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THE WALL STREET JOURNAL.

WSJ.com

BUSINESS | JULY 19, 2011, 5:05 A.M. ET

RBS Faces Second Suit Tied to a Credit-Union Failure

By RUTH SIMON

U.S. credit-union regulators filed their second lawsuit against [Royal Bank of Scotland Group PLC](#), alleging that the bank violated securities laws when it sold nearly \$1.6 billion in bonds backed by risky mortgages to a now-defunct credit union.

The lawsuit, filed Monday by the National Credit Union Administration in U.S. District Court in Los Angeles, seeks damages in excess of \$629 million and accuses RBS of selling mortgage-backed securities that "were destined from inception to perform poorly."

The securities were bought by Western Corporate Federal Credit Union, or WesCorp, a wholesale credit union that was seized by the NCUA in March 2009.

An RBS spokesman declined to comment on Monday's lawsuit.

The lawsuit is the third filed by the NCUA since June—and the second against RBS. The NCUA was saddled with roughly \$50 billion in bonds following the collapse of WesCorp and other troubled credit unions that loaded up on bonds that got battered during the financial crisis. NCUA officials plan to file a total of five to 10 legal actions in an effort to recover losses.

"NCUA continues to carry out our responsibility to do everything reasonable in our power to seek maximum recoveries," NCUA Board Chairman Debbie Matz said in a statement.

Forty-seven credit unions have failed since the start of 2009. Survivors are being forced to absorb some of the costs of the failures. To offset those costs, some credit unions are charging higher interest rates on loans and paying less interest on deposits.

RBS was one of the largest providers of mortgage-backed securities to WesCorp and U.S. Central Corporate Credit Union, another failed credit union, an NCUA spokesman said.

In June, the NCUA filed a civil lawsuit in U.S. District Court in Kansas City, Kan., against RBS involving roughly \$565 million in claims for bonds sold to U.S. Central, which was based in Lenexa, Kan.

The NCUA filed a second civil lawsuit in federal court in Kansas City at the same time involving \$278 million in claims against [J.P. Morgan Chase & Co.](#) J.P. Morgan declined to comment.

In Monday's suit, the NCUA said mortgages underlying bonds sold to WesCorp "were largely underwritten without adherence to the underwriting standards" laid out in the offering documents.

As a result, the bonds were "significantly riskier" than WesCorp was led to believe, according to the NCUA.

As of May, nearly half of the loans backing bonds purchased by WesCorp were in delinquency, bankruptcy or foreclosure or the homes had been seized by the lender, according to the complaint.

Before its collapse, WesCorp loaded up on risky mortgage-backed securities. At the time it failed, WesCorp was the second-largest corporate credit union. WesCorp and other corporate credit unions don't serve the general public, but instead provide financing, check clearing and other tasks for ordinary credit unions.

WesCorp failed after suffering \$6.9 billion in investment losses.

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