

Morgan Stanley to Pay \$3.2B Penalty in Securities Deal

Morgan Stanley will pay a \$2.6 billion penalty to resolve claims related to Morgan Stanley's marketing, sale and issuance of residential mortgage-backed securities (RMBS), the Justice Department **reported** Thursday.

The settlement constitutes the largest component of the set of resolutions with Morgan Stanley entered by members of the RMBS Working Group, which have totaled approximately \$5 billion. As part of the agreement, Morgan Stanley acknowledged in writing that it failed to disclose critical information to prospective investors about the quality of the mortgage loans underlying its RMBS and about its due diligence practices. Investors, including federally insured financial institutions, suffered billions of dollars in losses from investing in RMBS issued by Morgan Stanley in 2006 and 2007.

"In today's agreement, Morgan Stanley acknowledges it sold billions of dollars in subprime RMBS certificates in 2006 and 2007 while making false promises about the mortgage loans backing those certificates," said Acting U.S. Attorney Brian J. Stretch of the Northern District of California. "Morgan Stanley touted the quality of the lenders with which it did business and the due diligence process it used to screen out bad loans. All the while, Morgan Stanley knew that in reality, many of the loans backing its securities were toxic. Abuses in the mortgage-backed securities industry such as these helped bring about the most devastating financial crisis in our lifetime. Our office is committed to dedicating the resources necessary to hold those who engage in such reckless actions responsible for their conduct."

Read the announcement.

