+---+

BofA-Merrill Tops Credit Suisse List of ‘CDO Litigation Risk’
2010-04-19 23:00:24.0 GMT

By David Mildenberg

April 20 (Bloomberg) -- Bank of America Corp. and Merrill Lynch & Co. led Credit Suisse AG’s “CDO litigation risk” list after offering $16.85 billion of collateralized debt obligations similar to the one that drew a U.S. fraud suit against Goldman Sachs Group Inc.

The tally of lead underwriters of CDOs with “salient characteristics” of the disputed deal between 2005 and 2008 may help investors gauge the risk that lawsuits will spread to other firms, Credit Suisse said in a report yesterday. Bank of America, the largest U.S. bank, acquired New York-based Merrill Lynch in January 2009.

“Problems of this sort are rarely confined to one institution,” Credit Suisse said. “The dot-com era shows us that in the wake of a crisis, business practices which were considered normal at the time can look very much worse with the benefit of hindsight and in a legal setting.”

Bank of America and Merrill Lynch, which combined in 2009, were collectively the largest underwriters of CDOs with components of the Goldman Sachs offering --“structured finance collateral and an ‘arbitrage plus cash flow’ structure,” Credit Suisse said in the report. Goldman Sachs has denied wrongdoing in the offering.

That type of security was a subset of the total CDO market, which peaked at $418 billion in 2007, according to UBS analysts.
Bank of America and Merrill Lynch together ranked first that year with $9.97 billion of those offerings, said the Credit Suisse report, citing Dealogic data.

Moynihan’s View

Bank of America Chief Executive Officer Brian T. Moynihan said April 16 he had “no knowledge” of claims such as the ones leveled against Goldman Sachs by U.S. regulators about a 2007 CDO offering. The Charlotte, North Carolina-based bank doesn’t comment on analyst reports, spokesman William Halldin said.

For the entire 2005-2008 span, Zurich-based UBS AG ranked second on the Credit Suisse list with $15.8 billion, and JPMorgan Chase & Co. was third with $9.9 billion. Spokesmen Brian Marchiony at JPMorgan and UBS’s Doug Morris declined to comment. New York-based JPMorgan bought Bear Stearns Cos., one of the biggest underwriters of mortgage securities, in 2008.

“Clearly, not every structured synthetic CDO issued during the period will necessarily be the subject of litigation,”
Credit Suisse said in the report. The firm didn’t allege that any of the firms allowed outsiders to influence the composition of the CDOs for their own benefit.

The Securities and Exchange Commission filed a fraud suit against Goldman Sachs last week that accused the New York-based firm of selling a CDO linked to subprime mortgages without disclosing that hedge fund Paulson & Co. helped pick the underlying securities and bet against the vehicle, known as Abacus 2007-AC1. Clients lost about $1 billion from the trade, the SEC alleged.

Goldman's Defense

Goldman Sachs called the SEC's charges "unfounded" in an April 16 statement and said it plans to "vigorously contest them and defend the firm and its reputation." Paulson wasn't accused of wrongdoing. Goldman Sachs handled CDOs valued at
$6.07 billion from 2005 to 2008, ranking ninth among large international banks, Credit Suisse said in the report. A copy was e-mailed from spokeswoman Sofia Rehman.

For Related News and Information:
Bloomberg credit crunch scorecard: WDCI CHART <GO> Day's best/worst financial stocks: S15FINL <Index> MRR1 <GO> Financial stocks this year: S15FINL <Index> GP YTD <GO> Consumer rate spreads: CRS <GO> Map of today's trading: IMAP <GO> Financial company news: FTOP <GO>

--With assistance from Christine Harper in New York. Editors: Rick Green, Alec McCabe

To contact the reporter on this story:
David Mildenberg in Charlotte at +1-704-331-6587 or dmildenberg@bloomberg.net;

To contact the editor responsible for this story:
Alec McCabe at +1-212-617-4175 or amccabe@bloomberg.net