

Whistleblower News Review

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Whistleblower Didn't Live to See Landmark Allied Mortgage Verdict, Taxpayers Recover \$92 Million

By ML McLaren

In May, 2011, Peter Belli filed a complaint in Boston. With guidance from whistleblower experts at Mahany Law, he accused Allied Home Mortgage Capital Corporation of massive mortgage fraud in a False Claims Act “qui tam” whistleblower lawsuit.

Over five years later, and after a trial that lasted five weeks, a jury found both the corporation and its CEO, Jim Hodge, guilty of knowingly representing to Housing and Urban Development (HUD) that certain loans were properly prepared and eligible for Federal Housing Administration (FHA) insurance, when in fact they were not.

Belli had managed several Allied branches in Massachusetts, Rhode Island, Arizona, and other states. He was thus in an ideal position to observe Allied Capital's fraudulent practices, and he was determined to bring the scheme to light. Unfortunately, he passed away before the verdict came out only

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days ago in Texas. The move to a Texas court had been a choice of the defendants.

ALLIED SCHEME EXPOSED BY WHISTLEBLOWER PETER BELLI REPRESENTED BY MAHANYLAW

Allied was one of the largest FHA lenders in the years preceding the 2008 financial crisis. But the corporation did not reach that position by simply offering a good service. In fact, it engaged in a variety of fraudulent schemes to continue selling doubtful loans.

The whistleblower's attorneys at Mahany Law Firm clearly explained the scheme in an exclusive interview with WNR, “During the run-up to the 2008 financial crisis, Allied wrote hundreds of thousands of residential mortgages. Like most banks and lenders today, Allied did not keep these mortgages. They made a commission when the loans were sold. To facilitate their sale, the FHA

guaranteed these loans. This is the way the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation back these loans. If the loan later defaults, the government is on the hook for any deficiency. Without these loan guarantees, no one would buy these loans and there wouldn't be mortgage money available for home buyers."

ALLIED CASE SIMILARITIES TO BANK OF AMERICA \$16B WHISTLEBLOWER MORTGAGE SETTLEMENT

Mahany Law's Brian Mahany is best known for having represented a key whistleblower in the biggest False Claims Act settlement against the banking industry, a \$16.6 billion recovery from Bank of America.

That historic case brought to light some BoA practices similar to those of Allied Corporation. According to the DOJ, as part of that settlement, BoA acknowledged that it had "sold billions of dollars of Residential Mortgage-Backed Securities (RMBS) without disclosing to investors key facts about the quality of the securitized loans. When the RMBS collapsed, investors, including federally insured financial institutions, suffered billions of dollars in losses."

Perhaps Brian Mahany's experience may have been

instrumental in ensuring the success of the late Belli's lawsuit, which was promptly joined by the government. The Department of Justice's investigation was also key to achieving a favorable verdict and recovering millions of taxpayer dollars, which had been used to insure ineligible loans.

SOMETHING NEW: DOJ TARGETED ALLIED CEO – 1ST TIME LENDER LEADERSHIP MUST PAY

U.S. Attorney Kenneth Magidson has commented, "The excellent coordination between personnel from our two U.S. Attorney's Offices and with HUD investigators has resulted in a tremendous win for the government. Working together, we ensured a successful outcome following a lengthy trial and investigation against Allied and its CEO. We will continue to apply our resources whenever and wherever we can to ensure those that perpetuate such egregious fraud against the United States are held accountable for their actions."

The government has been awarded a total of \$92,982,775 in damages. Allied's CEO, Jim Hodge, will pay \$7,370,132. The original complaint had also named Jeanne Stell, the company's executive VP, who settled before the beginning of the trial.

\$92 MILLION ALLIED VERDICT MAY BE TREBLED SAY DOJ SOURCES: \$300 MILLION JUDGEMENT POSSIBLE

Because it is customary to treble damages in this type of cases, the amount of the government's recoveries could go as high as \$280 million. In a similar case, involving defaulted mortgage loans insured by the FHA, Anchor Mortgage was forced to pay the government civil penalties plus treble damages.

According to DOJ sources, judges do not have discretion in this respect. So, the judge in the case against Alliance is expected to treble.

The sizable whistleblower reward, which could amount to up to 30% of the total recoveries will likely go to Belli's estate. While it is extremely unfortunate that the courageous whistleblower will not personally enjoy his monetary reward, Mahany Law's win is a testimony to his painstaking efforts to bring Allied Corporation to justice. ■