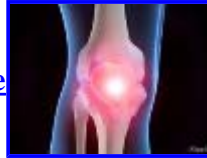




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More trouble for Wall Street banks

By GREG GORDON McClatchy Newspapers
May 13, 2010, 9:37PM

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washington — The Wall Street investment banks at the center of the subprime mortgage meltdown face broadening state and federal inquiries into whether they duped investors into buying dicey mortgage securities or manipulated ratings agencies into bestowing investment grades on those faulty products.

The Justice Department and the Securities and Exchange Commission have expanded preliminary criminal inquiries into conduct by Goldman Sachs and Morgan Stanley to four other banks, a person who is familiar with the inquiry said Thursday, speaking on the condition of anonymity because of the sensitivity of the matter.

The agencies have requested information from JPMorgan Chase, Citigroup, Deutsche Bank and UBS, and federal prosecutors have sought advice from Wall Street experts in complex securities to help unravel the banks' layered offshore deals, the person said.

Meanwhile, New York Attorney General Andrew Cuomo subpoenaed eight banks Wednesday to determine whether they had deceived rating agencies into minimizing the securities' risks for investors, said a person knowledgeable about that inquiry, who is prohibited from discussing the matter publicly and therefore asked not to be identified.

The rating agencies also are subjects of a Connecticut attorney general's suit accusing them of misleading investors and of federal inquiries into whether they engaged in deceptive practices.

Asked whether the rating agencies or the banks were at greater fault, the person familiar with the inquiry said that Cuomo's investigators are "looking at the entire process to see what went wrong and when."

Cuomo's office, which polices Wall Street under New York laws, is especially interested in the hiring by Goldman Sachs and other investment banks of key employees of major rating agencies who then helped to procure ratings, many of them of triple A stature, that attracted institutional investors.

The agencies gave top ratings to hundreds of billions of dollars in securities, many of which later were downgraded to junk status.

Those subpoenaed are Merrill Lynch, now owned by Charlotte, N.C.-based Bank of America Corp.; Goldman Sachs; Morgan Stanley; Citigroup; the Swiss banks UBS and Credit Suisse; German-based Deutsche Bank and French bank Credit Agricole.

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