



COMPLIMENTARY
WHITE PAPERS

Complimentary New White Papers
Stay informed with timely market topics
Insights - Analysis - Solutions

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL

WSJ.com

LAW | JULY 28, 2011

UBS Is Sued for Mortgage Losses

By ALAN ZIBEL And AL YOON

WASHINGTON—The federal regulator for Fannie Mae and Freddie Mac on Wednesday sued UBS AG, accusing the Swiss investment bank of costing the two mortgage giants at least \$900 million by selling them shaky mortgage-backed securities during the housing market boom.

The lawsuit, filed by the Federal Housing Finance Agency in U.S. District Court for the Southern District of New York, is the agency's first lawsuit against a major investment bank seeking to recover money for the two government-controlled mortgage giants. Their near-collapse in fall 2008 has cost taxpayers \$138 billion to date.

The lawsuit alleges that UBS made false statements about 16 mortgage-backed securities sponsored by UBS and sold to Fannie and Freddie from fall 2005 through summer 2007, including overstatements of borrowers' capacity to repay loans.

FHFA's Lawsuit Against UBS

Read the lawsuit, filed by the Federal Housing Finance Agency in U.S. District Court for the Southern District of New York.

FHFA's lawsuit focuses on so-called private-label securities based on subprime and other risky loans that were originated by mortgage companies, packaged by Wall Street firms, and then sold to investors. The securities contained loans made by defunct mortgage companies New Century Financial and American Home Mortgage, as well as IndyMac Bank, renamed OneWest Bank, and Countrywide Home Loans, now part of Bank of America Corp.

"We are reviewing today's complaint and intend to defend ourselves vigorously against it in court," UBS spokeswoman Torie von Alt said in a statement.

Fannie and Freddie have already lost at least 20% of their investment in \$4.5 billion in mortgage-backed securities, the lawsuit says.

The agency's acting director, Edward DeMarco, pledged "further actions to come. We continue to seek redress for the losses."

A year ago, the FHFA sent 64 subpoenas to issuers of mortgage-backed securities and other entities in the initial stage of an effort to recoup some of the billions that Fannie Mae and Freddie Mac lost when they scooped up

JUDGE MA
11 CIV 5

DISTRICT COURT
DISTRICT OF NEW YORK

FEDERAL FINANCE AGENCY,
FOR THE FEDERAL
MORTGAGE ASSOCIATION
AND NATIONAL HOME LOAN
ASSOCIATION,

Plaintiff,

___ CIV. ___ ()

COMPLAINT

JURY TRIAL DEMAND

mortgage-backed securities issued by Wall Street banks during the housing boom.

"You could recover tens of billions of dollars" for taxpayers, said Tim Rood, a former Fannie Mae executive and managing director of the Collingwood Group, a consulting firm in Washington. However, he noted that some large banks might not be able to absorb many more large settlements of cases stemming from the housing bust. "You're at a tipping point with these institutions as it is," he said.

In addition, Fannie Mae and Freddie Mac have had success in recovering money from lenders that sold faulty loans directly to the mortgage giants, recovering a combined \$18 billion since the start of 2010, according to Securities and Exchange Commission filings.

Dan Nigro, a bond consultant and former mortgage portfolio manager, said the government's success in these buyback requests has "emboldened private investors," such as those that reached an \$8.5 billion settlement with Bank of America in June.

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com