



Federal Housing Finance Agency Office of Inspector General

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JUSTICE DEPARTMENT, FEDERAL AND STATE PARTNERS SECURE RECORD \$13 BILLION GLOBAL SETTLEMENT WITH JPMORGAN FOR MISLEADING INVESTORS ABOUT SECURITIES CONTAINING TOXIC MORTGAGES

JPMorgan Acknowledges Misrepresenting Investors about Quality of Loans

WASHINGTON – The Federal Housing Finance Agency Office of Inspector General along with other federal and state agencies today announced a \$13 billion dollar settlement with JPMorgan - the largest settlement with a single entity in American history - to resolve federal and state civil claims arising out of the packaging, marketing, sale and issuance of residential mortgage-backed securities (RMBS) by JPMorgan, Bear Stearns and Washington Mutual prior to January 1, 2009. As part of the settlement, JPMorgan acknowledged it made serious, material misrepresentations to the public – including the investing public – about numerous RMBS transactions. The resolution also requires JPMorgan to provide much-needed relief to underwater homeowners and potential homebuyers, including those in distressed areas of the country. The settlement does not absolve JPMorgan or its employees from facing any possible criminal charges.

This settlement is part of the ongoing efforts of President Obama’s Financial Fraud Enforcement Task Force’s RMBS Working Group, of which the Coordinating Committee is housed by the Federal Housing Finance Agency Office of Inspector General (FHFA-OIG).

“JP Morgan and the banks it bought securitized billions of dollars of defective mortgages. Investors, including Fannie Mae and Freddie Mac, suffered enormous losses by purchasing RMBS from JPMorgan, Washington Mutual and Bear Stearns not knowing about those defects,” said Acting Inspector General Michael P. Stephens. “Today’s settlement is a significant, but by no means final step by FHFA-OIG and its law enforcement partners to hold accountable those who committed acts of fraud and deceit. We are proud to have worked with the Department of Justice, the U.S. Attorneys in Sacramento and Philadelphia and the New York and California state attorneys general; they have been great partners and we look forward to our continued work together.”

“Without a doubt, the conduct uncovered in this investigation helped sow the seeds of the mortgage meltdown,” said Attorney General Eric Holder. “JPMorgan was not the only financial institution during this period to knowingly bundle toxic loans and sell them to unsuspecting investors, but that is no excuse for the firm’s behavior. The size and scope of this resolution should send a clear signal that the Justice Department’s financial fraud investigations are far from over. No firm, no matter how profitable, is above the law, and the passage of time is no shield from accountability. I want to personally thank the RMBS Working Group for its tireless work not only in this case, but also in the investigations that remain ongoing.”

The settlement includes a statement of facts, in which JPMorgan acknowledges that it regularly represented to RMBS investors that the mortgage loans in various securities complied with underwriting guidelines. Contrary to those representations, as the statement of facts explains, on a number of different occasions, JPMorgan employees knew that the loans in question did not comply with those guidelines and were not otherwise appropriate for securitization, but they allowed the loans to be securitized – and those securities to be sold – without disclosing this information to investors. This conduct, along with similar conduct by other banks that bundled toxic loans into securities and misled investors who purchased those securities, contributed to the financial crisis.

FHFA OIG Investigations Division and Office of Special Projects has worked very closely with the RMBS Working Group to hold accountable all who played a role in bundling the toxic loans into securities and selling them to investors. “The RMBS working group is a team effort and one we’re proud to be a part of,” said Michael P. Stephens. “I have 25 of my best investigators and lawyers conducting interviews and document review, and serving subpoenas; this will remain the case as long as we are able to continue to build solid cases such as this one against JPMorgan.”

“Through this \$13 billion resolution, we are demanding accountability and requiring remediation from those who helped create a financial storm that devastated millions of Americans,” said Associate Attorney General Tony West. “The conduct JPMorgan has acknowledged - packaging risky home loans into securities, then selling them without disclosing their low quality to investors - contributed to the wreckage of the financial crisis. By requiring JPMorgan both to pay the largest FIRREA penalty in history and provide needed consumer relief to areas hardest hit by the financial crisis, we rectify some of that harm today.”

