

# JPMorgan in \$11bn settlement talks over mortgage securities

By Tom Braithwaite and Kara Scannell in New York

JPMorgan Chase is preparing to settle all of its outstanding mortgage securities issues for about \$11bn as part of a deal with US state and federal authorities, according to people familiar with the situation.

The \$11bn comprises \$7bn cash and \$4bn of mortgage relief for struggling homeowners as penalties for allegations that the bank packed mortgage-backed securities with faulty home loans in the run-up to the crisis.

Graphic on the biggest legal settlements in finance

If finalised, the settlement would surpass a \$4.5bn settlement paid by BP to resolve criminal charges over the Gulf of Mexico oil disaster.

JPMorgan has already paid \$5.3bn to settle allegations from US regulators and states that it used flawed processes to seize the homes of delinquent borrowers, and its legal costs since the crisis are well into 11 figures.

Crucially, the deal, which is expected to be agreed formally within days, would resolve a multibillion-dollar claim from the Federal Housing Finance Agency for alleged mis-selling of mortgage securities, which was seen as the single biggest legal threat to the bank. The FHFA declined to comment.

People familiar with talks between JPMorgan and the range of government agencies involved, which span the New York attorney general's office and the Department of Justice, said the settlement was not completed and could still unravel, or a smaller deal could be agreed without one of the parties.

The US's threat to sue the bank on Tuesday reignited negotiations between the parties. The bank's initial settlement offer was rejected by Eric Holder, the US attorney general, as too low, a person familiar with the matter said.

Although the bank has now expressed willingness to pay the \$11bn amount, it is resisting any sweeping admission of guilt, which could jeopardise its defence against private litigation on similar issues.

The scope of the bank's admissions represents a sticking point – both because they could fuel other suits and because JPMorgan had previously denied wrongdoing in some of them.

Last year Eric Schneiderman, New York state's top attorney, sued the bank, alleging it had "committed multiple fraudulent and deceptive acts in promoting and selling" MBS. At that time, JPMorgan vowed to contest the allegations, which it said were made "relying on recycled claims already made by private plaintiffs". However, it is now preparing to settle those allegations, along with similar complaints from US prosecutors in California and Pennsylvania and the justice

department.

JPMorgan and its subsidiaries, Bear Stearns and Washington Mutual – both acquired during the financial crisis – were among the biggest securitisers of mortgages in the run-up to 2008 when the industry often bundled poor quality loans into MBS, later racking up large losses for the purchasers.

The JPMorgan settlement could be a template for other banks with outstanding legal challenges, including Bank of America.

The settlement does not end all of JPMorgan's vast array of legal problems. It will not include additional fines for the "London Whale" trading affair, but other agencies are continuing to press for more punishment; the Commodity Futures Trading Commission is demanding the bank admit to manipulating a benchmark derivatives index, which JPMorgan is resisting.

Shares in JPMorgan rose 2.7 per cent on Wednesday after news of the tentative settlement, first reported by the Associated Press, on hopes that it signals the end of a period of damaging uncertainty over the bank's legal exposure on mortgages.