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MARKETS

J.P. Morgan, U.S. Settle for \$13 Billion

Deal Ends a Number of Legal Headaches for Largest U.S. Bank

By **DEVLIN BARRETT**, and **DAN FITZPATRICK**

Updated Nov. 19, 2013 6:05 p.m. ET

J.P. Morgan Chase & Co. and the Justice Department agreed to a landmark \$13 billion settlement that resolves a number of legal headaches for the largest U.S. bank and ends months of wrangling between the government and the nation's largest bank by assets.

The deal, announced Tuesday, came after the final piece holding up the agreement, terms of \$4 billion worth of aid to distressed homeowners, was completed Monday.

The historic settlement ends a number of investigations and lawsuits targeting soured mortgage bonds issued before the financial crisis and amounts to the biggest combination of fines and damages extracted by the U.S. government in a civil settlement with any single company.

"Without a doubt, the conduct uncovered in this investigation helped sow the seeds of the mortgage meltdown," Attorney General Eric Holder said in a statement. "J.P. Morgan 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."

J.P. Morgan Chief Executive James Dimon, in a statement, said the bank is "pleased to have concluded this extensive agreement ... and to have resolved the civil claims of the Department of Justice and others. Today's settlement covers a very significant portion of legacy mortgage-backed securities-related issues for J.P. Morgan Chase, as well as Bear Stearns and Washington Mutual."

Mr. Holder said the government's probes of big banks for similar conduct "is far from over."

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J.P. Morgan used to be Washington's favorite bank. The language in Tuesday's settlement shows just how much that has changed. Read the post on MoneyBeat.

More Coverage:

- J.P. Morgan Investors Take Settlement in Stride
(<http://online.wsj.com/news/articles/SB10001424052702303531204579208531899133494>)
- Dimon Expresses Regrets (<http://blogs.wsj.com/moneybeat/2013/11/19/jpms-dimon-expresses-some-regrets-about-firms-bear-wamu-purchases/>)
- **Heard:** Ponying Up to Move On
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- J.P. Morgan Will Also Cross New York Suit Off Its Long List
(<http://online.wsj.com/news/articles/SB10001424052702303755504579206553775767632>)
- **Recap:** Parsing the Settlement (<http://blogs.wsj.com/moneybeat/2013/11/19/live-blog-j-p-morgans-13-billion-settlement-announced/>)
- Read the Statement of Facts
(<http://online.wsj.com/public/resources/documents/111913jpmstatement.pdf>)



According
to the

People walk by JP Morgan Chase & Company headquarters in New York in August. AFP/GETTY IMAGES

 SLICES OF THE \$13 BILLION PIE

Here's where the money is going in J.P. Morgan's landmark settlement:

\$4 billion: Previously reported settlement of claims by the Federal Housing Finance Agency

\$4 billion: Relief given to consumers who were "harmed by the unlawful conduct" of Bear Stearns, Washington Mutual and J.P. Morgan

\$2 billion: Penalty to settle Justice Department claims under the Financial Institutions Reform, Recovery and Enforcement Act

\$1.4 billion: Settlement of federal and state securities claims by the National Credit Union Administration

\$613.8 million: \$613.8 million: Settlement of claims by the State of New York

\$515.4 million: Settlement of federal and state securities claims by the Federal Deposit Insurance Corporation

\$298.9 million: Settlement of claims by the State of California

\$100 million: Settlement of claims by the State of Illinois

\$34.4 million: Settlement of claims by the Commonwealth of

government's press release, the settlement includes a statement of facts in which J.P. Morgan acknowledges it repeatedly told investors the mortgage loans in securities complied with underwriting guidelines, when bank employees knew on a number of occasions that the loans in question didn't.

Of the \$13 billion settlement, \$9 billion will go to pay federal and state civil lawsuit claims over residential-backed mortgage securities. Of that \$9 billion, the bank will pay \$2 billion as a civil penalty to the Justice Department, \$1.4 billion to settle federal and state claims by the National Credit Union Administration, \$515 million to settle Federal Deposit Insurance Corp. claims, \$4 billion to settle Federal Housing Finance Agency claims, nearly \$300 million to settle claims by California state officials, nearly \$20 million to settle claims by Delaware, \$100 million to settle claims from Illinois, \$34 million to settle claims by Massachusetts, and nearly \$614 million to settle claims by New York State.

The remaining \$4 billion will be in the form of programs aimed at helping homeowners who were harmed, the government release said. The so-called consumer-relief terms were the most complex portion of the pact, and the Justice Department asked the Department of Housing and Urban Development for assistance in the final negotiations, according to people familiar with the talks.

