



December 23, 2011

MADIGAN ANNOUNCES \$34.25 MILLION SETTLEMENT WITH GE FUNDING CAPITAL OVER ILLEGAL MUNICIPAL BOND DERIVATIVES SCHEME

Chicago — Attorney General Lisa Madigan today announced a \$34.25 million multistate settlement with GE Funding Capital Market Services, Inc. ("GE Funding") over a scheme that defrauded government entities and educational institutions that purchased municipal bond derivatives from the financial institution.

"GE Funding sought to profit at any cost, even if it meant cheating government entities and educational institutions out of much-needed resources," said Attorney General Madigan. "This settlement will ensure that GE Funding returns its unlawfully-obtained profits to the governments and schools."

Madigan joined the District of Columbia and 23 other states to announce the settlement, which will result in nearly \$775,000 in restitution for Illinois government entities, schools and nonprofits harmed by the bank's efforts to orchestrate illegal bids for municipal derivatives.

As part of the multistate settlement, GE Funding has agreed to pay \$30 million in restitution to affected government entities, educational institutions and nonprofits nationwide that purchased municipal bond derivatives from GE Funding and two of its affiliates – Trinity Funding Company, LLC and Trinity Plus Funding Company, LLC - between 1999 and 2005. In addition, GE Funding agreed to pay a \$1.25 million civil penalty and \$3 million for fees and costs of the investigation to the settling states.

Government entities, schools and nonprofits typically issue municipal bonds to fund capital projects. Once the bonds are issued, the money is usually placed into accounts to spend on as project expenses are incurred. Because the money from the bonds does not need to be spent immediately, the government entity or nonprofit that issues the bonds often seeks to invest the money and may also pursue strategies to manage or transfer the bond's interest rate risk. These investment accounts and risk management products are collectively called "municipal bond derivatives" and are provided by large financial institutions.

The states' investigation developed evidence that traders at GE Funding, in concert with brokers, engaged in conduct that allowed the broker to determine in advance that GE Funding would win a bid for a municipal derivative by allowing GE Funding to receive a "last look" at bids and arranging for other financial institutions to submit purposely non-winning bids.

Madigan said GE Funding's practices restrained competition in the sale of municipal derivatives in violation of Illinois' antitrust laws. This conduct brought financial harm to government entities and nonprofits that relied on GE Funding's services. Certain Illinois governments, schools and nonprofits that purchased municipal derivatives from GE Funding will be eligible to receive restitution as part of this settlement.

Some of the entities affected by the financial institution's scheme and today's settlement include the following:

Chicago Area

City of Aurora
City of Chicago
City of Evanston

Greater Illinois

City of Peoria
State of Illinois Education Facilities
Western Illinois University

Illinois joins Alabama, Colorado, Connecticut, District of Columbia, Florida, Idaho, Iowa, Kansas, Maryland, Massachusetts, Michigan, Missouri, Montana, Nevada, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Texas, Tennessee and Wisconsin in the settlement.

GE Funding is the fifth financial institution to settle with the multistate group in the ongoing municipal bond derivatives investigation. Bank of America, UBS, JPMC and Wachovia previously settled with the states. To date, the state working group has obtained settlements worth almost \$350 million.

The states' investigation into financial institutions involved in this scheme remains ongoing in conjunction with a federal investigation by the U.S. Department of Justice, Securities and Exchange Commission and the Internal Revenue Service.

Bureau Chief Robert W. Pratt and Assistant Attorney General Jamie Manning are handling this case for Madigan's Antitrust Bureau.

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