

BofA's Big Mortgage Settlement Is Moved to U.S. Court

By DAVID BENOIT

NEW YORK—A federal judge has ruled the \$8.5 billion settlement between [Bank of America](#) Corp. and several high-profile investors who lost billions on mortgage-backed securities will be heard in federal court.

The ruling goes against Bank of America and [Bank of New York Mellon](#) Corp., the trustee in the case, which had both wanted the settlement to remain in New York state court where they had initially filed it. A federal court could make it easier for parties to get involved in the settlement.

The settlement, reached in late June, needs a judge to rule whether the \$8.5 billion is a fair and reasonable amount of money to settle claims over mortgages that originally totaled \$424 billion. Investors with household names like [BlackRock](#) Inc. and the Federal Reserve Bank of New York had pushed Bank of America to the deal, using Bank of New York Mellon as their legal trustee, and also wanted the case to remain in state court.

Since the pact was announced, it has come under fire from other investors and some law enforcers. The group of bondholders that requested the move to federal court, known only as Walnut Place LLC, has been joined by dozens of other investors who may be affected by the settlement in seeking a voice in the proceedings. The Federal Deposit Insurance Corp., banks like [Goldman Sachs Group](#) Inc. and the New York attorney general have all filed to be a party. New York, acting on behalf of pension funds for public workers, has also sued Bank of New York Mellon over its role in the settlement.

For Bank of America, the settlement was supposed to be a watershed moment in its battle to put mortgage issues behind it. The questions and complaints by others have raised concerns that what little certainty the bank had created with the deal may be washing away.

"We believe there are compelling reasons why the agreement should receive judicial approval in the court with appropriate jurisdiction," a Bank of America spokesman said. A Bank of New York Mellon representative declined to comment.

A lawyer for Walnut Place, Owen Cyrulnik of Grais & Ellsworth LLP, said "We're happy that the case is going to proceed in the proper forum in federal court."

Judge William H. Pauley concluded Wednesday that the agreement has federal interests because of the parties involved, rejecting the banks' legal claims. At a hearing last month on the matter, Judge Pauley had peppered the lawyers for Bank of New York Mellon and the investors with questions that looked to determine how the settlement was reached and how some investors were part of the deal.

"The Bank of New York Mellon, as trustee for hundreds of trusts, seeks to dispose of billions of dollars in toxic mortgage claims through an arcane summary procedure," Judge Pauley wrote in his ruling. "A controversy touching on BofA's Big Mortgage Settlement Is Moved to U.S. Court - WSJ.com

these paramount federal interests should proceed in federal court."

—Ruth Simon contributed to this article.