Of the record-breaking \$13 billion resolution, \$9 billion will be paid to settle federal and state civil claims by various entities related to RMBS. Of that \$9 billion, JPMorgan will pay \$2 billion as a civil penalty to settle the Justice Department claims under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), \$1.4 billion to settle federal and state securities claims by the National Credit Union Administration (NCUA), \$515.4 million to settle federal and state securities claims by the Federal Deposit Insurance Corporation (FDIC), \$4 billion to settle federal and state claims by the Federal Housing Finance Agency (FHFA), \$298.9 million to settle claims by the State of California, \$19.7 million to settle claims by the State of Delaware, \$100 million to settle claims by the State of Illinois, \$34.4 million to settle claims by the Commonwealth of Massachusetts, and \$613.8 million to settle claims by the State of New York.

JPMorgan will pay out the remaining \$4 billion in the form of relief to aid consumers harmed by the unlawful conduct of JPMorgan, Bear Stearns and Washington Mutual. That relief will take various forms, including principal forgiveness, loan modification, targeted originations and efforts to reduce blight. An independent monitor will be appointed to determine whether JPMorgan is satisfying its obligations. If JPMorgan fails to live up to its agreement by Dec. 31, 2017, it must pay liquidated damages in the amount of the shortfall to NeighborWorks America, a non-profit organization and leader in providing affordable housing and facilitating community development.

The U.S. Attorney's Offices for the Eastern District of California and Eastern District of Pennsylvania and the Justice Department's Civil Division, along with the U.S. Attorney's Office for the Northern District of Texas, conducted investigations into JPMorgan's, Washington Mutual's and Bear Stearns' practices related to the sale and issuance of RMBS between 2005 and 2008.

"Today's global settlement underscores the power of FIRREA and other civil enforcement tools for combatting financial fraud," said Assistant Attorney General for the Civil Division Stuart F. Delery, co-chair of the RMBS Working Group. "The Civil Division, working with the U.S. Attorney's Offices and our state and agency partners, will continue to use every available resource to aggressively pursue those responsible for the financial crisis."

"Abuses in the mortgage-backed securities industry helped turn a crisis in the housing market into an international financial crisis," said U.S. Attorney for the Eastern District of California Benjamin Wagner. "The impacts were staggering. JPMorgan sold securities knowing that many of the loans backing those certificates were toxic. Credit unions, banks and other investor victims across the country, including many in the Eastern District of California, continue to struggle with losses they suffered as a result. In the Eastern District of California, we have worked hard to prosecute fraud in the mortgage industry. We are equally committed to holding accountable those in the securities industry who profited through the sale of defective mortgages."

"Today's settlement represents another significant step towards holding accountable those banks which exploited the residential mortgage-backed securities market and harmed numerous individuals and entities in the process," said U.S. Attorney for the Eastern District of Pennsylvania Zane David Memeger. "These banks packaged and sold toxic mortgage-backed securities, which violated the law and contributed to the financial crisis. It is particularly important that JPMorgan, after assuming the significant assets of Washington Mutual Bank, is now also held responsible for the unscrupulous and deceptive conduct of Washington Mutual, one of the biggest players in the mortgage-backed securities market."

This settlement resolves only civil claims arising out of the RMBS packaged, marketed, sold and issued by JPMorgan, Bear Stearns and Washington Mutual. The agreement does not release individuals from civil charges, nor does it release JPMorgan or any individuals from potential criminal prosecution. In addition, as part of the settlement, JPMorgan has pledged to fully cooperate in investigations related to the conduct covered by the agreement.

