

Primary article:

Special Investigation: How America's Biggest Bank Paid Its Fine for the 2008 Mortgage Crisis—With Phony Mortgages!

Reality: They were real mortgages and they were not, according to a federal judge, the DOJ, and many state attorneys general, used to pay a fine.

Alleged fraud put JPMorgan Chase hundreds of millions of dollars ahead; ordinary homeowners, not so much.

Reality: Case closed: this didn't put JPMC ahead at all. It didn't affect "ordinary homeowners" one way or another, except to the extent JPMC wanted to forgive a few of their mortgages and Larry Schneider fought back.

You know the old joke: How do you make a killing on Wall Street and never risk a loss? Easy—use other people's money. Jamie Dimon and his underlings at JPMorgan Chase have perfected this dark art at America's largest bank, which boasts a balance sheet one-eighth the size of the entire US economy.

Reality: JPMC's assets are 1/8 the level of GDP, which is a bogus comparison. GDP is not the "entire economy." GDP is the equivalent of annual revenue. JP Morgan's balance sheet is an asset measure. We have no good measure of US total assets, but it is unquestionably a lot bigger than annual GDP.

The apples to apples comparison would be JPMC's U.S. revenues versus U.S. GDP. JPMC's total revenues were \$44.9 billion for the full year 2016 versus an annualized level of GDP of \$18.9 trillion at the end of the fourth quarter 2016. That puts JP Morgan at a vastly smaller 0.24%, two full orders of magnitude smaller than what Dayen claimed. And even that is high, since JPMC's total revenues include substantial foreign operations and that should be backed out to make a more accurate measurement.

Using other people's money (OPM) to operate? Well, yes; big businesses do that, especially banks. Nothing irregular or nefarious there.

After JPMorgan's deceitful activities in the housing market helped trigger the 2008 financial crash that cost millions of Americans their jobs, homes, and life savings, punishment was in order. Among a vast array of misconduct, JPMorgan engaged in the routine use of "robo-signing," which allowed bank employees to automatically sign hundreds, even thousands, of foreclosure documents per day without verifying their contents. But in the United States, white-collar criminals rarely go to prison; instead, they negotiate settlements. Thus, on February 9, 2012, US Attorney General Eric Holder announced the National Mortgage Settlement, which fined JPMorgan Chase and four other mega-banks a total of \$25 billion.

Reality: Not really. Dayen buries that all US banks (and, honestly, most non-US banks) did this too. Moreover, JPMC was a latecomer to subprime mortgages and CDOs and consequently a secondary player – it is thus a huge stretch to say its mortgages triggered the crisis. JPMC did stick the knife in Lehman by withholding cash and collateral as their tri-party repo counterparty, which was the proximate cause of its collapse. JPMC became a big player in subprime mortgages post-crisis as a result of its acquisitions of WaMu and Bear Stearns.

JPMorgan's share of the settlement was \$5.3 billion, but only \$1.1 billion had to be paid in cash; the other \$4.2 billion was to come in the form of financial relief for homeowners in danger of losing their homes to foreclosure. The settlement called for JPMorgan to reduce the amounts owed, modify the loan terms, and take other steps to help distressed Americans keep their homes. A separate 2013 [settlement](#) against the bank for deceiving mortgage investors included another \$4 billion in consumer relief.

Reality: Correct.

A Nation investigation can now reveal how JPMorgan met part of its \$8.2 billion settlement burden: by using other people's money.

Reality: If this is referring to JPMorgan taking write-offs for the Schneider loans, incorrect according to the judge who oversees the NMS. If it's using OPM in general then correct, but that was allowed under the NMS, especially for securitized loans.

Here's how the alleged scam worked. JPMorgan moved to forgive the mortgages of tens of thousands of homeowners; the feds, in turn, credited these canceled loans against the penalties due under the 2012 and 2013 settlements. But here's the rub: In many instances, JPMorgan was forgiving loans it no longer owned.

Reality: Wrong. No proof of this. A judge has ruled otherwise and the DOJ disagrees.

