

General Electric will pay \$1.5B over subprime lending

General Electric has agreed to pay \$1.5 billion to the U.S. Justice Department over allegations that one of its subsidiary businesses made misrepresentations related to subprime [lending](#).

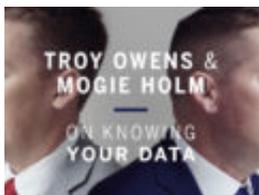
The [Justice Department](#) announced the agreement Friday, saying in a [statement](#) that General Electric subsidiary WMC Mortgage “misrepresented the quality of WMC’s loans and the extent of WMC’s internal quality and fraud controls in connection with the marketing and sale of residential mortgage-backed securities.”

Assistant Attorney General Jody Hunt added in a statement that the “financial system counts on originators” to accurately represent their products. However, in this case the failure to “disclose material deficiencies in those loans contributed to the financial crisis.”

“As today’s resolution demonstrates,” Hunt added, “the Department of Justice will continue to employ [Financial Institutions Reform, Recovery, and Enforcement Act of 1989] as a powerful tool for protecting our financial markets against fraud.”

The case dates back to 2004, when General Electric bought WMC Mortgage. Over the following three years, from 2005 to 2007, the company issued \$65 billion dollars in mortgage loans, according to the Justice Department. WMC subsequently sold the “vast majority” of those loans to investment banks, which packaged them into mortgage-backed securities that investors could buy.

Bundling mortgages together into securities for investors was, and still is, a common practice. But as anyone who remembers the financial crisis (or who has seen the movie *The Big Short*) may recall, problems arise when the mortgages in those bundles aren’t very good — for example if they’ve been made to people who can’t afford them and start defaulting.



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And that's just what the Justice Department says happened here. Specifically, the feds allege that WMC tried to increase profits by approving mortgages "even where the loan applications did not meet" the company's own underwriting criteria. The Justice Department also says WMC had deficient quality controls, with one unnamed employee telling investigators that he had "no authority to prevent the approval or sale of loans his department had determined were fraudulent or otherwise defective."

The employee, a quality control manager, also told feds his department was a "toothless tiger," according to the Justice Department statement.

The Department of Justice also claims that WMC would try to re-sell loans to investment banks after they had already been rejected by an initial would-be buyer. The company allegedly did not tell the second potential buyer that the loans had already been rejected by one investor or that they could have defects.

The result of this scheme, according to the Justice Department was that "investors, including federally insured financial institutions, suffered billions of dollars in losses."

Friday's settlement had been expected after General Electric [mentioned](#) during an earnings call in January that it would be forthcoming. General Electric stock fell slightly on Friday.

In a statement to Inman, the company said that "this settlement contains no admission of any allegations."

"This is another step in our ongoing efforts to de-risk GE Capital," General Electric's statement added. "This agreement represents a significant part of the total legacy exposure associated with WMC and we are pleased to put this matter behind us."

[Email Jim Dalrymple II](#)

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