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Barclays Agrees to Pay \$2 Billion in Civil Penalties to Resolve Claims for Fraud in the Sale of Residential Mortgage-Backed Securities

Two Former Barclays Executives Agree to Pay \$2 Million to Resolve Claims Brought Against Them Individually

The United States has reached agreement with Barclays Capital, Inc. and several of its affiliates (together, Barclays) to settle a civil action filed in December 2016 in which the United States sought civil penalties for alleged conduct related to Barclays' underwriting and issuance of residential mortgage-backed securities (RMBS) between 2005 and 2007. Barclays will pay the United States two billion dollars (\$2,000,000,000) in civil penalties in exchange for dismissal of the Amended Complaint.

Following a three-year investigation, the complaint in the action, *United States v. Barclays Capital, Inc.*, alleged that Barclays caused billions of dollars in losses to investors by engaging in a fraudulent scheme to sell 36 RMBS deals, and that it misled investors about the quality of the mortgage loans backing those deals. It alleged violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), based on mail fraud, wire fraud, bank fraud, and other misconduct.

Agreement has also been reached with the two former Barclays executives who were named as defendants in the suit: Paul K. Menefee, of Austin, Texas, who served as Barclays' head banker on its subprime RMBS securitizations, and John T. Carroll, of Port Washington, New York, who served as Barclays' head trader for subprime loan acquisitions. In exchange for dismissal of the claims against them, Menefee and Carroll agree to pay the United States the combined sum of two million dollars (\$2,000,000) in civil penalties.

The settlement was announced by Richard P. Donoghue, United States Attorney for the Eastern District of New York, and Laura S. Wertheimer, Inspector General, of the Federal Housing Finance Agency Office of the Inspector General (FHFA-OIG).

"This settlement reflects the ongoing commitment of the Department of Justice, and this Office, to hold banks and other entities and individuals accountable for their fraudulent conduct," stated United States Attorney Donoghue. "The substantial penalty Barclays and its executives have agreed to pay is an important step in recognizing the harm that was caused to the national economy and to investors in RMBS."

“The actions of Barclays and the two individual defendants resulted in enormous losses to the investors who purchased the Residential Mortgage-Backed Securities backed by defective loans,” stated FHFA-OIG Inspector General Wertheimer. “Today’s settlement holds accountable those who waste, steal or abuse funds in connection with FHFA or any of the entities it regulates. We are proud to have partnered with the U.S. Department of Justice and the U.S Attorney’s Office for the Eastern District of New York on this matter.”

The scheme alleged in the complaint involved 36 RMBS deals in which over \$31 billion worth of subprime and Alt-A mortgage loans were securitized, more than half of which loans defaulted. The complaint alleged that in publicly filed offering documents and in direct communications with investors and rating agencies, Barclays systematically and intentionally misrepresented key characteristics of the loans it included in these RMBS deals. In general, the borrowers whose loans backed these deals were significantly less creditworthy than Barclays represented, and these loans defaulted at exceptionally high rates early in the life of the deals. In addition, as alleged in the complaint, the mortgaged properties were systematically worth less than what Barclays represented to investors. These are allegations only, which the Defendants dispute, and there has been no trial or adjudication or judicial finding of any issue of fact or law.

The government’s case has been handled by this Office’s Civil Division. Senior Counsel F. Franklin Amanat, and Assistant United States Attorneys Matthew R. Belz, Charles S. Kleinberg, Evan P. Lestelle, Matthew J. Modafferi, Josephine M. Vella and Alex S. Weinberg have been in charge of the litigation. Mr. Donoghue thanks the FHFA-OIG for its assistance in conducting the investigation in this matter.