The alleged fraud is described in internal JPMorgan documents, public records, testimony from homeowners and investors burned in the scam, and other evidence presented in a blockbuster lawsuit against JPMorgan, now being heard in US District Court in New York City.

Reality: What internal documents? Why aren't they published and linked to? Same with testimony from "homeowners and investors" – there is no source material. Calling the NY case a "blockbuster" without mentioning the DC case is misleading.

JPMorgan no longer owned the loans because it had sold the mortgages years earlier to 21 third-party investors, including three companies owned by Larry Schneider. Those companies are the plaintiffs in the lawsuit; Schneider is also aiding the federal government in a related case against the bank. In a bizarre twist, a company associated with the Church of Scientology facilitated the apparent scheme. Nationwide Title Clearing, a document-processing company with close ties to the church, produced and filed the documents that JPMorgan needed to claim ownership and cancel the loans.

Reality: I don't know how many vulture investors they dealt with. There are three companies who are plaintiffs in the lawsuit, all owned by Schneider (well, him and relatives). Nationwide Title Clearing (NTC) is tied to the Scientologists but they produce documents for anybody. There have been reports about them for ages; none of this is shocking or new. Calling preparing a small number of releases a "scheme" is misleading.

JPMorgan, it appears, was running an elaborate shell game. In the depths of the financial collapse, the bank had unloaded tens of thousands of toxic loans when they were worth next to nothing. Then, when it needed to provide customer relief under the settlements, the bank had paperwork created asserting that it still owned the loans. In the process, homeowners were exploited, investors were defrauded, and communities were left to battle the blight caused by abandoned properties. JPMorgan, however, came out hundreds of millions of dollars ahead, thanks to using other people's money.

Reality: Wrong. There is no evidence that JPMC fraudulently created paperwork for this purpose. There is no evidence that they came out hundreds of millions of dollars ahead. There is evidence that homeowners were exploited – by Schneider. There is no evidence that Chase was playing a "shell game" here, although it did suffer some amount of indigestion from quickly swallowing WaMu, the Bear Stearns EMC subsidiary, and all the loans that came with them. I'm surprised there wasn't more confusion.

Investors were not defrauded: JPMC made it crystal clear to Schneider the big pile of loans were junk. In the case of the junk pile, JPMC was not using OPM – these were portfolio loans – it's their own money.

"If the allegations are true, JPMorgan screwed everybody," says Brad Miller, a former Democratic congressman from North Carolina who was among the strongest advocates of financial reform on Capitol Hill until his retirement in 2013.

Reality: The allegations are not true, and it's to his credit Brad Miller used the qualifier.

In an unusual departure from most allegations of financial bad behavior, there is strong evidence that Jamie Dimon, JPMorgan's CEO and chairman, knew about and helped to implement the mass loan-forgiveness project. In two separate meetings in 2013 and 2014, JPMorgan employees working on the project were specifically instructed not to release mortgages in Detroit under orders from Dimon himself, according to internal bank communications. In an apparent public-relations ploy, JPMorgan was about to invest \$100 million in Detroit's revival. Dimon's order to delay forgiving the mortgages in Detroit appears to have been motivated by a fear of reputational risk. An internal JPMorgan report warned that hard-hit cities might take issue with bulk loan forgiveness, which would deprive municipal governments of property taxes on abandoned properties while further destabilizing the housing market.

Reality: Why is it "unusual" for Jamie Dimon to be informed about a mass loan forgiveness project? More important: what is wrong with a mass loan forgiveness project? Where is the evidence that Dimon instructed the bank not to release mortgages in Detroit? Why no uploaded

and linked documentation: let's see the context. What is the "reputational risk" of releasing mortgages? Forgiveness only deprives governments of property taxes if the loan owner is paying the taxes. As we saw with the Columbus, OH foreclosure case involving a mortgage owned by a Schneider company, whether or not the loan owner pays property taxes is voluntary. If JPMC was paying property tax for blighted and abandoned homes, it was voluntary.

