Department of Justice

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PRESS RELEASE

NOMURA AGREES TO PAY $480 MILLION IN CIVIL PENALTIES FOR MISLEADING INVESTORS IN SALE OF RESIDENTIAL MORTGAGE-BACKED SECURITIES

The United States has reached an agreement with Nomura Holding America Inc. and several of its affiliates (“Nomura”), which will pay a $480 million penalty to resolve federal civil claims that Nomura misled investors in connection with the marketing, sale and issuance of residential mortgage-backed securities (“RMBS”) between 2006 and 2007. Nomura’s investors, which included university endowments, retirement funds and federally insured financial institutions, suffered significant losses due to Nomura’s misconduct.

Richard P. Donoghue, United States Attorney for the Eastern District of New York, and Jennifer Byrne, Associate Inspector General, Federal Housing Finance Agency-Office of Inspector General (FHFA-OIG), announced the settlement.

“This settlement holds Nomura accountable for its fraudulent conduct in connection with its Residential Mortgage-Backed Securities offerings, which caused substantial harm to investors and contributed to the financial crisis of 2008,” stated United States Attorney Donoghue. “The Department of Justice, this Office and our partners will continue to aggressively pursue wrongdoing in our financial markets, including, as appropriate, financial crisis-era misconduct.”

“The actions of Nomura resulted in significant losses to investors, including Fannie Mae and Freddie Mac, which purchased Nomura Residential Mortgage-Backed Securities backed by defective loans,” stated FHFA-OIG Associate Inspector General Byrne. “We are proud to have partnered with the U.S. Attorney’s Office for the Eastern District of New York on this matter.”

The settlement stems from allegations that Nomura knowingly securitized defective mortgage loans in its RMBS and misled investors regarding the quality and characteristics of those loans. For example, the United States alleged that:

- In presentations regarding its RMBS program, Nomura claimed that its due diligence process was “extensive,” “disciplined” and “carefully developed.” Nomura also told investors that it only worked with “hand-picked industry leading” due diligence vendors, and that, as a result of its superior standards and due diligence processes, "Nomura's loan performance should surpass industry standards." These claims were false. Nomura knew, based on its due diligence, that thousands of loans that it securitized in its RMBS did not comply with applicable underwriting guidelines or were supported by inflated and potentially fraudulent appraisals. Nomura concealed these deficiencies from investors, securitizing many of these defective loans as "favors" to loan originators—including, for example, loans that one originator openly described to Nomura as "dogsh[*]t." As stated by a member of Nomura's RMBS due diligence group: "There is no such thing as a bad loan . . . just a bad price."

- Nomura also knew that a significant number of loans that it securitized in its RMBS had not gone through Nomura's stated due diligence process, and, more broadly, that its process had been compromised. Nomura's head of RMBS due diligence (in the context of proposed changes to Nomura's loan-by-loan buying program) stated that Nomura was "turning into the lemming of the mortgage business," "following the herd" and compromising its standards "to comply with the masses in p[u]rsuit of volume." Additionally, a member of Nomura's RMBS group's origination sales team, in an email to the entire RMBS group, remarked that "advertising will be a great career when all these loans finally blow up . . . . (I will be selling vacuum cleaners door to door when the market goes by the way)."

- Despite this knowledge, Nomura failed to address the weaknesses in its due diligence processes, and continued to do business with originators that, according to its own due diligence personnel, were "extremely dysfunctional," had "systemic" underwriting issues and employed "questionable" origination practices. Indeed, Nomura's securitization of defective loans in the subject deals—in spite of numerous red flags—reflected a conscious decision by senior Nomura personnel to compete for market share in a highly competitive RMBS market. As stated by one member of Nomura's RMBS team, Nomura could not just "buck the entire marketplace when [it was] hammered to grow."

- Likewise, despite knowing that its due diligence was ineffective and did not remove large numbers of defective loans from its RMBS, in mid-2006, Nomura announced new, "more liberal" underwriting guidelines for its loan-by-loan purchase program. Although Nomura's head of RMBS due diligence warned that Nomura had already "loosened guidelines in so many areas" and that it was "at risk of giving away the proverbial store," the prevailing view, as characterized by Nomura's RMBS trading desk, was that Nomura's "box [was] too restrictive." Nomura's new guidelines allowed for the purchase of loans that Nomura's due diligence personnel previously described as "sheer lunacy."

These are allegations only, which Nomura disputes, and there has been no trial or adjudication or judicial finding of any issue of fact or law.

The settlement was the result of a multi-year investigation by the Civil Division of the U.S. Attorney's Office for the Eastern District of New York, pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Assistant U.S. Attorney Clayton

P. Solomon and former Assistant U.S. Attorney Morgan J. Brennan led the government's investigation.