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## **US regulator sues JPMorgan and RBS**

By Tom Braithwaite in Washington and Justin Baer in New York

**JPMorgan Chase** and **Royal Bank of Scotland** have been sued for more than \$800m by the US credit union regulator for alleged mis-selling of mortgage-backed securities in the first of an expected series of lawsuits seeking to recover “billions” of dollars.

The National Credit Union Administration filed suits in Kansas City on Monday as part of an attempt to recover losses on a \$50bn portfolio of assets, which it inherited when it seized five failing wholesale credit unions after the financial crisis.

In court filings, the NCUA said that the sellers, issuers and underwriters made “numerous material misrepresentations” in the offering documents. This “caused the corporate credit unions that bought the notes to believe the risk of loss associated with the investment was minimal, when in fact the risk was substantial”.

The regulator said US Central, Western Corporate, Southwest Corporate, Members United Corporate and Constitution Corporate failed after the securities went sour.

It is the latest action by government officials [probing the sale of MBS and collateralised debt obligations](#), which package together the securities, both of which plunged in value when large numbers of homeowners began defaulting on the underlying mortgages.

RBS and JPMorgan declined to comment.

The NCUA, which guarantees credit unions’ funds much like the Federal Deposit Insurance Corporation guarantees bank deposits, is continuing to try to settle its claims with other banks out of court.

“NCUA’s legal actions are based on ongoing investigations of individuals and entities responsible for selling these securities to the failed institutions,” said Debbie Matz, chairman of the NCUA.

“The first two actions involve damages in excess of \$800m. We expect to file additional actions and seek a total amount of damages in the billions of dollars. Those who caused the problems in the wholesale credit unions should pay for the losses now being paid by retail credit unions.”

The court filings quote liberally from the slew of post-crisis investigations from different agencies, congressional committees and news articles that have described the rush to lend to borrowers without regard for their ability to repay, and the ensuing collapse of instruments backed by mortgages.

The complaint alleges that although the securities were sold as the highest AAA investment grade, they were far riskier than disclosed as “a material percentage of the borrowers whose mortgages comprised the [MBS] were all but certain to become delinquent or default shortly after origination”.

In the most high profile enforcement action linked to the sale of mortgage-backed products, **Goldman Sachs** was charged with fraud last year by the Securities and Exchange Commission. The [bank paid \\$550m to settle the case](#) related to a collateralised debt obligation known as Abacus without admitting wrongdoing.

The Senate permanent subcommittee on investigations subsequently [directed more allegations of mis-selling at Goldman](#). Other banks have held talks with government officials to try to agree settlement terms over similar allegations.