THE MOST SERIOUS FINANCIAL SCANDAL OF MODERN TIMES

18. LLOYDS' SECURITISATION OF DISTRESSED DEBT

Securitisation enabled banks such as Lloyds to reduce the proportion of lower-grade, non-core assets on their balance sheets in order to improve their capital ratios. By reducing the non-core element, banks were able to lend at a greater multiple of capital to higher quality borrowers. The profit which Lloyds subsequently earned outweighed the losses incurred by defaulting the lower grade borrower and these losses anyway could be offset against tax.

However, much of the distressed debt, which Lloyds Bank sold to Cerberus and other specialist buyers, only became distressed due to Lloyds Bank, its officers and professional agents acting outside the law.

Securitisation

- Securitisation is the process whereby a bank can reliquify its balance sheet by selling on to specialist buyers lower grade, non-core assets at a significant discount to their original, nominal value. Groups of assets, such as mortgages, are aggregated into mortgage-backed securities and sold by either an investment bank or the bank which originated the mortgages. They are purchased by financial institutions including pension funds, insurance companies and hedge funds. The latter are able to derive higher returns by buying mortgage-backed securities with lower credit ratings and using aggressive methods of recovery. The buyers are also able to purchase credit default swaps to mitigate their risk, which has already been reduced by the significant discount at which they acquired the package of debt in the first place.

- In common with other banks, Lloyds made widespread use of securitisation, particularly in the aftermath of the 2008 banking crisis, notably in the period 2013-2014.

Lloyds' misconduct & fraud prior to securitisation

- Because Lloyds' Business Support Units (BSU) had been turned into profit centres[1], the bank engineered the default of certain business customers and then, its BSU officers and the bank's professional agents engaged in extensive legal wrongdoing including the redaction, withholding, falsification and destruction of evidence, the industrial forgery of signatures on legal documents[2], the use of deliberately invalid legal documentation, fraudulent misrepresentation and perjury in court and later,

[1] Press release 12
[2] Press release 15

extensive fraud involving the registration of titles at the Land Registry[3].

- In some of Lloyds' recovery units, such as Bristol, serious professional misconduct and criminal fraud appear to have been rampant.[4]

Lloyds & securitisation

- Lloyds assembled its problem loans into a large number of so-called "Projects". Those involving UK assets included names such as Avon, Royal, Harrogate and Forth. The buyers of these "Projects" were required to sign Non-Disclosure Agreements (NDAs).[5]

- Cerberus and the other buyers of distressed debt conveniently lie outside the jurisdiction of UK regulators. However, being within the jurisdiction of UK regulators has been of little, or no help, to bank victims either.

- Executive board members of Lloyds Banking Group are expected to have signed off these large-scale securitisation deals, which in numerous instances have been the product of fraudulent and often criminal conduct of the bank's BSU officers and its professional agents. By signing, they have taken responsibility for such actions and therefore must be held accountable.

Lord Lupton & Greenhill

Lord Lupton co-founded the London office of Greenhill & Co in 1998, a specialist investment bank, which was involved in Project Avon and probably others. He stepped down from the chairmanship of Greenhill Europe in May 2017, prior to becoming a non-executive director of Lloyds Bank in the following month.

[3] Press release 16
[4] Press release 19
[5] Press release 20