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Eight Big Banks Must Face U.S. Cities' Allegations of Municipal Bond Collusion.

NEW YORK (Reuters) – A federal judge on Monday said Philadelphia and Baltimore may sue eight big banks for allegedly conspiring to force state and local governments to pay inflated interest rates on a popular type of tax-exempt municipal bond.

U.S. District Judge Jesse Furman in Manhattan said the cities may pursue antitrust claims in the proposed class action over the banks' marketing of variable-rate demand obligations, once a more than \$400 billion market, from 2008 to 2016.

Philadelphia and Baltimore said the collusion reduced available funding for hospitals, power and water supplies, schools, transportation and other essential municipal services.

The defendants included affiliates of Bank of America Corp, Barclays Plc, Citigroup Inc, Goldman Sachs Group Inc, JPMorgan Chase & Co, Morgan Stanley, Royal Bank of Canada and Wells Fargo & Co.

VRDOs are long-term bonds with short-term interest rates that typically reset weekly. Investors may redeem the bonds early, and banks must remarket those bonds to other investors at the lowest possible rates.

Philadelphia and Baltimore, which issued a respective \$1.67 billion and \$261 million of VRDOs, accused the banks of sharing proprietary information about bond inventories and planned rate changes.

They said this dissuaded redemptions, and enabled the banks to charge hundreds of millions of dollars in remarketing and service fees for "effectively doing nothing."

In his 34-page decision, Furman said the cities offered "reason to believe that defendants stood to gain by participating in the rate-fixing scheme and that the scheme was possible only with defendants' coordinated efforts."

Furman also said six of the banks must face breach of contract claims. He dismissed all claims of unjust enrichment.

Spokespeople for the banks declined to comment or had no immediate comment. Lawyers for the plaintiffs had no immediate comment.

The VRDO market exceeded \$400 billion in 2009 but has shrunk. S&P Global Ratings recently rated \$144.9 billion of the securities.

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

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