

NOVEMBER 29, 2011, 2:56 P.M. ET

## Credit Union Agency Sues Wells Fargo Over Mortgage Securities

NEW YORK (Dow Jones)--The National Credit Union Administration, after reaching a settlement over soured mortgage investments earlier this month, is now suing Wells Fargo & Co. (WFC) over about \$200 million in soured mortgage-backed securities.

The NCUA, the agency regulating and supervising federal credit unions, alleges that Wachovia's two capital markets businesses sold faulty mortgage-backed securities to U.S. Central Federal Credit Union and Western Corporate Federal Credit Union, both of which were liquidated in 2009. Wells Fargo bought Wachovia in late 2008.

A spokesman for San Francisco-based Wells Fargo said, "We look forward to defending ourselves vigorously and we believe that the claims in the lawsuit are without merit."

Potential damages would be determined at trial or through a settlement. John Ianno, the NCUA's senior associate general counsel for enforcement and litigation, said the agency would "welcome an opportunity to settle without litigation."

Wachovia's offering statements for the securities of poor quality "contained untrue statements of material fact or omitted to state material facts" that misrepresented the actual risk of the securities, the NCUA alleges in its suit filed Monday in federal court in Kansas.

The mortgages packaged as securities were poorly underwritten and therefore soon delinquent, the suit alleges, with the losses immediately after the sale of the securities too big to be attributed to market forces.

Wachovia, as underwriter, "systematically disregarded the underwriting standards" of the underlying mortgages that it packaged into securities. "The failure to adhere to underwriting standards directly contributed to the sharp decline in the quality of mortgages" that became part of securitized mortgage pools.

"The lack of adherence to underwriting standards for the loans underlying [residential mortgage-backed securities] was not disclosed to investors in the offering materials," the suit alleges.

Two weeks ago, Deutsche Bank AG (DB, DBK.XE) and Citigroup Inc. (C) agreed to pay a total of \$165.5 million to settle similar claims associated with five credit unions, marking the first federal recovery of losses that failed financial institutions incurred on soured mortgage bonds.

The NCUA says it has a statutory responsibility to secure maximum recoveries for credit unions and is seeking to recover failed credit unions' losses incurred by the mortgage meltdown. It has also sued J.P. Morgan Chase & Co. (JPM) and Royal Bank of Scotland Group PLC (RBS, RBS.LN).

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