SEC accuses 3 former mortgage execs of fraud

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WASHINGTON — Federal regulators on Monday accused three former top executives of collapsed mortgage lender New Century Financial of fraud, saying they misled investors as the company's subprime loan business was failing in 2006.

In a case stemming from the mortgage market meltdown, the Securities and Exchange Commission filed a lawsuit seeking injunctions, and unspecified civil fines and restitution against New Century's former CEO and co-founder Brad Morrice, former chief financial officer Patti Dodge and former controller David Kenneally.

The SEC also wants the three barred from serving as officers or directors of any public company and reimbursement of their bonuses or stock option awards.

Attorneys representing Morrice, Dodge and Kenneally didn't immediately respond to calls seeking comment Monday afternoon.

New Century had been the No. 2 U.S. maker of subprime mortgage loans, extended to borrowers with inferior credit records and the spark that ignited the home-loan bust. The company filed for bankruptcy protection in April 2007 after disclosing accounting errors.

Once a Wall Street darling, New Century had a market value of more than $1 billion at its zenith. It collapsed after a spike in defaults on subprime mortgages prompted its lenders to pull funding and demand that it buy back bad loans.

In its suit filed in federal court in Los Angeles, the SEC alleged that New Century's disclosures to investors falsely sought to assure them that its business wasn't at risk and was performing better than competitors — omitting significant negative information such as a dramatic spike in defaults on home loans. The three executives were aware of the negative information from numerous internal reports they received, including weekly reports that Morrice dubbed "Storm Watch," according to the SEC.

The SEC said the executives' misconduct inflicted major losses on New Century investors. Its stock traded at $30 to $50 from early 2006 through early 2007, but after the restatement of accounts was announced in February 2007, the shares plunged to around $19, the agency said. The stock was below $1 a share at the time of the bankruptcy filing two months later.

"New Century shareholders took a double hit," SEC Enforcement Director Robert Khuzami said in a statement. "The company's mortgage assets and business performance became increasingly impaired, and management manipulated its numbers and concealed its deteriorating performance."

In a March 2008 report, a court examiner in California found that New Century used improper accounting practices while making risky loans, creating "a ticking time bomb" that led to its rapid demise.

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