

## JP Morgan Faces US Charges on Mortgage-Backed Securities

By Kara Scannell and Tom Braithwaite in New York

JPMorgan Chase's legal woes deepened as US authorities prepared to file civil charges as early as Tuesday alleging the bank misled investors in mortgage-backed securities sold in the lead-up to the financial crisis.

The civil lawsuit, expected to be filed by the US attorney's office in the Eastern District of California, would be the third launched by government authorities against the bank's mortgage-securities operation.

Efforts to resolve the allegations have so far failed, with both sides unable to agree to the amount of the settlement, a person familiar with the matter said.

Last year, the US's largest bank by assets agreed to pay \$296.9m to settle civil charges filed by the Securities and Exchange Commission alleging the bank misled investors who bought securities. The bank did not admit or deny wrongdoing. New York state's attorney-general also filed a lawsuit against the bank, which has vowed to fight it.

The latest federal action puts additional strain on the bank as it seeks to restore its reputation after paying \$920m last week to US and UK authorities for withholding information from its board and regulators over mushrooming losses from its "London Whale" trade.

JPMorgan disclosed last month that in May prosecutors in California had "preliminarily concluded that the firm violated certain federal securities laws" when it sold

subprime loans packaged into securities. A criminal investigation into the bank's packaging of securities is also active. The timing of the lawsuit was first reported by Reuters.

The Department of Justice has accelerated its investigations into residential mortgage-backed securities in recent weeks, [pressing several financial institutions](#) to settle or face legal action, people familiar with the negotiations say.

Last year, the DoJ filed a civil lawsuit against [Bank of America](#) alleging Countrywide Financial sold Fannie Mae and Freddie Mac defective loans that were rushed through a programme dubbed "Hustle" without checks to their quality. The US is seeking more than \$1bn. BofA has denied any fraud occurred.

The DoJ has filed the lawsuits using the Financial Institutions Reform, Recovery, and Enforcement Act, a 1989 law that protects financial institutions from fraud.

Favourable court rulings in two recent cases has emboldened authorities to move forward with other claims, people familiar with the matter say.

JPMorgan is due to launch Wall Street's earnings season on October 11, with legal costs expected to weigh on the bank. Executives have said the company will incur legal costs of more than \$1.5bn in the third quarter.