J.P. Morgan Securities LLC, EMC Mortgage, LLC, Bear Stearns Asset Backed Securities I, LLC, Structured Asset Mortgage Investments II, Inc., SACO I, Inc., and J.P. Morgan Acceptance Corporation I (Release No. LR-22533; November 16, 2012)

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 22533 / November 16, 2012

Securities and Exchange Commission v. J.P. Morgan Securities LLC, EMC Mortgage, LLC, Bear Stearns Asset Backed Securities I, LLC, Structured Asset Mortgage Investments II, Inc., SACO I, Inc., and J.P. Morgan Acceptance Corporation I, Civil Action No. 1:12-cv-01872 (RLW) **(D.D.C. filed Nov. 16, 2012)**

SEC CHARGES J.P. MORGAN SECURITIES LLC WITH MISLEADING INVESTORS IN RMBS OFFERINGS

In coordination with the federal-state Residential Mortgage-Backed Securities Working Group, the Securities and Exchange Commission today charged J.P. Morgan Securities LLC and affiliated entities with misleading investors in offerings of residential mortgage-backed securities (RMBS). The firm agreed to a settlement in which it will pay $296.9 million. The SEC plans to distribute the money to harmed investors.

The SEC alleges that JP Morgan misstated information about the delinquency status of mortgage loans that provided collateral for an RMBS offering in which it was the underwriter. JP Morgan received fees of more than $2.7 million, and investors sustained losses of at least $37 million on undisclosed delinquent loans. JP Morgan also is charged for Bear Stearns' failure to disclose its practice of obtaining and keeping cash settlements from mortgage loan originators on problem loans that Bear Stearns had sold into RMBS trusts. The proceeds from this bulk settlement practice were at least $137.8 million.

According to the SEC's complaint against JP Morgan filed in federal court in Washington D.C., federal regulations under the securities laws require the disclosure of delinquency information related to assets that provide collateral for an asset-backed securities offering. Information about the delinquency status of mortgage loans in an RMBS transaction is important to investors because those loans are the primary source of funds by which investors can earn interest and obtain repayment of their principal.

The SEC alleges that in the prospectus supplement for the $1.8 billion RMBS offering that occurred in December 2006, JP Morgan made materially false and misleading statements about the loans that provided collateral for the transaction. The firm represented that only four loans (.04 percent of the total loans collateralizing the transaction) were delinquent by 30 to 59 days, and that those four were the only loans that had had an instance of delinquency of 30 or more days in the 12 months prior to the "cut-off date" for the transaction. However, at the time JP Morgan made these representations, the firm actually had information showing that more than 620 loans (above 7 percent of the total loans collateralizing the transaction) were, and had been, 30 to 59 days delinquent, and the four loans represented as being 30 to 59 days delinquent were in fact 60 to 89 days delinquent.

The SEC's complaint also alleges that Bear Stearns' bulk settlements covered loans collateralizing 156 different RMBS transactions issued from 2005 to 2007. Loan originators were usually required by contract to buy back loans that suffered early payment defaults or had other defects. However, Bear Stearns frequently negotiated discounted cash settlements with these loan originators in lieu of a buy-back on loans that were owned by the RMBS trusts. The firm - both before and after the merger with JP Morgan - then kept most of the bulk settlement proceeds. The firm failed to disclose the practice to investors who owned the loans. Bear Stearns repurchased only about 13 percent of these defective bulk settlement loans from the trusts, compared to a nearly 100 percent repurchase rate when loan originators agreed to buy back the defective loans. For most loans covered by bulk settlements, the firm collected money from originators without paying anything to the trusts.

JP Morgan and J.P. Morgan Acceptance Corporation I settled the SEC's charges by consenting to pay disgorgement of $39,900,000, prejudgment interest of $10,600,000, and a penalty of $24,000,000 for the delinquency misstatements, which the SEC will seek to distribute to harmed investors in the transaction through a Fair Fund. JP Morgan; EMC Mortgage, LLC; Bear Stearns Asset Backed Securities I, LLC; Structured Asset Mortgage Investments II, Inc.; and SACO I, Inc. agreed to pay disgorgement of $137,800,000, prejudgment interest of $24,265,536, and a penalty of $60,350,000 for the bulk settlement practice misconduct, and the SEC will seek to distribute these funds to harmed investors through a separate Fair Fund. JP Morgan and each of the other defendants consented, without admitting or denying the allegations, to the entry of a final judgment permanently enjoining them from violating Section 17(a)(2) and (3) of the Securities Act of 1933. The settlement is subject to court approval.

http://www.sec.gov/litigation/litreleases/2012/lr22533.htm