To keep JPMorgan from seeking reimbursement from the federal government for any money it pays pursuant to this resolution, the Justice Department required language in the settlement agreement which prohibits JPMorgan from demanding indemnification from the FDIC, both in its capacity as a corporate entity and as the receiver for Washington Mutual.

“The settlement announced today will provide a significant recovery for six FDIC receiverships. It also fully protects the FDIC from indemnification claims out of this settlement,” said FDIC Chairman Martin J. Gruenberg. “The FDIC will continue to pursue litigation where necessary in order to recover as much as possible for FDIC receiverships, money that is ultimately returned to the Deposit Insurance Fund, uninsured depositors and creditors of failed banks.”

“NCUA’s Board extends our thanks and appreciation to our attorneys and to the Department of Justice, who have worked closely together for more than three years to bring this matter to a successful resolution,” said NCUA Board Chairman Debbie Matz. “The faulty mortgage-backed securities created and packaged by JPMorgan and other institutions created a crisis in the credit union industry, and we’re pleased a measure of accountability has been reached.”

The attorneys general of New York, California, Delaware, Illinois and Massachusetts also conducted related investigations that were critical to bringing about this settlement.

“Since my first day in office, I have insisted that there must be accountability for the misconduct that led to the crash of the housing market and the collapse of the American economy,” said New York Attorney General Eric Schneiderman, Co-Chair of the RMBS Working Group. “This historic deal, which will bring long overdue relief to homeowners around the country and across New York, is exactly what our working group was created to do. We refused to allow systemic frauds that harmed so many New York homeowners and investors to simply be forgotten, and as a result we’ve won a major victory today in the fight to hold those who caused the financial crisis accountable.”

“JP Morgan Chase profited by giving California’s pension funds incomplete information about mortgage investments,” California Attorney General Kamala D. Harris said. “This settlement returns the money to California’s pension funds that JP Morgan wrongfully took from them.”

“Our financial system only works when everyone plays by the rules,” said Delaware Attorney General Beau Biden. “Today, as a result of our coordinated investigations, we are holding accountable one of the financial institutions that, by breaking those rules, helped cause the economic crisis that brought our nation to its knees. Even as the American people recover from this crisis, we will continue to seek accountability on their behalf.”

“We are still cleaning up the mess that Wall Street made with its reckless investment schemes and fraudulent conduct,” said Illinois Attorney General Lisa Madigan. “Today’s settlement with JPMorgan will assist Illinois in recovering its losses from the dangerous and deceptive securities that put our economy on the path to destruction.”

“This is a historic settlement that will help us to hold accountable those investment banks that played a role in creating and exacerbating the housing crisis,” said Massachusetts Attorney General Martha Coakley. “We appreciate the work of the Department of Justice and the other enforcement agencies in bringing about this resolution and look forward to continuing to work together in other securitization cases.”

The RMBS Working Group is a federal and state law enforcement effort focused on investigating fraud and abuse in the RMBS market that helped lead to the 2008 financial crisis. The RMBS Working Group brings together more than 200 attorneys, investigators, analysts and staff from dozens of state and federal agencies including the Department of Justice, 10 U.S. attorney’s offices, the FBI, the Securities and Exchange Commission (SEC), the Department of Housing and Urban Development (HUD), HUD’s Office of Inspector General, the FHFA-OIG, the Office of the Special Inspector General for the Troubled Asset Relief Program, the Federal Reserve Board’s Office of Inspector General, the Recovery Accountability and Transparency Board, the Financial Crimes Enforcement Network, and more than 10 state attorneys general offices around the country.

The RMBS Working Group is led by five co-chairs: Assistant Attorney General for the Civil Division Stuart Delery, Acting Assistant Attorney General for the Criminal Division Mythili Raman, Co-Director of the SEC’s Division of Enforcement George Canellos, U.S. Attorney for the District of Colorado John Walsh and New York Attorney General Eric Schneiderman.

Learn more about the RMBS Working Group and the Financial Fraud Enforcement Task Force at: www.stopfraud.gov

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