

Bankruptcy Judge Approves ResCap Deal With FGIC

by Joel R. Glucksman on September 27, 2013

A bankruptcy judge has approved a \$596.5 million deal between Financial Guaranty Insurance Co and bankrupt Residential Capital LLC, putting an end to billions of dollars of claims associated with mortgage-backed securities. The settlement also resolved another \$1.3 billion in claims related to trusts insured by FGIC, the former bond insurance unit of FGIC Corp.

The settlement faced significant opposition from holders of junior secured notes that were issued by ResCap, Reuters reports. The opponents argued that Judge Martin Glenn should have rejected the multimillion-dollar settlement because ResCap allegedly overestimated the amount it owed to bond insurer FGIC. The noteholders also asserted that the deal was not properly negotiated, Reuters added.

Despite the opposition, the settlement is a step forward in the company's bid to exit its complicated bankruptcy, and it will enable ResCap to escape FGIC's attempt to collect a projected \$5.55 billion in claims. When the housing market was vibrant, FGIC insured a sizable amount of mortgage bonds for ResCap. Following the housing market collapse, FGIC claimed that ResCap misrepresented the home loans, which led millions of Americans to default on their loans and hold FGIC accountable for insurance payments.

In his 53-page opinion, Judge Glenn called the settlement "fair and equitable," and said the deal is in the best interest of investors who purchased mortgage bonds insured by FGIC.

"It will resolve significant claims against the estates for far less than the amounts asserted and it imposes a cap on FGIC's claims in case the contemplated plan is not confirmed," Glenn wrote, according to Dow Jones Business News.

ResCap initially sought protection under Chapter 11 of the bankruptcy law in May 2012, and it has since faced a number of obstacles and challenges in its multibillion-dollar bankruptcy proceedings. A hearing on confirmation of the company's proposed bankruptcy plan is scheduled for November 19, but Judge Glenn said the date may get pushed back.