Federal Regulators Sue JP Morgan and Royal Bank of Scotland Over Bad Mortgages

June 21, 2011 - In April, the federal government filed a $1 Billion law suit against Deutsche Bank to recover taxpayer money that was paid to the bank due to bad mortgages. Then in May, the Department of Housing and Urban Development's (HUD) inspector general issued a scathing report on five banks that have allegedly violated the False Claims Act in order to receive federal guarantees on mortgages that shouldn't have received those guarantees. That matter has been referred to the Justice Department for legal action against the banks. Now comes word that the National Credit Union Association (NCUA) has filed law suits for $843 Million against two other lenders over the sale of bad loans to credit unions that subsequently failed.

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The NCUA is an independent federal agency that guarantees the deposits of people with accounts at credit unions. The agency serves a very similar function to that of the FDIC; which guarantees bank deposits.

The NCUA is alleging that JP Morgan Chase and the Royal Bank of Scotland sold risky mortgage backed securities to corporate credit unions without fully disclosing the risks associated with those securities. So far, five of those credit unions have failed. The NCUA seized them and sold off their assets.

The law suits seek to recover $843 Million. The suit against JP Morgan Chase is seeking $278 Million and the one against Royal Bank of Scotland is seeking $565 Million.

Various federal agencies continue to investigate the role of banks in the 2008 economic collapse. There are ongoing negotiations to reach settlements with the banks over their roles in repackaging and selling mortgage backed securities. These securities were normally sold as low risk investments when in fact they had substantial risk associated with them.

Some settlements have already been reached with banks, including a $550 Million settlement with Goldman Sachs for civil fraud. The government has made it fairly clear that unless it can reach what it considers to be reasonable settlements with a variety of other banks, more law suits are likely to be filed.
byJim Malmberg
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