Did Dimon also know that JPMorgan, as part of its mass loan-forgiveness project, was forgiving loans it no longer owned? No internal bank documents confirming that knowledge have yet surfaced, but Dimon routinely takes legal responsibility for knowing about his bank's actions. Like every financial CEO in the country, Dimon is obligated by law to sign a document every year attesting to his knowledge of and responsibility for his bank's operations. The law establishes punishments of \$1 million in fines and imprisonment of up to 10 years for knowingly making false certifications.

Reality: Was Dimon personally aware of a few specific low-level mistakes? Probably not. JPMC has 250,355 employees. Saying that Dimon should go to prison if any of them misbehave is a stretch. In any event, arguing there was any misbehavior by the bank, in this case, is a stretch.

Dimon signed the required document for each of the years that the mass loan-forgiveness project was in operation, from 2012 through 2016. Whether or not he knew that his employees were forgiving loans the bank no longer owned, his signatures on those documents make him potentially legally responsible.

Reality: Link? Proof? The second part is a stretch, especially given that JPMC offered to buy back the small number of loans they did not own at a premium so they could be forgiven.

The JPMorgan press office declined to make Dimon available for an interview or to comment for this article. Nationwide Title Clearing declined to comment on the specifics of the case but said that it is "methodical in the validity and legality of the documents" it produces.

Reality: Is Jamie Dimon really the best person at JPMC Dayen could have demanded answers from? NTC is a known doc-shop, no better or worse than any of the others. They produced a small number of releases without doing a title search. Want a title search for every release? It will come with astronomical mortgage closing costs: that's what title insurance is for.

Federal appointees have been complicit in this as well. E-mails show that the Office of Mortgage Settlement Oversight, charged by the government with ensuring the banks' compliance with the two federal settlements, gave JPMorgan the green light to mass-forgive its loans. This served two purposes for the bank: It could take settlement credit for forgiving the loans, and it could also hide these loans—which JPMorgan had allegedly been handling improperly—from the settlements' testing regimes.

Reality: Yes, government officials are usually happy when banks forgive loans (borrowers are happy too). They couldn't take "instant credit" because, as the judge ruled, they'd already written off these loans before the settlement. No need to "hide" the loans from testing regimes: they admitted to having botched them in the past: that's *why* they settled.

“No one in Washington seems to understand why Americans think that different rules apply to Wall Street, and why they’re so mad about that,” said former congressman Miller. “This is why.”

Reality: We still love ya’, Brad. But next time Dayen calls for a quote, use a lot of qualifiers.

Lauren and Robert Warwick were two of the shell game’s many victims. The Warwicks live in Odenton, Maryland, a bedroom community halfway between Baltimore and Washington, DC, and had taken out a second mortgage on their home with JPMorgan’s Chase Home Finance division. In 2008, after the housing bubble burst and the Great Recession started, 3.6 million Americans lost their jobs; Lauren Warwick was one of them.

Reality: They’re not victims. Dayen should have highlighted the amount of the second mortgage, \$160,413. That’s a pretty big second mortgage.

*Before long, the Warwicks had virtually no income. While Lauren looked for work, Robert was in the early stages of starting a landscaping business. But the going was slow, and the Warwicks fell behind on their mortgage payments. They tried to set up a modified payment plan, to no avail: Chase demanded payment in full and warned that foreclosure loomed. “They were horrible,” Lauren Warwick told *The Nation*. “I had one [Chase representative] say, ‘Sell the damn house—that’s all you can do.’”*

Reality: Dayen passed up a good chance to point out that while many house flippers were caught up in the early stages of the financial crisis, the next wave were people like the Warwicks, especially those involved in the real-estate business, like landscaping. I believe the Warwicks when they say that the Chase representatives were horrible, although at that point, I’d be surprised if they weren’t trying to push a short sale. Why no mention about collection efforts from the first lien holder? Were they still paying the primary mortgage? Why?

Then, one day, the hounding stopped. In October 2009, the Warwicks received a letter from 1st Fidelity Loan Services, welcoming them as new customers. The letter explained that 1st Fidelity had purchased the Warwicks’ mortgage from Chase, and that they should henceforth be making an adjusted mortgage payment to this new owner.

