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## Royal Bank of Scotland is sued by federal regulators over credit union losses

The National Credit Union Administration lawsuit is seeking \$629 million for allegedly selling risky mortgage securities to Western Corporate Federal Credit Union.

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By E. Scott Reckard, Los Angeles Times  
July 19, 2011

Federal regulators are seeking \$629 million in damages from a Royal Bank of Scotland unit accused of selling riskier-than-advertised mortgage securities to Western Corporate Federal Credit Union, a San Dimas credit union that failed during the financial crisis.

The National Credit Union Administration lawsuit was filed Monday in U.S. District Court in Los Angeles. It alleged that RBS Securities knew or should have known that the loans backing its bonds contained "systematic" misrepresentations about the borrowers' incomes, debt levels, equity in properties and intent to live in the homes that were mortgaged.

WesCorp, as the credit union was known, was seized by the government in March 2009 after incurring nearly \$7 billion in losses, largely because of bad investments in mortgage-backed bonds. The wholesale credit union was one of five that failed as the crisis whipsawed through Wall Street, and the National Credit Union Administration is now suing to recoup losses on \$50 billion of bonds that plunged in value.

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"These misrepresentations caused WesCorp to believe the risk of loss associated with the investment was minimal, when in fact the risk was substantial," the federal agency said in a news release. "The mortgage-backed securities experienced dramatic, unprecedented declines in value, effectively rendering WesCorp insolvent."

RBS attorneys could not be reached immediately for comment.

WesCorp, a giant among credit unions with \$23 billion in assets when it failed, had grown rapidly starting in 2002, ultimately borrowing heavily to invest in securities backed by so-called alt-A and pay-option mortgages.

The loans, popular during the housing boom, often were

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issued without verifying borrowers' incomes, and the pay-option mortgages allowed the borrowers to pay so little that their loan balance would rise instead of falling or staying

level. They defaulted in high numbers after the market turned.

The agency said the \$50 billion of questionable mortgage securities held by the five seized corporate credit unions, nearly all of which fell into default, originally carried top ratings from credit-rating agencies, nearly all AAA. After regulators stripped out the toxic elements, the bonds were repackaged into new securities and sold for \$28.3 billion to investors with guarantees provided by the U.S. Treasury.

The retail credit unions are now required to make payments to cover the corporate credit unions' losses.

The National Credit Union Administration last month named RBS and a JPMorgan Chase & Co. securities unit as defendants in a similar suit, filed in federal court in Kansas City, Kan. It seeks to recover \$843 million in losses sustained mainly by U.S. Central Corporate Credit Union of Lenexa, Kan.

Debbie Matz, chairwoman of the National Credit Union Administration board, said her agency may file as many as 10 such lawsuits.

"We expect to file additional actions, seeking damages in the billions of dollars," she said in the news release. "Those who caused the problems in the wholesale credit unions should pay for the losses now being paid by retail credit unions."

Other agencies also have been filing lawsuits blaming financial firms and executives for mortgage-related losses, among them New York federal prosecutors, who are seeking \$1 billion from Deutsche Bank, Germany's largest bank, related to mortgages insured by the Federal Housing Administration.

The Federal Deposit Insurance Corp. has demanded that Kerry Killinger and Michael Perry, the former heads of failed Washington Mutual Bank and IndyMac Bank, respectively, pay hundreds of millions of dollars toward covering losses to the nation's deposit insurance fund.

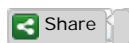
The defendants in those cases have denied wrongdoing.

In September, the National Credit Union Administration sued 14 former WesCorp officers and directors, alleging fraud, negligence and breach of fiduciary duty. This month, a federal judge in Los Angeles issued a tentative ruling saying he intended to dismiss the allegations against 10 outside directors but let the suits stand against four top officers accused of pumping too much money into the mortgage bonds.

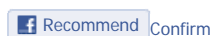
The former executives — Robert A. Siravo, Todd M. Lane, Thomas E. Swedberg and Robert Burrell — have denied wrongdoing and said they would contest the accusations.

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