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Freddie Mac Ends \$1.3B Taylor Bean Suit Against Deloitte

By **John Kennedy**

Law360, New York (January 20, 2016, 1:10 PM ET) -- Freddie Mac is dropping its \$1.3 billion lawsuit against Deloitte & Touche LLP for the accounting firm's alleged complacency in the fraud and eventual collapse of mortgage lender Taylor Bean & Whitaker Mortgage Corp., according to a short filing in Florida federal court on Wednesday.



Freddie Mac had shown that Deloitte put amateurs on the job to audit Taylor Bean and overlooked inconsistencies, according to a Florida federal judge. (Credit: AP)

In two sentences, the parties agreed to dismiss the suit with prejudice, but didn't provide any further details about the decision. A spokesman for Freddie Mac said only that the sides had come to mutually agreeable terms. Trial was set to begin on Feb. 22.

U.S. District Judge Ursula Ungaro **refused to toss the suit** in July, rejecting Deloitte's arguments that Freddie Mac's claims didn't show the firm was grossly negligent in preparing Taylor Bean's audits from 2002 to 2009 and that the federal mortgage company had enough evidence to demand punitive damages.

Contrary to Deloitte's assertions, Freddie Mac has shown that the firm put amateurs on the job, overlooked inconsistencies in audits and accepted the explanations of Taylor Bean executives even when they didn't make sense, the judge said.

She also kept intact claims stemming from the 2002 to 2005 reports, saying that while the majority of allegations dealt with post-2006 audits, enough touched on the pre-2006 reports for the complaint to stand as it was.

A spokesman for Deloitte told Law360 at the time that the company wasn't worried about the judge's decision, as it was sure it would be vindicated in the future. Deloitte could not be reached for comment on Wednesday's settlement.

Most recently — through December and January — the two sides have been busy submitting filings regarding the exclusion of certain evidence. Freddie Mac moved for partial summary judgment in early December, while Deloitte moved to bifurcate the case and separate calculation of punitive damages from all other issues at trial. Neither motion had been decided by Wednesday.

Freddie Mac sued Deloitte **in Florida state court** in September 2014, claiming that the international firm was responsible for losses the federal mortgage company sustained in Taylor Bean's August 2009 bankruptcy. The case was moved to federal court a month later.

Once the largest mortgage lender in the U.S. not owned by a deposit-taking bank, Taylor Bean sought bankruptcy protection after federal officers raided its headquarters in Ocala, Florida. Prosecutors discovered a fraud in which Taylor Bean had overstated its assets and understated its liabilities after executives created fake, worthless mortgage assets and triple-sold other assets, which allowed them to reap large profits and issue billions more in securities backed by the Federal Housing Administration.

The fraud led to several long prison sentences, including a 30-year term for former Chairman Lee Bentley Farkas.

In October 2014, Deloitte also **settled three lawsuits** seeking billions in damages for failing to detect the Taylor Bean fraud, though the details of those deals were confidential. The settlements allowed the company to avoid a consolidated trial in two of the suits, filed by Taylor Bean bankruptcy trustee Neal F. Luria and Deutsche Bank AG. The third suit was filed by Taylor Bean subsidiary Ocala Funding LLC.

All three suits claimed that Deloitte certified the company's annual financial statements while ignoring "obvious red flags" indicating fraud and allowed Taylor Bean to borrow billions of dollars it could never repay.

Freddie Mac is represented by Michael R. Tein of Lewis Tein PL, Paul D. Moak, Joshua Newcomer, Kyle A. Lonergan, James Smith, Mike McKool and Lewis T. LeClair of McKool Smith PC, and George A. Kielman, Scott L. Walker and Michael Stauber of the Federal Home Loan Mortgage Corp.

Deloitte is represented by Peter Prieto, John Gravante III and Matthew Weinshall of Podhurst Orseck PA, and Miles N. Ruthberg and Peter A. Wald of Latham & Watkins LLP.

The case is Federal Home Loan Mortgage Corp. v. Deloitte & Touche LLP, case number 1:14-cv-23713, in the U.S. District Court for the Southern District of Florida.

--Additional reporting by Jessica Corso and Carolina Bolado. Editing by Rebecca Flanagan.

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