Reality: How much were the “adjusted mortgage payment” in comparison to the original? Did it reflect that Schneider purchased their \$160,413 mortgage for \$10,500? Why didn’t Dayen emphasize this?

Lauren Warwick had never heard of 1st Fidelity, but the letter made her more relieved than suspicious. “I’m thinking, ‘They’re not taking my house, and they’re not hounding me,’” she said.

Reality: Give it some time, Lauren. Schneider would definitely take your house if you didn’t pay.

Larry Schneider, 49, is the founder and president of 1st Fidelity and two other mortgage companies. He has worked in Florida's real-estate business for 25 years, getting his start in Miami. In 2003, Schneider hit upon a business model: If he bought distressed mortgages at a significant discount, he could afford to offer the borrowers reduced mortgage payments. It was a win-win-win: Borrowers remained in their homes, communities were stabilized, and Schneider still made money.

Reality: His name is Laurence. Vulture debt buying is not a new business model. Borrowers did not remain in their homes all the time. Communities were not stabilized. But, yes, Schneider did make money.

"I was in a position where I could do what banks didn't want to," Schneider says. In fact, his business model resembled what President Franklin Roosevelt did in the 1930s with the Home Owners' Loan Corporation, which prevented nearly 1 million foreclosures while turning a small profit. More to the point, Schneider's model exemplified how the administrations of George W. Bush and Barack Obama could have handled the foreclosure crisis if they'd been more committed to helping Main Street rather than Wall Street.

Reality: His business model, vulture debt buying, is nothing like the HOLC, which is closer to a more effective HAMP than anything. Seriously: zero. Dayen missed an opportunity to illustrate the federal government had homeowner assistance in TARP and outright ignored those provisions.

The Warwicks' loan was one of more than 1,000 that Schneider purchased without incident from JPMorgan's Chase Home Finance division starting in 2003. In 2009, the bank offered Schneider a package deal: 3,529 primary mortgages (known as "first liens") on which payments had been delinquent for over 180 days. Most of the properties were located in areas where the crisis hit hardest, such as Baltimore.

Reality: 1,003, to be exact. Some purchased before the bulk sale and some after. Schneider put a list of the 1,003 into the public record, as part of his lawsuits, but not the big batch of 3,529. Why not? Why no mention, in this paragraph, that Schneider paid just under 12-cents on the dollar for the 1,003 but only \$200K for the other batch? This makes it sound like all the loans were about the same cost: Schneider knew that big bundle were much (much, much) cheaper than he normally paid.

Selling distressed properties to companies like Schneider's was part of JPMorgan's strategy for limiting its losses after the housing bubble collapsed. The bank owned hundreds of thousands of mortgages that had little likelihood of being repaid. These mortgages likely carried ongoing costs: paying property taxes, addressing municipal-code violations, even mowing the lawn. Many also had legal defects and improper terms; if federal regulators ever scrutinized these loans, the bank would be in jeopardy.

Reality: JPMC was selling bad loans before the market collapsed; Schneider bought plenty (Dayen mentions that – his own story is inconsistent with itself). There are no "ongoing costs" to

a mortgage unless undertaken *voluntarily* to preserve the mortgage. Why no examples of the “legal defects and improper terms?”

In short, the troubled mortgages were the financial equivalent of toxic waste. To deal with them, Chase Home Finance created a financial toxic-waste dump: The mortgages were listed in an internal database called RCV1, where RCV stood for “Recovery.”

Reality: Correct. And the judge in the DC case seemed to think there is nothing wrong about this.

Unbeknownst to Schneider, the package deal that Chase offered him came entirely from this toxic-waste dump. Because he'd had a good relationship with Chase up to that point, Schneider took the deal. On February 25, 2009, he signed an agreement to buy the loans, valued at \$156 million, for only \$200,000—slightly more than one-tenth of a penny on the dollar. But the agreement turned sour fast, Schneider says.

Reality: Bullshit. Seriously – this is ridiculous. Look at the sales agreement and price. JPMC all but says “this is a toxic waste dump.”

