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Kyle Lagow, Original Countrywide Financial Whistleblower, Kept Case Secret For Years

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By Rick Rothacker

July 12 (Reuters) - For nearly three years, as Kyle Lagow struggled to find work and his finances crumbled, he kept a secret from nearly everyone he knew, including his wife: He was a whistleblower.

Lagow had filed a suit against his former employer, subprime mortgage lender Countrywide Financial, alleging appraisal fraud. He couldn't discuss the case, filed under seal, until this year when he was awarded \$14.5 million for his role in sparking a \$1 billion settlement with Countrywide's current parent, Bank of America Corp.

"You have to sit there in silence, and you just get up every day and beat your head against the wall," Lagow, 50, said in a recent interview.

The settlement has brought Lagow financial security and a measure of redemption. But it was a long, hard path. And even after his travails, he fears little has changed in the mortgage industry.

Lagow's suit, first filed in May 2009, was one of five whistleblower cases folded into the broader \$25 billion mortgage settlement reached in February with Bank of America and

four other lenders. The suits were brought under the U.S. False Claims Act, a Civil War-era law that targets those who swindle the government. Under the law, successful cases can earn whistleblowers between 15 and 25 percent of a settlement.

Lagow, who speaks with the drawl of his native Texas, ran his own appraisal company for 14 years before Countrywide offered him a job with more growth potential in 2004 at a unit called LandSafe Inc. Countrywide got into the business of valuing homes to earn additional fees during the mortgage lending process. Lagow's job was to hire and train new staff appraisers in multiple states.

Appraisers are supposed to offer independent analyses of home values to help a bank determine whether it makes sense to lend. If the home -- the collateral for the mortgage -- is estimated to be worth less than the buyer is willing to pay, the bank is foolish to make the loan.

What Lagow learned was that Countrywide wanted to make loans whatever the collateral was worth. LandSafe executives routinely pressed staff appraisers and independent appraisers to boost home values to ensure sales went through, according to a suit he filed in 2009.

Lagow also spotted trouble with a joint venture Countrywide had with homebuilder KB Home, according to his suit. The builder would only work with select appraisers, who were inflating home values to make sure sales went through, according to his suit. KB Home declined to comment.

INTERNAL INVESTIGATION FINDS NOTHING

Lagow did not set out to be a whistleblower. He started out trying to talk to Countrywide executives.

In January 2008, after supervisors had repeatedly ignored his warnings, Lagow sent an email to Countrywide Chief Executive Officer Angelo Mozilo, according to the complaint. Mozilo responded that someone from his staff would get in touch, and Lagow later talked with Countrywide's chief operations officer, Jack Schakett, and its chief compliance officer, Richard Wentz.

Two weeks later, Lagow received an email from Wentz stating that his complaints had been investigated and there were no issues that needed to be addressed, according to the complaint.

Schakett and Wentz did not respond to requests for comment.

David Siegel, an attorney for Mozilo, said his client was not involved in or aware of any of the alleged wrongdoing. "The complaint establishes that when first advised by Mr. Lagow of his allegations Mr. Mozilo responded promptly and appropriately, referring the matter for investigation."

In January 2008, Bank of America agreed to buy Countrywide as it verged on collapse. That November, Lagow was fired. At the time, he was undergoing treatment for thyroid cancer; he has since recovered.

Bank of America declined to comment on Lagow's case. "We have a strategy to put Countrywide and other legacy issues behind us as quickly as we can," bank spokesman Rick Simon said.

Lagow did not know he had a whistleblower case until the spring 2009 when he called the Seattle-based law firm of Hagens Berman, which had brought suits against KB Home on behalf of homeowners. False Claims cases are filed under seal so as not to impede government investigations. Because talking about the case could jeopardize the probe, his lawyers told him not to mention the litigation to anyone, even his wife.

That summer, he met with prosecutors in the U.S. Attorney's Office in the Eastern District of New York, who then subpoenaed Countrywide loan files.

Investigators not only found evidence of appraisal fraud, a government source said, but also rampant problems with the underwriting of Federal Housing Administration loans, which allow consumers to buy homes with low down payments. The case focused on loans made by Countrywide, not Bank of America.

STICKING YOUR HEAD UNDERWATER

As the litigation dragged on, Lagow suffered. He could only find spotty contract appraisal work. At a low point, the family's water, power and gas were shut off. A daughter who was a law school student ordered pizza for the family to make sure they had something to eat.

Lagow and his wife, DeAnn, have five children, including college-age and adult children who lived with them during part of the ordeal.

"If somebody stuck your head underwater and just held it there I'm not sure it would be as bad as not being to tell your family, not being able to tell your friends, having (car repossession) knock on your door, having your neighbors look at you as a failure, having your kids look at you as a failure," Lagow said.

When prosecutors decided to roll his case into a bigger settlement, officials determined

Lagow's portion of the pact was worth \$75 million. In May, he received his cut -- 19 percent of the total. Taxes and legal fees come out of the \$14.5 million.

Lagow had been able to tell his wife about the case only a few months earlier.

"I don't think anybody actually believed it until it actually hit the bank," Lagow said.

His reward was one of the larger ones among recent finance-related whistleblower cases. Citigroup Inc employee Sherry Hunt received \$31 million in a mortgage-related case settled by her employer, and homeowner Lynn Szymoniak received \$18 million in one of the suits wrapped into the mortgage settlement.

GOING TO DISNEY WORLD

Lagow says his goal was to help fix the mortgage system, not to strike it rich. He is unsure if he met his goal.

Bank of America, for example, still owns LandSafe. A rule approved by the Federal Reserve Board allows lenders to continue to own appraisal companies if they have appropriate firewalls. The bank says it has those firewalls.

And banks can still certify on their own that a loan is eligible for FHA guarantees, with little government oversight, Lagow said, an issue he brought up in his complaint.

But by taking on Countrywide, Lagow has helped bring some relief to some of the lender's former customers.

In the \$1 billion settlement -- the largest False Claims case related to mortgage fraud -- the bank will pay \$500 million to the FHA and use the rest to fund a loan modification program for Countrywide borrowers whose loan balances exceed the worth of their properties. If the bank doesn't make enough modifications, it will pay the remainder to the government.

Lagow would still like to find work as an appraiser but so far has had no luck. He has bought a new home and has treated his family to a trip to Disney World, but he plans to leave most of the award to his kids.

"They are the ones," he said, "who suffered through this."

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