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# Mortgage Co. Execs Hit With Investor Suit Claiming Fraud

By **Sydney Price**

Law360 (May 23, 2023, 3:33 PM EDT) -- Shareholders of online mortgage company Rocket Cos. Inc. allege in a derivative suit that board members made numerous misleading statements about the business' profitability despite knowing loan demand was declining and that its CEO exploited the nonpublic information in an insider trading scheme.

Rocket shareholder Michele Rayner-Altenbernd filed the complaint in Michigan federal court Monday over actions she alleged took place from at least Feb. 9, 2021, to May 5, 2021. The complaint alleges Rocket's executives misled investors during the class period about the growth rate of its loan volume.

Rocket issues mortgages through a direct-to-consumer segment, known as its "retail" business, and a partner network, which uses referrals from mortgage brokers or third parties to acquire customers.

"Rocket's total loan volume, as well as the loan volume in each of the company's channels, had been declining for months since its peak in November 2020," the complaint says.

Rayner-Altenbernd claims former Rocket CEO Daniel Gilbert used nonpublic information to sell 20.2 million shares of Rocket's stock for approximately \$500 million on May 29, 2021. The information was presented to Gilbert six days prior at a board meeting, the complaint alleges, and showed "disappointing" internal financial forecasts — including a decrease in almost \$1 billion in revenue for the year and a significant drop in gain on sale margin, a key measure of Rocket's profitability.

On May 5, 2021, Rocket released its first-quarter 2021 report. Rocket lowered guidance and said rising interest rates were adversely affecting the business, the complaint states.

On this news, the price of Rocket's stock declined approximately 17% to close at \$19.01 on May 6, 2021, before hitting a low of \$16.48 per share on May 11, 2021, the complaint states.

Last year, a securities class action was filed against Rocket, its majority shareholder Rock Holdings Inc., and some of Rocket's officers and board members based on the stock decline that occurred after the release of its May 2021 earnings report and Gilbert's alleged insider trading. The suit is still pending.

Monday's derivative suit was filed on behalf of Rocket, which is a nominal defendant. In addition to Gilbert, the complaint named individual defendants Rocket CEO Jay Farner and board members Jennifer Gilbert, Matthew Rizik, Suzanne Shank, Nancy Tellem and Jonathan Mariner.

"The individual defendants, together and individually, violated and breached their fiduciary duties of candor, good faith, and loyalty," the complaint states. "Specifically, the individual defendants knowingly approved and/or permitted the wrongs alleged herein and participated in efforts to conceal those wrongs."

Rayner-Altenbernd seeks restitution from the defendants, damages for the company, and an order directing Rocket to improve its corporate governance and internal controls.

Rocket told Law360 in an email that it will "vigorously defend" its reputation against the claims.

"This lawsuit is nothing more than a regurgitation of an existing spurious case brought forward by

another plaintiff's firm trying to cash in," a spokesperson for Rocket said. "The hodge podge of allegations is a work of fiction — based on a complete distortion of reality. Our leadership and company have been forthcoming and transparent in all releases, disclosures and statements — and all stock sales were done in complete accordance with company policy."

Counsel for the plaintiff did not immediately return requests for comment Tuesday.

Rayner-Altenbernd is represented by Anthony L. DeLuca of Anthony L. DeLuca PLC, Seth D. Rigrodsky, Gina M. Serra and Timothy J. MacFall of Rigrodsky Law PA and Joshua H. Grabar of Grabar Law Offices.

Counsel information for Rocket was not immediately available Tuesday.

The case is Rayner-Altenbernd v. Gilbert et al., case number 2:23-cv-11207, in the U.S. District Court for the Eastern District of Michigan, Southern Division.

--Editing by Marygrace Anderson.

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