Among a range of irregularities, perhaps the most egregious was that Chase never provided him with all the documentation proving ownership of the loans in question. The data that Schneider did receive lacked critical information, such as borrower names, addresses of the properties, even the payment histories or amounts due. This made it impossible for him to work with the borrowers to modify their terms and help them stay in their homes. Every time Schneider asked Chase about the full documentation, he was told it was coming. It never arrived.

Reality: He'd need proof of ownership in order to foreclose, not in order to “work with the borrowers to ... help them stay in their homes.” This is completely misleading. And the Mortgage Loan Purchase Agreement makes clear that the Schneider had been given the opportunity do to due diligence and was buying the loans “as is”. Schneider knew full well what he was buying. To whinge otherwise years after the fact is silly.

Here's the kicker: JPMorgan was still collecting payments on some of these loans and even admitted this fact to Schneider. In December 2009, a Chase Home Finance employee named Launi Solomon sent Schneider a list of at least \$47,695.53 in payments on his loans that the borrowers had paid to Chase. But 10 days later, Solomon wrote that these payments would not be transferred to Schneider because of an internal accounting practice that was “not reversible.” On another loan sold to Schneider, Chase had taken out insurance against default; when the homeowner did in fact default, Chase pocketed the \$250,000 payout rather than forward it to Schneider, according to internal documents.

Reality: These were supposed to be “non-performing” loans. That is on the cover sheet. If payments are coming in, then the loans were included by mistake, and Schneider knows that.

The \$250,000 “payout” was for title insurance, and that belonged to JPMC. Schneider is like a junkyard buyer arguing he should be paid for the wreck that sent the car to him. He gets what's leftover, not the title insurance payout.

Chase even had a third-party debt collector named Real Time Resolutions solicit Schneider's homeowners, seeking payments on behalf of Chase. In one such letter from 2013, Real Time informed homeowner Maureen Preis, of Newtown Square, Pennsylvania, that "our records indicate Chase continues to hold a lien on the above referenced property," even though Chase explicitly confirmed to Schneider that it had sold him the loan in 2010.

Reality: Yes, on one loan, a second. It happens.

JPMorgan jumped in and out of claiming mortgage ownership, Schneider asserts, based on whatever was best for the bank. "If a payment comes in, it's theirs," he says; "if there's a code-enforcement issue, it's mine."

Reality: I didn't see this in his lawsuit. You'd expect to see it there if this had happened.

The shell game entered a new, more far-reaching phase after JPMorgan agreed to its federal settlements. Now the bank was obligated to provide consumer relief worth \$8.2 billion—serious money even for JPMorgan. The solution? Return to the toxic-waste dump.

Reality: The judge who oversees the lawsuit disagrees. This is materially misleading.

Because JPMorgan had stalled Schneider on turning over the complete paperwork proving ownership, it took the chance that it could still claim credit for forgiving the loans that he now owned. Plus the settlements required JPMorgan to show the government that it was complying with all federal regulations for mortgages. The RCVI loans didn't seem to meet those standards, but forgiving them would enable the bank to hide this fact.

Reality: Huh? The DC judge ruled these loans were written off *before* the settlement and were not used as part of it. The DOJ agrees.

The Office of Mortgage Settlement Oversight gave Chase Home Finance explicit permission to implement this strategy. "Your business people can be relieved from pushing forward" on presenting RCVI loans for review, lawyer Martha Svoboda wrote in an e-mail to Chase, as long as the loans were canceled.

Reality: Reality: A link would be useful but, assuming this is true, so what from the government's vantage point? They forgave mortgages. Free houses. Everybody wins, except Larry. From Schneider's vantage point, given the low prices of the RCVI loans we've found, combined with JPMC's repeated offers to buy them back at reasonable markups, I'm sure a reasonable person could have negotiated a deal.

Chase dubbed this the "pre DOJ Lien Release Project." (To release a lien means to forgive the loan and relinquish any ownership right to the property in question.) The title page of an internal report on the project lists Lissa Shepherd, vice president of property preservation, and Steve Hemperly, head of mortgage originations, as the executives in charge. The bank

hired Nationwide Title Clearing, the company associated with the Church of Scientology, to file the lien releases with county offices. Erika Lance, an employee of Nationwide, is listed as the preparer on 25 of these lien releases seen by The Nation. Ironically, Schneider alleges, the releases were in effect “robo-signed,” since the employees failed to verify that JPMorgan Chase owned the loans. If Schneider is right, it means that JPMorgan relied on the same fraudulent “robo-signing” process that had previously gotten the bank fined by the government to help it evade that penalty.

