generated went back to the buyer to help cover an old debt.

"So she didn't walk away with any cash?" the judge asked.

"Not one dollar," Mr. Rezko replied.

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