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BANK REACHES $7 BILLION DEAL OVER MORTGAGE BOND CRISIS

America's third largest bank has reached a settlement agreement with the U.S. Department of Justice (DOJ), which had investigated the institution's role in effecting the 2008 financial crisis. The bank allegedly ignored due-diligence analyses that revealed that the mortgage-backed bonds they were offering to investors were of a lower quality than represented. The DOJ was seeking penalties totaling $10 million, while the bank maintained that a $4 billion settlement better reflected its role. The final figure of $7 billion is part fine and part consumer-relief measures.

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45 Deals Examined

The government alleged that in 2006 and 2007, the bank sold bundles of residential mortgage loans for tens of billions of dollars while misrepresenting the quality of those loans to investors. In all, 45 mortgage-backed bond deals were found to be misrepresented, including deals to federally insured investment companies. The high default rate of the loans underlying the bonds ultimately confirmed the poor quality of the offerings.

Misconduct Cited as "Egregious"

The bank had argued during settlement negotiations that its role was slight in comparison to that of America's biggest bank (which was fined $13 billion last November to settle similar federal and state charges) because of the smaller number of deals it had entered into. However, the DOJ's response was that a review of emails and other internal bank documents established just how culpable the bank was in helping create the crisis. Attorney General Eric Holder was quoted as saying: "The bank's misconduct was egregious. The size and scope of this resolution goes beyond what could be considered the mere cost of doing business." During 2006 and 2007, the bank ranked lower than the "top ten" as an underwriter of mortgage-backed securities.

Apportioning the Fines

Not all of the $7 billion in settlement amount will go toward fines: $4 billion will be paid as a civil penalty to the DOJ, $300 million will go to state attorneys general and $200 million will be paid into the Federal Deposit Insurance Corporation. That leaves a substantial $2.5 billion, which the bank has agreed to allocate to various consumer-relief undertakings. An outside monitor will gauge the bank's compliance with the terms of the settlement.

DOJ Not Done Yet

In June, the DOJ ended settlement negotiations with America's second largest bank, which is also facing accusations of misleading investors as to the quality of the mortgage loans backing $850 million worth of securities. The bank offered to settle for more than $12 billion while the DOJ pressed for $17 billion. A federal judge has ordered the bank to stand trial. The DOJ has not ruled out bringing criminal charges against banks and individuals.

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