Collateral Damage

No deed unpunished: 511 Ballantyne Road.

Wonder why bad loans are swamping mortgage titans? Let's visit 511 Ballantyne Road in the leafy, upscale Detroit suburb of Grosse Pointe Shores. The property, a seven-bedroom mansion reportedly once owned by a GM founder's daughter, now belongs to wobbly giant Washington Mutual via foreclosure, just months after the bank lent $2.24 million. Current value: maybe $1.5 million.

WaMu made the loan even though the public record included two sales of the property on the same January 2006 day for starkly different prices, and to colorful characters. The first, for $1.15 million, was to Douglas Parrish, a disbarred lawyer. The second, from Parrish to aspiring strip club owner John J. Salvador, was for $2.4 million. The initial lender, Los Angeles' Metrocities Mortgage, lent Salvador $2 million, suggesting someone was holding $850,000 of loan proceeds. Both men told FORBES they were defrauded by partners, including a Detroit political figure now linked to an ongoing bribery probe whom Salvador sued unsuccessfully.

Then Salvador undertook an unsuccessful effort to buy Las Vegas' Crazy Horse Too strip club, which had been seized by the feds for unpaid taxes. Along the way he managed to refinance the Metrocities loan on 511 Ballantyne Road in May 2007, when the Detroit-area WaMu operation lent him $2.24 million. By all accounts, even then that far exceeded the property's value. Just eight months later, in January 2008, WaMu foreclosed. The house, near the waterfront facing Canada, now sits empty.

The flip and attendant financings caught the eye of Bernard J. Youngblood, the elected Wayne County register of deeds. He says he asked WaMu and Metrocities to request a formal investigation, which would give him legal authority to subpoena now private documents like appraisals and settlement sheets. So far, he says, both have refused. Youngblood, who brought this to our attention, speculates that lenders are worried about their own liability for errant acts of their employees. Reps of WaMu and Metrocities declined to comment. —*Peter C. Beller*

Turning Pink Into Green

Listed on the no-man's-land stock market called the Pink Sheets, Green Earth Technologies isn't required to file current financials. Its last statement, for the year ended June 2007, showed only $100 in cash, no revenue or R&D spending, and a negative net worth. Yet since April its shares have jumped 1,400% to a recent $2.75, for a market cap of $220 million. The rise comes as Green Earth touts its development of G-Oil, described as a motor lubricant made not from petroleum but from discarded animal fat collected in Oklahoma, and which biodegrades after an oil change. Earlier this year venture capitalist Jeff Marshall, an ex-Bear Stearns official whose background is in information technology, became the boss, moved the firm, which has sported numerous names, from California to Stamford, Conn. and raised funds from private placements. He tells FORBES the potential market for green products is so big Green Earth needs only a small market share. —*William P. Barrett*

One Big Dropped Ball?

In a potentially embarrassing lawsuit the Internal Revenue Service is trying to collect on a huge tax settlement deal it struck ten years ago. Evidently the taxpayer, a prominent Orange County, Calif. precious metals dealer, had moved the enterprise into other legal entities years before settling. The filing offers no explanation for the IRS' decadelong collection delay. As it happens, a new Government Accountability Office report calls IRS collection efforts inadequate, figuring almost as much old debt is written off as collected.

The agency lawsuit says Monex International Ltd., run by Louis Carabini, agreed in early 1998 to a court judgment that it owed $134 million for 1980 to 1984, a sum due largely to disallowance of a dodgy tax shelter involving London Metal Exchange straddle transactions. With interest and penalties, that's now $378 million.

Defendants are seven Monex entities the agency says are run by Carabini as successor to Monex International, earlier known as Pacific Coast Coin Exchange. Carabini himself is not a defendant.

Starting in the late 1980s, the feds say, Carabini created new legal entities and transferred the operation in order to duck taxes. The lawsuit implies IRS ignorance of the ploy, although existence of such legal entities, many with the same Newport Beach address, would have been easy to see from public records. So, too, would have been the operation's many run-ins over the years with federal regulators, suggesting the need for a high level of circumspection.

The lawsuit, filed in Santa Ana, cites the Monex Web site, which touts the enterprise's 40-year track record, to bolster its theory that the distinction between the old and new entities is artificial and can be ignored. An answer hasn't been filed yet in court. Lawyers for Monex and the IRS didn't respond to requests for comment. —*Janet Novack and W.P.B.*

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