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NCUA Media Release

NCUA Sues J.P. Morgan and Bear, Stearns over $3.6 Billion in Faulty Securities

Legal Action is the Agency's Largest to Date against Wall Street Investment Firms

ALEXANDRIA, Va. (Dec. 17, 2012) – The National Credit Union Administration (NCUA) has filed suit in Federal District Court in Kansas against J.P. Morgan Securities and Bear, Stearns & Co., alleging violations of federal and state securities laws in the sale of $3.6 billion in mortgage-backed securities to four corporate credit unions.

NCUA's suit—the largest the agency has filed to date—alleges Bear, Stearns & Co. made misrepresentations in connection with the underwriting and subsequent sale of mortgage-backed securities to U.S. Central, Western Corporate, Southwest Corporate and Members United Corporate federal credit unions.

All four corporate credit unions became insolvent and were subsequently placed into NCUA conservatorship and liquidated as a result of losses from these faulty securities. These failures caused significant losses to the credit union system. J.P. Morgan Securities purchased Bear, Stearns & Co. in 2008, after the demise of Bear, Stearns & Co.

"Bear, Stearns was one of several Wall Street firms that sold faulty securities to corporate credit unions, leading to their collapse and enormous losses across the industry," said NCUA Board Chairman Debbie Matz. "Firms like Bear, Stearns acted unfairly by ignoring the rules for underwriting. They packaged these securities and then told buyers the paper was sound. When the securities plunged in value, we learned the truth. NCUA is now working to hold these underwriters accountable and secure recoveries on behalf of federally insured credit unions."

The complaint alleges Bear, Stearns & Co. made numerous misrepresentations and omissions of material facts in the offering documents of the securities sold to the failed corporate credit unions. The complaint states underwriting guidelines in the offering documents were "abandoned" and the misrepresentations caused the credit unions to believe the risk of loss was minimal. In fact, these securities were "significantly riskier than represented" and "routinely overvalued." The faulty securities, the complaint states, "were destined from inception to perform poorly."

NCUA has eight similar actions pending against Barclays Capital, Credit Suisse, Goldman Sachs, J.P. Morgan Securities, RBS Securities, UBS Securities, and Wachovia.

NCUA was the first federal regulatory agency for depository institutions to recover losses from investments in faulty securities on behalf of failed financial institutions. To date, the agency has

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settled claims worth more than $170 million with Citigroup, Deutsche Bank Securities and HSBC.

Recoveries from these legal actions will further reduce the total losses resulting from the failure of the four corporate credit unions. Losses from those failures must be paid from the Temporary Corporate Credit Union Stabilization Fund. Expenditures from this fund must be repaid through assessments against all federally insured credit unions, so any recoveries would help reduce future assessments on credit unions.

As liquidating agent for the four corporate credit unions, NCUA has a statutory duty to seek recoveries from responsible parties in order to minimize the cost of any failure to its insurance funds and the credit union industry.

“NCUA and credit unions have successfully worked together to restore stability to the credit union system,” Matz said. “Now we are holding responsible parties like Bear, Stearns accountable for their actions. It’s the right thing to do.”

Corporate credit unions are wholesale credit unions that provide various services to retail credit unions, which in turn serve consumers, or “natural persons.” Retail credit unions rely on corporate credit unions to provide them such services as check clearing, electronic payments, and investments.

The complaint is available on NCUA’s website here.

NCUA is the independent federal agency created by the U.S. Congress to regulate, charter and supervise federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of nearly 94 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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