Reality: Where's a link to the report? In any event, again, so what? They're forgiving mortgages. Who is angry about that? Schneider. Why? Because he wants to squeeze money out of the people. The NTC work is what NTC does, prepares paperwork for banks. If that's Dayen's problem why not highlight the whole industry? There is nothing secret or investigative about this.

On September 13, 2012, Chase Home Finance mailed 33,456 forgiveness letters informing borrowers of the debt cancellation. Schneider immediately started hearing from people who said that they wouldn't be making further payments to him because Chase had forgiven the loan. Some even sued Schneider for illegally charging them for mortgages that he (supposedly) didn't own.

Reality: This paragraph should mention that JPMC promptly offered to buy back the loans they sent letters to at a 50% premium to sales price. This is misleading.

When Lauren and Robert Warwick got their forgiveness letter from Chase, Lauren almost passed out. “You will owe nothing more on the loan and your debt will be cancelled,” the letter stated, calling this “a result of a recent mortgage servicing settlement reached with the states and federal government.” But for the past three years, the Warwicks had been paying 1st Fidelity Loan Servicing—not Chase. Lauren said she called 1st Fidelity, only to be told: “Sorry, no, I don't care what they said to you—you owe us the money.”

Reality: Larry paid \$10,500 for their loan. If they had been paying for three years, he may have already been paid back his investment, and JPMC was offering to buy the loan back at a premium.

JPMorgan's shell game unraveled because Lauren Warwick's neighbor worked for Michael Busch, the speaker of the Maryland House of Delegates. After reviewing the Warwicks' documents, Kristin Jones, Busch's chief of staff, outlined her suspicions to the Maryland Department of Labor, Licensing and Regulation. “I'm afraid based on the notification of loan transfer that Chase sold [the Warwicks'] loan some years ago,” Jones wrote. “I question whether Chase is somehow getting credit for a write-off they never actually have to honor.”

Reality: Timeline would be useful here. This again goes to the “JPMC took credit for the written off loans theory” without disclosing that a federal judge dismissed this claim with prejudice. It's The Nation's shell game that's unraveling here.

After Schneider and various borrowers demanded answers, Chase checked a sample of over 500 forgiveness letters. It found that 108 of the 500 loans—more than one out of five—no longer belonged to the bank. Chase told the Warwicks that their forgiveness letter had been sent in error. Eventually, Chase bought back the Warwicks’ loan from Schneider, along with 12 others, and honored the promised loan forgiveness.

Reality: Misleading. JPMC offered to buy back every loan they had erroneously sent a letter to. Schneider refused, holding out for more money. JPMC eventually paid Schneider value for the loan, plus he collected three years of payments. So, for \$10,500, he received \$160,413 plus three years of payments. This paragraph implies Schneider was helping the Warwicks. He wasn’t. He milked them for three years of payments and then held out, refusing to sell their loan back to JPMC and to allow them to forgive it correctly. This is a severe error on The Nation’s part.

Not everyone was as lucky as the Warwicks. In letters signed by vice president Patrick Boyle, JPMorgan Chase forgave at least 49,355 mortgages in three separate increments. The bank also forgave additional mortgages, but the exact number is unknown because the bank stopped sending homeowners notification letters. Nor is it known how many of these forgiven mortgages didn’t actually belong to JPMorgan; the bank refused The Nation’s request for clarification. Through title searches and the discovery process, Schneider ascertained that the bank forgave 607 loans that belonged to one of his three companies. The lien-release project overall allowed JPMorgan to take hundreds of millions of dollars in settlement credit.

