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Philadelphia Sues Seven Big Banks, Alleges Municipal Bond Collusion.

NEW YORK (Reuters) – The city of Philadelphia has filed an antitrust lawsuit accusing seven major banks of conspiring to inflate interest rates for a type of bond used by cities, towns and other public entities, costing them potentially billions of dollars.

In a complaint filed on Wednesday night, Philadelphia accused Bank of America Corp, Barclays Plc, Citigroup Inc, Goldman Sachs Group Inc, JPMorgan Chase & Co, Royal Bank of Canada and Wells Fargo & Co of secretly manipulating rates for tax-exempt bonds known as VRDOs, or variable-rate demand obligations.

Philadelphia, which said it issued more than $1.6 billion of the bonds, said the banks colluded to collect hundreds of millions of dollars in fees they did not earn, reducing critical funding for public services such as hospitals, power and water supplies, schools and transportation.

“The alleged misconduct of the defendants potentially resulted in Philadelphia – and entities across this country -paying above-market interest rates for years,” City Solicitor Marcel Pratt said.

Philadelphia also said the banks’ conduct is the subject of a preliminary criminal probe by the U.S. Department of Justice’s antitrust division, while the U.S. Securities and Exchange Commission has contacted four of the banks. The Bond Buyer reported the Justice probe in September, citing unnamed sources.

Bank of America, Citigroup, Goldman, JPMorgan, RBC and the SEC declined to comment on Thursday. The other banks and the Justice Department did not respond to requests for comment. The complaint was filed in the U.S. District Court in Manhattan.

VRDOs are long-term bonds that let issuers borrow at lower short-term rates because they contain a “put” feature.

This lets investors redeem bonds early by tendering them to banks, such as the seven being sued. The banks then remarket the bonds to other investors and charge issuers for their services.

According to the complaint, the banks secretly agreed in person, by phone and electronically not to compete with each other for remarketing services from February 2008 to June 2016, when they controlled about 70 percent of VRDO remarketing.

Philadelphia said the banks did this to keep rates artificially high, ensure investors would not exercise their put options, and collect fees “for doing, essentially, nothing.”

The city is represented by Daniel Brockett, a partner at Quinn Emanuel Urquhart & Sullivan who has filed several antitrust lawsuits against banks in the Manhattan court.

That court is home to a wide array of private litigation accusing banks of conspiring to rig various financial markets, interest rate benchmarks and commodities.

The case is Philadelphia v Bank of America Corp et al, U.S. District Court, Southern District of New York, No. 19-01608.

by Jonathan Stempel

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