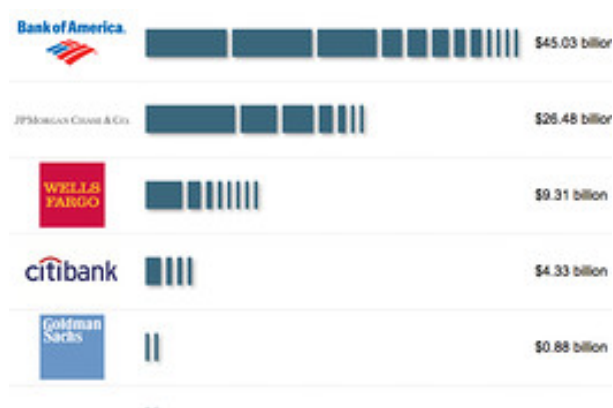
Over the weekend, Mr. Holder and the

Massachusetts

\$19.7 million: Settlement of claims by the State of Delaware

THE LEGAL TAB

Large banks have agreed to more than \$86 billion in settlements in recent years over cases related to the credit crisis.



Justice Department's lead negotiator, Associate Attorney General Tony West, held lengthy discussions with HUD Secretary Shaun Donovan as they put the finishing touches on the terms, according to people close to the talks.

J.P. Morgan agreed to pay at least \$1.5 billion, and as much as \$1.7 billion, to write down the principal amounts of J.P. Morgan-held loans in which the borrower owes more than the property is worth.

In addition, at least \$300 million and as much as \$500 million would go toward what the mortgage industry calls forbearance—restructuring some mortgages to reduce the monthly payments, the people said.

The other \$2 billion in consumer aid will be directed toward a number of different measures, including new mortgage

originations for low- and moderate-income borrowers, and absorbing the remaining principal owed on properties that have been vacated but not yet foreclosed upon, the people said.

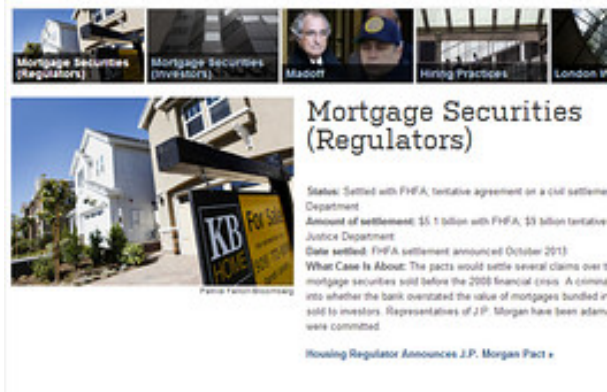
In a first for such a settlement, J.P. Morgan could use part of that money to pay for what is known as anti-bligh work in distressed neighborhoods, such as the demolition of rundown, abandoned homes.

The agreement eclipses the \$4.5 billion deal with BP PLC tied to its Deepwater Horizon disaster in the Gulf of Mexico and the \$3 billion paid by drug maker GlaxoSmithKline PLC after it pleaded guilty to criminal charges of illegally marketing drugs and withholding safety data from U.S. regulators.

The pact also marks the toughest action yet on the financial crisis by the Obama administration, which has been criticized by Democrats and some Republicans for not pursuing more aggressively criminal charges against bank executives for conduct leading up to the crisis.

J.P. MORGAN'S CASE FILE

Here's a tally of the bank's settlements, which have grown to more than \$28 billion.



At issue in the J.P. Morgan settlement are billions of dollars in residential mortgage-backed securities—bond offerings that government prosecutors say were based on mortgages that were weaker than advertised.

For J.P. Morgan, the agreement represents significant progress in its effort to put as many legal woes behind it as possible. But the scope of penalties and damages reinforces the turnabout for an institution that went from being favorably viewed as a rescuer of troubled lenders to a bank grappling with a tainted reputation and fractured relationships in Washington.

J.P. Morgan also has agreed in recent months to pay more than \$1 billion to end an array of federal and overseas investigations into a series of bad bets made by a trader known as the "London whale." Those trades, which resulted in losses of more than \$6 billion for J.P. Morgan, raised questions about the bank's governance. Federal prosecutors still are conducting investigations into the 2012 trading fiasco, J.P. Morgan's overseas hiring practices, whether it provided adequate warnings about the behavior of convicted Ponzi scheme operator Bernard Madoff and its alleged manipulation of U.S. energy markets. The bank has disclosed these probes and said it is cooperating with authorities.

An independent monitor would oversee the \$4 billion in consumer aid to ensure it is completed by the end of 2016, people familiar with the matter said

Monday's agreement on terms of the homeowner-aid portion of the deal came after the two sides agreed last week on a separate outstanding issue, according to people close to the talks.

J.P. Morgan has told the Justice Department it was willing to give up its ability to pursue an FDIC receivership for certain settlement costs that can be tied back to soured mortgage bonds issued by Washington Mutual Inc. during the housing boom, said people close to the talks. J.P. Morgan purchased the banking operations of Washington Mutual in 2008, and it had previously said an FDIC receivership that liquidated the thrift should absorb any claims.

The question of who bears responsibility for Washington Mutual's legal liabilities had turned into a major snag in discussions with the Justice Department, said people close to the talks. Mr. Holder wanted to avoid a situation in which a government penalty of a bank is essentially extracted from another government agency, according to these people.

Write to Devlin Barrett at devlin.barrett@wsj.com and Dan Fitzpatrick at dan.fitzpatrick@wsj.com

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