



CITY OF OAKLAND
newsrelease
Office of the City Attorney

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City of Oakland Lawsuit: Bond Insurance Companies Defrauded Taxpayers

OAKLAND – The City of Oakland filed a lawsuit today against some of the nation’s most powerful high-finance companies, charging the firms with defrauding taxpayers through unlawful practices in the municipal bond insurance market.

The lawsuit accuses major bond insurance companies of charging California cities and public agencies millions of dollars to guarantee their debts – while at the same time covering up financial shenanigans that made it impossible for the firms to provide the services they were paid for.

Oakland’s lawsuit and similar lawsuits filed last month by the cities of Los Angeles and Stockton allege that bond insurance companies such as Ambac Financial Group and MBIA, both of New York, defrauded California taxpayers by covering up their weak financial condition and failing to disclose their overexposure in risky subprime loans and exotic subprime financing instruments. As a result, Oakland and other public agencies paid bond insurance companies millions of dollars to guarantee their debts, when in reality those companies were in no position to do any such thing.

“In short, Oakland has paid hundreds of thousands of dollars for insurance premiums that weren’t worth the paper they were printed on,” City Attorney John Russo said Thursday. “This is a clear case of corporate fraud, in which some of the nation’s wealthiest companies rigged the system to make great profits on taxpayer money that should have gone to pay teachers, hire police and fix roads.”

Oakland and other local governments often use bonds to fund bridges, schools, parks, public safety and other critical services.

Public agencies are forced to buy bond insurance because of an inherently unfair dual credit rating system that rates public entities lower than private corporations – even when public entities are more financially stable.

Unjustified lower credit ratings have forced California cities and public agencies to purchase bond insurance, pay excessively high interest rates on municipal bonds and spend millions of dollars on unnecessary payments to bond insurance companies. Ironically, public entities have proven to be less of a default risk than the insurance companies they pay to guarantee their debt.

“This is akin to paying the fiscally irresponsible younger brother to insure the debt of the responsible older brother,” the lawsuit states.

Recent credit rating downgrades of the bond insurers have hurt taxpayers by forcing the City of Oakland to pay higher interest rates. Overall damages could be \$1 million or more.

The prestigious Bay Area law firms of Cotchett, Pitre & McCarthy and Renne Sloan Holtzman Sakai are leading the lawsuit with the Oakland City Attorney’s Office. Contact for Cotchett: Nanci Nishimura (650) 697-6000.
