Manhattan U.S. Attorney Sues And Settles With JPMorgan Chase For $614 Million For Fraudulent Mortgage Lending Practices

FOR IMMEDIATE RELEASE Tuesday, February 4, 2014

In Settlement, Bank Admits and Accepts Responsibility for Improperly Approving Thousands of Mortgage Loans for Government Insurance, and Agrees to Implement Enhanced Quality Control Program to Protect Against Future Violations

Preet Bharara, the United States Attorney for the Southern District of New York, Associate Attorney General Tony West, Stuart F. Delery, the Assistant Attorney General for the Justice Department's Civil Division, Damon Smith, Acting General Counsel of the U.S. Department of Housing and Urban Development ("HUD"), David A. Montoya, Inspector General of HUD, and Richard J. Griffin, Acting Inspector General of the U.S. Department of Veterans Affairs ("VA"), announced today that the United States has filed, and simultaneously settled, a civil fraud lawsuit against JPMORGAN CHASE & CO. and JPMORGAN CHASE BANK, N.A. (collectively, "JPMORGAN CHASE"), for improperly approving thousands of residential home mortgage loans for government insurance and refinancing. In the settlement, JPMORGAN CHASE admitted, acknowledged, and accepted responsibility for, among other things, submitting false certifications to HUD, the VA, and the Federal Housing Administration (a component of HUD, and, together with HUD, "HUD-FHA") that: (1) induced HUD-FHA and the VA to accept for government insurance and refinancing thousands of loans that were not eligible for such insurance or refinancing; and (2) ultimately resulted in substantial losses to the Government when the loans defaulted. JPMORGAN CHASE also admitted to failing to self-report to HUD-FHA hundreds of loans that it had identified as fraudulent or otherwise deficient, and to submitting loan data to HUD-FHA that lacked integrity.

To resolve the United States' claims, JPMORGAN CHASE has agreed to pay $614 million to the United States under the False Claims Act. In addition, JPMORGAN CHASE has agreed to implement an enhanced quality control program to address the misconduct concerning the integrity of loan data submitted to HUD-FHA. The settlement was approved today by United States District Judge J. Paul Oetken.

Manhattan U.S. Attorney Preet Bharara stated: "For years, JPMorgan Chase has enjoyed the privilege of participating in federally-subsidized programs aimed at helping millions of Americans realize the dream of homeownership. Yet, for more than a decade, it abused that privilege. JPMorgan Chase put profits ahead of responsibility by recklessly churning out thousands of defective mortgage loans, failing to inform the Government of known problems with those loans, and leaving the Government to cover the losses when the loans defaulted. With today's settlement, however, JPMorgan Chase has accepted responsibility for its misconduct and has committed to reform its business practices. This settlement adds to the list of successful mortgage fraud cases this Office has pursued."

Associate Attorney General Tony West said: "The resolution announced today is a product of the Justice Department's continuing efforts to hold accountable those whose conduct contributed to the financial crisis. This settlement recovers wrongfully claimed funds for vital government programs that give millions of Americans the opportunity to own a home and sends a clear message that we will take appropriately aggressive action against financial institutions that knowingly engage in improper mortgage lending practices."

Stuart F. Delery, Assistant Attorney General for the Justice Department's Civil Division, said: "The Department of Justice will continue to hold accountable financial institutions whose irresponsible mortgage lending undermines the housing market and costs the taxpayers many millions of dollars. I thank U.S. Attorney Bharara and his team for their stellar efforts in this case and look forward to our coordinated efforts in these cases."

HUD Acting General Counsel Damon Smith said: "This settlement with JP Morgan Chase will enable HUD to recover funds lost due to Chase's past unacceptable mortgage underwriting practices. In addition, Chase must now institute new and tighter controls to prevent abuses of FHA's automated underwriting

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system. HUD will continue working with the Department of Justice to ensure that lenders are held accountable and are required to institute practices that will benefit both borrowers and the FHA insurance fund."

HUD Inspector General David A. Montoya said: "The agreement reached with JPMC was possible due to the dedication of the U.S. Attorney's Office for the Southern District of New York and the hard work of the talented staff at the Office of Inspector General. It also demonstrates the combined commitment of the Justice Department and the Office of Inspector General to continuing efforts to enforce FHA mortgage insurance requirements."

Richard J. Griffin, Acting Inspector General for the Office of Inspector General, Department of Veterans Affairs, said: "I commend the efforts of the United States Attorney's Office for the Southern District of New York to hold lenders accountable for conduct that defrauds the Government and deserving veterans who rely on VA's loan guaranty program to purchase their homes."

According to the Complaint filed in Manhattan federal court:

Since at least 2002, JPMORGAN CHASE has been a participant in the HUD-FHA Direct Endorsement Lender program ("DEL Program") and the VA Home Loan Guaranty program ("Loan Guaranty Program") – federal programs authorizing private-sector mortgage lenders to approve mortgage loans for insurance or refinancing by the Government. If a lender approves a mortgage loan for insurance and refinancing pursuant to the DEL Program or the Loan Guaranty Program and the loan later defaults, the holder of the loan may submit an insurance claim to FHA-HUD or the VA for the costs associated with the defaulted loan, which HUD-FHA or the VA must then pay. Under both the DEL Program and the Loan Guaranty Program, neither HUD-FHA nor the VA reviews a loan before it is approved for government insurance or refinancing. Consequently, it is crucial that lenders follow the rules of the DEL Program and the Loan Guaranty Program. Those rules require lenders to follow HUD-FHA's and the VA's underwriting requirements in determining which loans to approve for insurance or refinancing. The rules also require lenders to self-report loans that they identify as having been affected by fraud or other material deficiencies. The rules further require lenders to refrain from manipulating the loan data they submit to TOTAL Mortgage Scorecard ("TOTAL") – a credit-rating software application maintained by HUD-FHA that determines whether a given loan qualifies for government insurance.

