

Morgan Stanley To Pay \$2.6 Billion Mortgage Settlement

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Feb 25 (Reuters) - Morgan Stanley said it will pay \$2.6 billion to the U.S. government to resolve potential claims stemming from the sale of mortgage bonds before the financial crisis, reducing its 2014 profit by more than half.

Morgan Stanley increased its legal reserves by about \$2.8 billion, which lowered its 2014 income from continuing operations by \$2.7 billion, or \$1.35 per share, the bank said in a regulatory filing. (<http://1.usa.gov/1FueJWH>)

The bank had reported earnings from continuing operations of \$5.83 billion, or \$2.96 per share, for 2014.

Morgan Stanley said it settled with the U.S. Department of Justice and the U.S. Attorney's Office for the Northern District of California on Wednesday.

The DoJ declined to comment. Representatives at the Northern District of California were not immediately available for comment.

The Justice Department, in conjunction with other authorities, extracted record penalties from major banks in 2013 and 2014 for inappropriately marketing risky mortgage securities in the run-up to the financial crisis.

JPMorgan Chase & Co agreed to a \$13 billion deal in November 2013; Citigroup Inc signed a \$7 billion settlement in July 2014; and Bank of America Corp reached a \$16.65 billion agreement in August.

Last week, U.S. Attorney General Eric Holder said he has given federal prosecutors a 90-day deadline to decide whether they can bring cases against individuals for their roles in the 2008 financial crisis.

The government cases came out of a task force formed by President Barack Obama in 2012 to probe misconduct that contributed to the financial crisis.

Obama said he was creating the group to "hold accountable those who broke the law" and "help turn the page on

an era of recklessness."

Goldman Sachs Group Inc said on Monday it could face a federal civil lawsuit after a government probe concluded that the bank had violated laws related to sale of residential mortgage-backed securities before the crisis.

Goldman had also raised the top end of its estimate of "reasonably possible" legal losses to about \$3 billion from \$2.5 billion.

Morgan Stanley's shares closed at \$36.59 on the New York Stock Exchange on Wednesday. (Reporting by Neha Dimri and Supriya Kurane in Bengaluru; Editing by Sriraj Kalluvila, Don Sebastian and Anupama Dwivedi)