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State sues lawyers who, it says, defrauded troubled homeowners

California Atty. Gen. Kamala Harris' lawsuit says the defendants lured people with troubled home loans into paying \$4,000 to \$10,000 each to be added as plaintiffs in suits against banks.

By E. Scott Reckard, Los Angeles Times

August 19, 2011

California Atty. Gen. Kamala Harris has sued four Southern California lawyers and their associates, accusing them of defrauding distressed homeowners at their most vulnerable moment by deceiving them into thinking they would receive relief on their troubled home loans.

Harris said the attorneys, their law firms and 14 other individuals and companies listed as defendants had worked together to lure borrowers into paying \$4,000 to \$10,000 each to be added as plaintiffs in lawsuits against banks.



The alleged victims lived in 17 states, including California, where at least 2,500 homeowners were involved, she said.

She said she is seeking "tens of millions of dollars" in damages and fines on behalf of the homeowners who signed up to participate in the suits, then typically had only cursory conversations about their situations with participants in the alleged scheme who weren't even lawyers.

"Consumers are led to believe that joining these lawsuits will stay foreclosures, reduce their loan balances, entitle them to monetary benefits and potentially get them their homes free and clear of their mortgage," said the attorney general's suit, filed in Los Angeles County Superior Court.

According to the attorney general's lawsuit, the defendants often initiated the scheme by sending out misleading mailers notifying borrowers that they were potential plaintiffs in a "national litigation settlement" with their lenders. "No settlements exist," the lawsuit said, "and in some cases no lawsuit has even been filed."

Harris and officials from the federal Housing and Urban Development Department said troubled borrowers can find legitimate mortgage counselors at no cost on the HUD website, <http://www.hud.gov>.

At a webcast news conference in San Francisco on Thursday, Harris identified the "ringleader" as Philip Kramer of Calabasas, who — like another major participant in the alleged scam, Mitchell J. Stein of Agoura Hills — was a prominent lawyer for troubled borrowers. Attorneys Christopher Van Son of Ventura County and Paul Warren Petersen of Orange County also were among the defendants.

The attorneys could not be reached for comment by phone or email. Under orders from Superior Court Judge Frank J. Johnson, state officials had frozen the attorneys' assets temporarily, and the State Bar of California had taken over their offices and files.

Authorities are seeking a permanent order against the lawyers that would make them ineligible to practice law in California, state bar officials said.

The attorney general's lawsuit, filed under seal Monday, accuses the defendants of false advertising, unfair business practices and improperly splitting fees with telemarketers and mass mailing firms used to solicit business.

Harris said the work of her mortgage fraud task force and the state bar association "will bring justice to many homeowners in California who were targeted by predators who happened to have a law license."

The defendants are accused of working to defraud homeowners across the country by deceptively marketing "mass jinder" lawsuits, which have hundreds or more individually named plaintiffs.

At the news conference, Harris said the state would seek "fines, penalties, damages and restitution in potentially the tens of millions of dollars."

State and federal regulators, criticized for doing little to stop reckless lending and fraud during the housing boom, have rushed to find villains in the aftermath of the mortgage meltdown.

In May, Harris announced the formation of a special squad of lawyers and investigators to investigate mortgage fraud. The case announced Thursday is the first stemming from work by the task force, Harris said.

On a related topic, she said negotiations are continuing between a coalition of state attorneys general, federal officials and five major mortgage companies accused of "robo-signing" foreclosure documents and other mistreatments of troubled borrowers.

The state officials started looking into reports of wrongdoing last fall. Harris said it should become clear by the end of this year whether a settlement with the lenders is possible.

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