Notwithstanding the importance of following the rules of the DEL Program and the Loan Guaranty Program, during the period January 1, 2002, through the present (the "Covered Period"), JPMORGAN CHASE routinely violated those rules. Specifically, JPMORGAN CHASE: (1) approved thousands of loans for government insurance or refinancing that did not meet one or more of the requirements of the DEL Program or the Loan Guaranty Program; (2) failed to self-report hundreds of loans that it identified as having been affected by fraud or other material deficiencies; and (3) regularly submitted to TOTAL loan data that lacked integrity – the data was not based on documents or other information possessed by JPMORGAN CHASE employees at the time they submitted it. This conduct prompted HUD-FHA and the VA to accept for government insurance and refinancing thousands of loans that did not, in fact, qualify. When those loans ultimately defaulted, HUD-FHA and the VA suffered substantial losses that, but for JPMORGAN CHASE's conduct, would not have occurred.

As part of the settlement, JPMORGAN CHASE has admitted, acknowledged, and accepted responsibility for the following conduct alleged in the Government's complaint:

- It failed to self-report to HUD-FHA 582 loans that, from 2007 through 2009, it identified as having been affected by borrower or correspondent fraud or other material deficiencies.
- It approved for government insurance or refinancing thousands of loans that did not meet one or more rules of the DEL Program or the Loan Guaranty Program, and therefore were not eligible for government insurance or refinancing.
- Certain of its employees submitted data to TOTAL that lacked integrity. Specifically, when loans did not receive an "accept/approve" rating from TOTAL, these employees re-submitted the loans through TOTAL multiple times over a short period, each time entering into TOTAL hypothetical data that had not been corroborated by documents or other information possessed by the employees in order to determine data values that would generate an "accept/approve" rating. These employees communicated the qualifying data values to borrowers, thus increasing the risk of borrower fraud.
- As a result of the conduct described above, JPMORGAN CHASE induced HUD-FHA and the VA to accept for government insurance or refinancing thousands of loans that were not eligible for such insurance or refinancing, and that HUD-FHA and the VA otherwise would not have accepted for insurance or refinancing, and this resulted in substantial losses to the Government when the loans ultimately defaulted.

Pursuant to the settlement, JPMORGAN CHASE will pay the United States $614 million within 30 days of the settlement.

Under the settlement, JPMORGAN CHASE has also agreed to comply with all of the rules applicable to participants in the DEL Program and the Loan Guaranty Program, including the DEL Program requirement that it ensure the "integrity of the data supplied" to TOTAL. To ensure compliance with that data integrity requirement, JPMORGAN CHASE has agreed to implement an enhanced quality control program to review loans that it underwrites using TOTAL. Pursuant to this program, JPMORGAN CHASE must implement certain controls designed to detect instances where its employees submit to TOTAL data that is not supported by documents or other information possessed by the employees at the time the data is submitted. The details of the enhanced quality control program are subject to approval by this Office.

The case is being handled by the Office's Civil Frauds Unit. Mr. Bharara established the Civil Frauds Unit in March 2010 to bring renewed focus and additional resources to combating financial fraud, including mortgage fraud.

By filing this case, the Government joined a private whistleblower lawsuit that had previously been filed against JPMORGAN CHASE under the False Claims Act.

The case filed today against JPMORGAN CHASE represents the eighth civil fraud lawsuit brought by this Office since May 2011 alleging fraudulent lending practices by residential mortgage lenders. In February 2012, this Office settled with Citimortgage (a subsidiary of Citibank) and Flagstar Bank. In May 2012, the Office settled with Deutsche Bank and a number of its subsidiaries. In October 2013, a jury returned a verdict against Countrywide, Bank of America, and Rebecca Mairone. Litigation is pending against Wells Fargo Bank and Kurt Lofrano; Allied Home Mortgage, Jim Hodge, and Jeanne Stell; and Golden First Mortgage and David Movtady.

The Civil Frauds Unit works in coordination with President Barack Obama's Financial Fraud Enforcement Task Force, on which Mr. Bharara serves as a Co-Chair of the Securities and Commodities Fraud Working Group. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices and state and local partners, it's the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed nearly 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,900 mortgage fraud defendants. For more information on the task force, please visit www.StopFraud.gov.

Mr. Bharara thanked HUD-OGC, HUD-OIG and VA-OIG for their extraordinary assistance in this case. He also expressed his appreciation for the support of the Commercial Litigation Branch of the U.S. Department of Justice's Civil Division in Washington, D.C.

Assistant U.S. Attorney Christopher B. Harwood is in charge of the case.

14-033

U.S. v. JPMorgan 13 Civ 0220 Government Complaint

U.S. v. JPMorgan 13 Civ 0220 Executed Stipulation of Settlement and Judgment

Return to Top