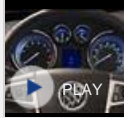


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By RUTH SIMON And ERIK HOLM

Bond investors and regulators are stepping up their efforts to get others to pick up losses stemming from the mortgage meltdown.

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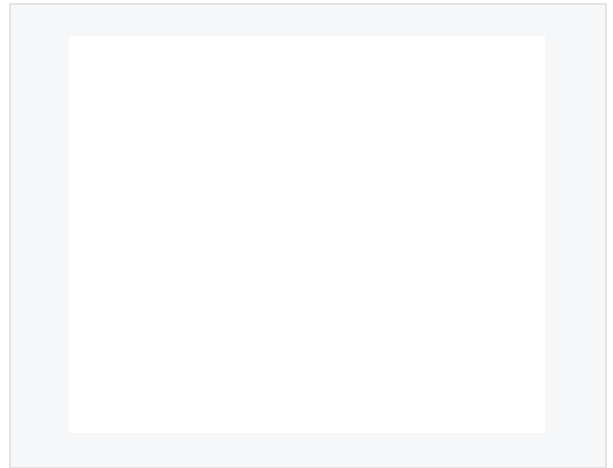
In the latest round of score-settling, American International Group Inc. on Monday filed a lawsuit against Bank of America Corp. in New York Supreme Court. It is seeking to recover more than \$10 billion on investments in mortgage-backed securities it initially purchased for about \$28 billion between 2005 and 2007.

The 187-page lawsuit alleges "massive fraud" by Bank of America and two units it acquired, Merrill Lynch and Countrywide, saying that they packaged securities that were backed by "hundreds of thousands of defective mortgages." The lawsuit is one of the largest of its kind brought by a single investor since the housing bubble popped. AIG is likely to file similar suits against others, people familiar with the matter said.

Bank of America spokesman Lawrence DeRita said the bank's disclosures on the quality of mortgage bonds were robust enough for sophisticated investors. He called AIG "the very definition of an informed, seasoned investor" and said the insurer's losses were "solely attributable to its own excesses and errors."

Efforts to recover losses have picked up steam in recent months. In July, the federal regulator overseeing Fannie Mae and Freddie Mac filed a lawsuit against UBS AG, seeking to recover losses related to the sale of more than \$4.5 billion in mortgage-backed securities. The lawsuit is expected to be the first of a number of actions filed by the Federal Housing Finance Administration.

The National Credit Union Administration has in recent weeks filed in federal court securities lawsuits against Royal Bank of Scotland Group PLC and J.P. Morgan Chase & Co., alleging



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State Firm to Keep Stake in Bharti Hexacom

After years of trying to sell its 30% stake in Bharti Hexacom, a unit of Bharti Airtel, government-owned Telecommunications Consultants India has decided to defer the share sale.

10:41 PM

Dhruva Expects to Grow As Gaming Gains Hold

Dhruva Interactive, one of India's largest gaming company, see opportunities for growth in India and abroad. It's a good position to be in, says Rajesh Rao, chief executive of the company in an interview.



6:41 PM

Crop Scouts Stalk North Dakota's Wheat

To get a preview of the coming North Dakota wheat harvest, about 70 people criss-crossed the state for three days to inspect more than 400 fields in the annual wheat tour.



that the banks violated securities law in the sale of bonds backed by risky mortgages to now-defunct credit unions.

In June, Bank of America agreed to pay \$8.5 billion to settle claims by a group of high-profile bond investors who took a beating on mortgage bonds issued before the housing market collapsed. AIG on Monday filed an objection to the proposed settlement.

Meanwhile, the FDIC is in the process of evaluating whether it has legal claims related to mortgage-backed securities and other investments purchased by failed banks, people familiar with the matter say. The FDIC expects to begin making decisions on whether to proceed with some of these claims within the next six months, these people add.

"There are numerous investors who have potential claims who are making decisions about whether they want to assert those claims or let the possibility for recovery go by the wayside," says Amy Williams-Derry, an attorney in Seattle who is representing three Federal Home Loan Banks in lawsuits alleging violations of securities law in the sale of mortgage-backed securities. Ms. Williams-Derry expects additional investors to file lawsuits or demands that banks repurchase troubled mortgages or change their mortgage servicing practices.

Several forces are driving the recent burst of activity. It has taken some investors and government entities years to assess their losses, conduct the investigations needed to support a claim and assess what legal strategies may have the best chance of success. The NCUA, for instance, began its investigation in 2009 and issued 986 subpoenas to companies involved in the mortgage machine. Government investigations have also provided private investors with documents and information that can be used to bolster their efforts.

The clock is ticking on certain types of legal claims. For instance, the statute of limitations on the common-law fraud claims made by AIG in its lawsuit is six years in New York and shorter in some other states, people familiar with the matter said.

Government entities such as the Federal Housing Finance Administration and the NCUA that act as conservators often have longer statutes of limitations than private investors.

"Most people will be filing claims they have this year or ... by next summer," says George Zelcs, an attorney in Chicago who is representing the NCUA.

Heard on the Street

■ BofA Pays Price for Equity Hard Line

Investors still have time to file requests that banks repurchase troubled mortgages because they violate representations and warranties made when the loans were packaged into securities. The recent Bank of America settlement could give more steam to such efforts because it shows investors can organize themselves. Typically, investors must show that they control at least 25% of a bond deal in order to request that the trustee, who is charged with acting on behalf of investors, initiate a repurchase demand.

"We have demonstrated that a large and cohesive group of bondholders can organize and pursue these claims and we expect other trustees and issuers to take note," says Kathy Patrick, an attorney representing the bond investors involved in striking the Bank of America settlement.

In the lawsuit filed Monday, AIG said Bank of America and its subsidiaries inflated home appraisals, allowed borrowers to misstate their income, ignored internal warnings about shoddy underwriting and selected the riskiest mortgages for securitization.

The lawsuit references information gathered from several confidential witnesses, including one who alleged a vice president at [Bank of America](#) said he "didn't give a flying f—" about whether loans met the bank's underwriting standards.

An analysis of 262,322 mortgages, just a fraction of the loans that were pooled in the mortgage securities AIG purchased, found 40% of the loans violated the underwriting standards described by the bank when it sold the securities, the lawsuit alleges.

While the statute of limitations on common-law fraud claims made by AIG in its suit is six years in New York, in January Bank of America reached a tolling agreement with AIG holding that any claims from Jan. 10, 2005, could still be made, people familiar with the matter said. Typically tolling agreements are made so that a settlement between parties can be reached, these people said.

—Dan Fitzpatrick contributed to this article.

6:32 PM

European Stocks Recover as Asia Markets Stall

European stocks snapped a seven-session losing streak, as investors stepped in to buy beaten-down shares after recent marked declines. Most Asian stock markets fell, pulled down by the giant selloff in the U.S. on Monday.

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