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NCUA Media Release

NCUA Suing Securities Firms to Recover Billions

Recoveries will benefit all federally insured credit unions

ALEXANDRIA, Va. (June 20, 2011) – The National Credit Union Administration filed two suits today against securities firms alleging violations of federal and state securities laws and misrepresentations in the sale of hundreds of securities. Additional law suits may follow in order to recover losses from the purchase of securities that caused the failures of five, large wholesale credit unions.

As liquidating agent for the failed 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. The first two suits were filed today against J.P. Morgan Securities, LLC, and RBS Securities, Inc.

"NCUA has a responsibility to do everything in our power to seek maximum recoveries from those involved in the issuing, underwriting and sale of the faulty securities that resulted in the failures of five of the largest wholesale credit unions," said NCUA Board Chairman Debbie Matz. "NCUA's legal actions are based on ongoing investigations of individuals and entities responsible for selling these securities to the failed institutions. By these actions we intend to hold responsible parties accountable. The first two actions involve damages in excess of $800 million. 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."

NCUA's suits claim the sellers, issuers and underwriters of the questionable securities made numerous material misrepresentations in the offering documents. These misrepresentations 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 corporate credit unions invested in mortgage-backed securities that experienced dramatic, unprecedented declines in value, effectively rendering the institutions insolvent. These suits are the culmination of lengthy investigations into the circumstances surrounding the purchases of these securities.

NCUA officials are also discussing the losses with a number of other sellers, issuers and underwriters. If NCUA is unable to reach reasonable settlements on behalf of the liquidated credit unions with these additional parties, the agency will likely bring additional lawsuits.

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Any recoveries from these legal actions would reduce the total losses resulting from the failure of the five corporate credit unions. Losses from those failures must be paid from the Temporary Corporate Credit Union Stabilization Fund or the National Credit Union Share Insurance Fund. Expenditures from these funds must be repaid through assessments against all federally insured credit unions. Thus, any recoveries would help to reduce the amount of future assessments on credit unions.

In addition to these suits, NCUA has taken a number of actions to mitigate losses to the credit union system from these corporate failures. Among the actions taken:

- After placing these five corporate credit unions into liquidation, NCUA re-securitized the problematic mortgage-backed securities and sold them in the marketplace with a government-backed guarantee. This action garnered approximately $28.3 billion in proceeds.
- NCUA established a temporary share guarantee for shares on deposit at corporate credit unions.
- NCUA established bridge corporate credit unions in conservatorship to ensure the services provided to consumer credit unions continued during the resolution and transition period.
- NCUA is working with members of the bridges to transition services to new entities where possible.

The five wholesale credit unions placed into NCUA conservatorship and now liquidated are: U.S. Central, Western Corporate, Southwest Corporate, Members United Corporate, and Constitution Corporate.

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

NCUA filed the first two suits in the Federal District Court for the District of Kansas, the former headquarters of U.S. Central. To obtain copies of the complaints, visit the respective courts' websites or the Pacer reporting service. The complaints also will be posted to NCUA's website at the following links: J. P. Morgan Complaint; RBS Complaint.

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 more than 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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