

# Court Grants Final Approval of Nearly \$125 Million Settlement in In re New Century Securities Litigation

November 8, 2010

After several years of intense litigation, the United States District Court of the Central District of California granted final approval of the nearly \$125 million settlement reached by Lead Plaintiffs and New Century Financial Corp. Defendants, in what was the first subprime-related securities litigation filed in the aftermath of the subprime-mortgage market collapse in 2007.

The settlement, which was obtained from the company's directors and officers, its outside auditor KPMG, and offering underwriter defendants, is noteworthy given that the New Century was a bankrupt mortgage finance company at the time of litigation, leaving its investors without a viable entity from which to recover. According to numerous industry observers, this achievement was "enormously difficult given the number of parties, the number of proceedings, the number of insurers, and the amount of money at stake." (*The D&O Diary*)

The action alleges New Century and individual defendants artificially inflated the price of the Company's securities through false and misleading statements concerning the significant risks associated with its mortgage lending business. In particular, they failed to disclose that New Century maintained grossly inadequate reserves against losses associated with loan defaults and delinquencies. These understated reserves, which detract directly from earnings, caused the Company to significantly overstate its publicly reported earnings. They also falsely represented the existence of internal controls and their effectiveness relating to loan origination, loan underwriting and financial reporting.