JP Morgan Scandal Exposes Multi-Billion Dollar Fraud

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Few bank scandals are surprising these days. Over the last few years we've discovered the banksters manipulated just about every **financial** asset price possible. Some even went to jail!

A few years ago, a friend worked on the internal investigations of one of the banks involved in such a rigging scandal. He said it wasn't exactly difficult stuff. Traders were open about it.

But the latest scandal is special. And it could rip a serious hole in JP Morgan when the dust settles. If the US government wants any sort of credibility over the financial crisis era.

Then again, the bank is the US's biggest deposit-taking institution as of yesterday, so it'll probably get away with it again.

What is the scandal? It's mind-blowing

According to lawsuit documents and the left-wing magazine The Nation, JP Morgan found a surprising way of reducing the enormous fines it was struck with back in 2012 and 2013. Most of the fines had to be paid in debt forgiveness to customers instead of cash to the government.

The problem is, JP Morgan forgave debt that was no longer owed by customers. The bank had already sold their mortgages to others.

And that's just the beginning. But let's explain the details first.

After discovering robo-signing and various other frauds, five banks settled with the then attorney general Eric Holder for $25 billion. JP Morgan settled for $5.3 billion. But only $1.1 billion was to be paid in cash. A year later, another scandal saw the bank settle for $4 billion, entirely in "consumer relief".

At the time, the banks were selling off distressed debt at cents on the dollar. They'd package a bundle of delinquent mortgages by the thousands, and then sell them to investors as a set.

Of the $8.2 billion fine which JP Morgan had to pay by forgiving debt or similar measures, an unknown amount was fulfilled by forgiving debt that JP Morgan had already sold to other financial firms. It forgave debt that was no longer owed, thereby escaping paying the fine altogether.

But that's not the half of it. The lawsuit also alleges that the bank pulled off some remarkable dodgy practices.

The loans it sold to investors were only partially sold. In the sense that the paperwork and the transaction was only partially completed. One buyer of such a bundle of debt explained that, "If a payment comes in, it's theirs; if there's a code-enforcement issue, it's mine."

So the bank continued to collect payments on loans that it had sold to investors, including default insurance payments, while the new owners shouldered the costs of ownership. When the new owner of the debt asked for the money, it told them an internal accounting error which couldn't be reversed was to blame.

My personal favourite is that JP Morgan allegedly specifically sold those loans which were particularly egregious frauds under the mortgage lending standards requirement. By selling the mortgages which failed because of its own worst practices, it avoided responsibility for them.

Also, the procedural part of the deal was done by a firm which works with the Church of Scientology. The lawsuit accuses that firm of robo-signing debt forgiveness paperwork, what the original fine was for in the first place…

The lawsuit came up because an investor who had bought tens of thousands of loans suddenly had his customers ringing up to say they no longer owed the debt according to mail from JP Morgan. And some sued him for charging them for debt he wasn't even owed. He still didn't have the paperwork to prove ownership as JP Morgan continued to delay sending it.

The scandal was only uncovered because one such mortgage payer asked their neighbour to take a look at the paperwork. Who did they owe the mortgage to, and was it forgiven or not!? The neighbour worked for a politician and things unravelled from there.

But all this still leaves people whose debt was forgiven under JP Morgan's fine with a mortgage they must still pay to the person who legally owns their debt.

It's no wonder people light themselves on fire in a bank.

The share price of JP Morgan hasn't reacted yet.

Progress on Brexit at last

Good news on **Brexit**. The Telegraph quotes the nature of progress ever since the prime minister told the EU "the ball is in their court":

> *Asked if the ball was now in the EU's court, as Mrs May had suggested, European Commission chief spokesman Margaritis Schinas told The Telegraph: "This is not exactly a ball game. There is a clear sequencing to this talks, there has been no solution found on step 1, the divorce proceedings. The Ball is entirely in the UK's court."*
>
> *An EU official added: "This is not a ball game. I don't think these are good metaphors. We've moved from card games to ball games. "Mr Barnier has played a lot of sport but I don't think he plays tennis. A ball game metaphor suggests there are winners and losers. That's not how Brussels operates. It is a transactional thing. Sports metaphors don't work, at least not the ones with winners and losers."*

There you have it, progress in Brussels.

Where does moving on from sports metaphors get us?

> *Meanwhile Mrs May was warned by her Chief Whip that reshuffling her Cabinet to reassert her authority will not be a "silver bullet".*

Yikes.

On a more serious note, the new plan for a hard Brexit is good news. It adds credibility to the claim that no deal is better than a bad deal.

The government is copping criticism for the delay though. But that might be a negotiation tactic as well. It reduces the time during which the EU can play a destructive game of politics which discredits Brexit. The clock is now ticking on finding solutions, not problems.

Until next time,

Nick Hubble
Capital %26 Conflict

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