February 1, 2016

The Honorable Loretta E. Lynch
Attorney General of the United States
U.S. Department of Justice
950 Pennsylvania Avenue, NW
Washington, DC 20530-0001

Dear Attorney General Lynch:

I am writing you to urge that the Department of Justice (DOJ) immediately conduct a thorough investigation into individual misconduct at major financial institutions related to the packaging and sale of mortgage securities to investors before the 10-year statute of limitations on any such misconduct expires.

Such a renewed effort would be consistent with DOJ's new policies enacted under your leadership, as embodied in the September 2015 memorandum from Deputy Attorney General Yates. These policies wisely focus on seeking accountability from responsible individuals, not inanimate corporate entities.

Slind Today, 11:14 PM

It is urgent that DOJ move swiftly on this matter given that the clock on the statute of limitations is ticking down quickly. While some people may have assumed that DOJ's new policies would likely not affect misconduct in the run-up to the financial crisis, there is still time to investigate and prosecute illegal acts committed in 2006 and 2007.

Five years ago at this time, the Financial Crisis Inquiry Commission (FCIC), which was charged with conducting the nation's official inquiry into the financial and economic crisis, presented to the President and Congress its final report on the causes of the 2008 financial meltdown that devastated our economy and hurt millions of American families.

The report concluded that the crisis was avoidable and was caused by, among other things, widespread failures of regulation, recklessness on Wall Street, and a systematic breakdown in ethics and accountability. Included in the materials released by the FCIC was evidence of pervasive misconduct in the mortgage markets, from loan origination to Wall Street's sale of mortgage securities to investors.

Consistent with its statutory mandate, the FCIC referred potential violations of law to DOJ for further investigation and, if warranted, prosecution.

In making this request, I draw your particular attention to evidence contained in documents obtained from Clayton Holdings and made public by the FCIC in 2010. As you know, Clayton was hired by more than 20 major financial institutions to sample a small percentage (e.g. 2 to 3 percent) of the mortgage loans that those firms were buying and then packaging and selling to investors to determine whether or

not those loans complied with the lender's stated standards or the standards set by the firms buying the loans.

According to the Clayton "trending reports", Clayton reviewed 911,039 mortgage loans for these financial firms from January 2006 to June 2007 and found that 28% of the loans sampled unequivocally failed to meet the standards. Nonetheless, 39% of those failed loans were included in the pools sold to investors. Despite the high failure rates in the sampled loans, the other 97% of the loans being purchased and then packaged and sold were never reviewed. That fact and the presence of defective loans in the loan pools were never disclosed to investors. Indeed, many prospectuses affirmatively misrepresented the quality of the loans contained in the pools sold to investors. As the FCIC report noted, this conduct raised "the question of whether the disclosures were materially misleading, in violation of the securities laws."

As you know, DOJ itself relied on the Clayton "trending reports" as key evidence in the Statements of Facts accompanying the $9 billion settlement reached with JP Morgan Chase in 2013 and the $9.65 billion settlement reached with Bank of America in 2014. In addition, the Federal Housing Finance Agency (FHFA) cited these reports when it sued 18 major financial institutions in September 2011 for fraud and securities law violations. To date, the FHFA has obtained over $18 billion in settlements from those firms.

Consistent with DOJ's new policies, it is now imperative that the DOJ conduct a full and fair examination of individual responsibility for the conduct that has generated over $36 billion in fines being paid by shareholders. If major financial firms engaged in such egregious misconduct so as to warrant these fines, then certainly individuals at those firms were involved in the misconduct. What is required is an inquiry up the chain of command at each of the financial institutions involved in this misconduct to determine who specifically was responsible for the actions which DOJ itself has said "sowed the seeds of the financial meltdown."

As you are aware, the statute of limitations for financial fraud affecting banks and other types of financial institutions is 10 years and the Clayton "trending reports" of January 2006 to June 2007 make it clear that the systematic misconduct that gave rise to the FHFA lawsuits and DOJ settlements is still subject to prosecution if warranted, although time is of the essence.

To ensure that wrongs are righted, to restore faith in the fairness of our judicial system, and to ensure deterrence for future wrongdoing, I urge DOJ to take immediate action on this matter.

Thank you for your consideration.

Sincerely,

Phil Angelides
Chairman, Financial Crisis Inquiry Commission (2009 -2011)