ResCap Bankruptcy Trust Nets First Jury Verdict; Liquidating trust has previously generated $1.1 billion in settlements for creditors

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Body

A chapter 11 trust targeting Wall Street lenders for their pre-crisis mortgage practices won its first jury verdict Thursday, a $28.7 million award over bad loans that were sold to Residential Capital LLC before its 2012 ***bankruptcy***.

A Minnesota jury returned the verdict against Home Loan Center Inc. after a 16-day trial in U.S. District Court in St. Paul, finding the mortgage lender liable for selling mortgage loans to ***ResCap*** that misrepresented the underlying borrowers. ***ResCap***, once one of the largest U.S. subprime loan servicers, slid into chapter 11 after thousands of mortgages it bought, bundled into securities and resold plunged in value, sparking a crippling wave of lawsuits.

A liquidating trust was created through the ***bankruptcy*** process as the lynchpin to a $10 billion settlement that brought the chapter 11 case to an end. The trust has a mandate to claw back payments made to mortgage originators that sold loans to ***ResCap*** that misrepresented key characteristics of the borrowers-their income, occupations, where they lived and their other debts.

Lawsuits over so-called liar loans have been popular since the financial crisis as investors tried to make up losses on soured mortgage-backed securities. But the lawsuit against HLC is the first of its kind to proceed to a jury, according to Peter Calamari, a lawyer for the ***ResCap*** trust.

HLC sold over 6,200 mortgage loans worth more than $600 million to ***ResCap***, according to the 2015 complaint. An attorney for HLC didn't immediately respond to a request for comment.

Mr. Calamari said the ***ResCap*** trust had settled close to 80 other lawsuits before winning the award from HLC, which he estimated could balloon to $60 million after interest and legal fees are tacked on. The previous settlements generated more than $1.1 billion, according to trust documents.

"***Rescap*** bought these loans, securitized them, sold them off to investors and at times had the securitization pools insured," Mr. Calamari said. The ***ResCap*** trust has lawsuits pending against six remaining mortgage lenders, he said.

Key to ending the ***ResCap bankruptcy*** was addressing billions of dollars in claims lodged by bondholders, bond insurers and shareholders over the losses they suffered when mortgage defaults started to mount in the securities.

Under a court-approved liquidation plan , those claimants were repaid in part through equity units that gave them an interest in whatever the trust collected after the ***bankruptcy*** wrapped up. The units trade like stocks and many have wound up in the hands of hedge funds betting on successful settlements involving the trust.

ResCap's ***bankruptcy*** was intended to help its former parent, auto lender Ally Financial Inc., cut ties with the subsidiary so Ally could focus on repaying the taxpayer bailout it received during the financial crisis. In addition to creating the liquidating trust, ***ResCap*** also struck ***bankruptcy*** deals to sell mortgage-servicing platforms and loan portfolios under auctions that generated $4.5 billion in proceeds.

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Notes

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