

JPMorgan CEO in secret meeting with Attorney General Holder over fraud probes

Barry Grey
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In an extraordinary meeting held Thursday, Jamie Dimon, the CEO of JPMorgan Chase, the biggest US bank, met secretly with Eric Holder, the US attorney general. According to various media reports citing unnamed sources, the two discussed a potential settlement of a series of federal and state investigations into fraudulent mortgage-backed securities sales by the bank.

Multiple news accounts say that Dimon and Holder discussed a deal in which the bank would pay a cash penalty of around \$7 billion, plus \$4 billion in relief to defrauded homeowners and investors, in return for an agreement by the government not to criminally charge the bank or its leading executives, including Dimon. Various reports indicate that the chief sticking point in reaching a settlement is Dimon's resistance to acknowledging any wrongdoing by the bank.

It is expected that JPMorgan will shortly submit a new proposal to settle the mortgage securities probes.

At an unrelated press conference later Thursday, Holder, in response to a reporter's question, acknowledged having met with "representatives of JPMorgan" and said he would be making further announcements "in the coming weeks, the coming months." He refused to provide any further details of the meeting.

The *Financial Times* cited sources as saying the talks were "constructive" and achieved "good progress."

The very fact that the highest law enforcement official in the United States holds a closed-door, unannounced meeting with the head of a bank under investigation by his department and other government agencies says a great deal about the role of the government in shielding Wall Street bankers from being held accountable for actions, both socially destructive and illegal, that have thrown the country and the world into the deepest economic and social crisis since the 1930s.

Just six months ago, Holder, in testimony before the

Senate Judiciary Committee, acknowledged that the failure of the Obama administration to criminally investigate, let alone prosecute or jail, a single leading banker following the Wall Street crash of September 2008 was the result of a deliberate policy. He told the committee the major banks are so large and powerful that "if we do bring a criminal charge, it will have a negative impact on the national economy, perhaps even the world economy."

In other words, the position of the Obama administration—and the political establishment as a whole—is that the Wall Street banks and their top executives are too powerful and important to prosecute, i.e., that they are above the law.

JPMorgan is currently being investigated by federal prosecutors in California for knowingly bundling bad residential mortgages into securities and selling them to unwitting investors between 2005 and 2007—the height of the subprime mortgage bubble. The Federal Housing Finance Agency (FHFA) is also investigating the bank for offloading bad mortgage securities onto the government-sponsored mortgage finance companies Fannie Mae and Freddie Mac, helping push the giant firms to the brink of collapse in early September 2008. That was prevented only by the infusion of \$188 billion of taxpayer money into the companies.

Prosecutors in Philadelphia and New Jersey are also working on cases involving fraudulent mortgage security sales by Bear Stearns and Washington Mutual, two major banks that were acquired by JPMorgan, at the urging of the Bush administration, during the financial crisis of 2008. New York State Attorney General Eric Schneiderman sued the bank last October over mortgage-backed securities sold by Bear Stearns.

Last Monday, Dimon reportedly offered to settle the suit by the FHFA for \$3 billion, but Holder rejected the cash penalty as too low. The FHFA has asked for a fine of \$6

billion.

At that point, the Justice Department signaled that it would file a suit the next day on the basis of the investigation underway in California. Dimon responded by requesting further talks, proposing to negotiate a broad deal that would end the bank's liability for all federal and state suits dealing with its mortgage business between 2005 and 2007.

Such a settlement would establish a template for similar agreements with other major banks, including the Bank of America, which faces multiple lawsuits concerning sub-prime mortgages sold by Countrywide Financial, which Bank of America purchased in 2007.

JPMorgan has become something of a symbol of the pervasive criminality of the US financial system. Just last week it settled charges related to its \$6.2 billion trading loss in early 2012, known as the "London Whale" case for the massive derivatives bets made by the London branch of the bank's Chief Investment Office.

The bank paid a total of \$920 million in fines to three US regulatory agencies: the Securities and Exchange Commission (SEC), the Office of the Comptroller of the Currency (OCC) and the Federal Reserve—and the British Financial Conduct Authority. The settlement included an admission by the bank of wrongdoing, but one carefully worded so as to limit or eliminate any liability. Essentially, the government claimed that top bank officers, including Dimon, were duped by lower-level traders and entirely oblivious to the massive and losing bets being made in London.

This amounts to a whitewash of the fact that the bank engaged in accounting fraud and withholding of information in filing a false first-quarter 2012 report with the SEC that concealed the massive trading losses. In April of that year, Dimon famously called media reports of large-scale trading losses "a complete tempest in a teapot."

The de facto exoneration of Dimon ignored the findings of the Senate Permanent Subcommittee on Investigations, which released a 300-page report last March that concluded Dimon was lying when he downplayed the losses to the media, investors and the public. The report noted that even as Dimon was talking about a "tempest in a teapot," he "was already in possession of information about ... sustained losses for three straight months, the exponential increase in those losses during March, and the difficulty of exiting the ... positions."

When the London Whale scandal broke, President Obama rushed to defend Dimon, previously known as

Obama's "favorite banker." The president called the CEO "one of the smartest bankers we've got," and praised JPMorgan as "one of the best managed banks there is."

This "best managed bank" is currently the subject of at least seven separate federal investigations as well as numerous state probes for such offenses as credit card fraud, illegal debt collection practices, rigging of energy markets, complicity in the Bernard Madoff Ponzi scheme, illegal home foreclosure practices, bribing Chinese officials, and involvement in the Libor rate-rigging scandal.

Last week, in addition to the \$920 million London Whale settlement, the bank agreed to pay \$80 million to resolve a Consumer Financial Protection Bureau investigation into fraudulent credit card practices.

Just over the last three years, JPMorgan has settled two suits concerning mortgage foreclosures for \$1.8 billion, a suit over energy market manipulation for \$410 million, a 2012 suit regarding mortgage-backed securities for \$297 million, and a suit concerning the manipulation of bidding for municipal securities for \$228 million.

Even if it ends up paying \$7 billion in cash to settle the outstanding mortgage security investigations, that will be less than a third of its 2012 profit of over \$21 billion and not much more than its first-quarter 2013 record profit of \$6.4 billion.

The incestuous relationship between the major banks and their ostensible regulators is indicated by the recusal of SEC Chairperson Mary Jo White and the co-head of enforcement for the agency, Andrew Ceresney, from SEC probes of JPMorgan because of their involvement in defending the bank against federal regulators when they were attorneys with the elite Wall Street firm Debevoise & Plimpton LLP.

Also noteworthy was the presence alongside Dimon of JPMorgan's chief counsel Stephen Cutler at the meeting with Holder. Cutler was chief enforcement officer at the SEC from 2001 to 2005.



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