Reality: Actually, it was Schneider who was lucky with the Warwicks’ loan. I didn’t see the list of 607 loans in court documents: Dayen should have uploaded and linked to it. This paragraph omits these were portfolio loans. When the bank wrote them off it was *their* money, not somebody else’s. If they accidentally wrote off a loan they’d sold, what evidence there is suggests they promptly offered to buy it back at a more than fair price.

Most of the loans that JPMorgan released—and received settlement credit for—were all but worthless. Homeowners had abandoned the homes years earlier, expecting JPMorgan to foreclose, only to have the bank forgive the loan after the fact. That forgiveness transferred responsibility for paying back taxes and making repairs back to the homeowner. It was like a recurring horror story in which “zombie foreclosures” were resurrected from the dead to wreak havoc on people’s financial lives.

Reality: Huh? These people were getting free houses. Get in there with hammers, fix the houses, and flip them. The only havoc that would wreak on people’s financial lives would be that they received a windfall.

Federal officials knew about the problems and did nothing. In July 2014, the City of Milwaukee wrote to Joseph Smith, the federal oversight monitor, alerting him that “thousands of homeowners” were engulfed in legal nightmares because of the confusion that banks had sown about who really owned their mortgages. In a deposition for the lawsuit against JPMorgan Chase, Smith admitted that he did not recall responding to the City of Milwaukee’s letter.

Reality: The letter from Milwaukee didn't refer to the NMS – it references an entirely different settlement with Ocwen – so Smith probably wouldn't remember it.

If you pay taxes in a municipality where JPMorgan spun its trickery, you helped pick up the tab. The bank's shell game prevented municipalities from knowing who actually owned distressed properties and could be held legally liable for maintaining them and paying property taxes. As a result, abandoned properties deteriorated further, spreading urban blight and impeding economic recovery. "Who's going to pay for the demolition [of abandoned buildings] or [the necessary extra] police presence?" asks Brent Tantillo, Schneider's lawyer. "As a taxpayer, it's you."

Reality: Nonsense. Completely misleading. When a mortgage holder pays property taxes, they do so voluntarily. Schneider has walked away from houses rather than paying the property tax. An abandoned home is the responsibility of the homeowner unless the bank wants to voluntarily step in to preserve its rights, as they did with Schneider's foreclosure in Boca Raton.

Such economic fallout may help explain why Jamie Dimon directed that JPMorgan's mass forgiveness of loans exempt Detroit, a city where JPMorgan has [a long history](#). The bank's predecessor, the National Bank of Detroit, has been a fixture in the city for over 80 years; its relationships with General Motors and Ford go back to the 1930s. And JPMorgan employees knew perfectly well that mass loan forgiveness might create difficulties. The 2012 internal report warned that cities might react negatively to the sheer number of forgiven loans, which would lower tax revenues while adding costs. Noting that some of the cities in question were clients of JPMorgan Chase, the report warned that the project posed a risk to the bank's reputation.

Reality: The 2012 internal report should have been uploaded and linked to. Without it we cannot verify any of this. The rest of the story has so many errors of omission and commission that it lacks any credibility. As Max Gardner has pointed out, most "reputational risk" with loan forgiveness comes from theories by Fannie and Freddie where they argue that forgiving mortgages encourages more defaults and strongly frown on principal reduction, much less loan forgiveness.

Reputational risk was the exact opposite of what JPMorgan hoped to achieve in Detroit. So the bank decided to delay the mass forgiveness of loans in Detroit and surrounding Wayne County until after the \$100 million [investment](#) was announced. Dimon himself ordered the delay, according to the minutes of JPMorgan Chase meetings that cite the bank's chairman and CEO by name. Dimon then went to Detroit to announce the investment on May 21, 2014, reaping positive coverage from The New York Times, USA Today, and other local and national news outlets. Since June 1, 2014, JPMorgan has released 10,229 liens in Wayne County, according to public records; the bank declined to state how many of these were part of the lien-release project.

Reality: Depends on one's definition of reputational risk. Putting things into context, investing \$100 million isn't much money for JPMC.

Both of Larry Schneider's lawsuits alleging fraud on JPMorgan Chase's part remain [active](#) in federal courts. The Justice Department could also still file charges against JPMorgan, Jamie Dimon, or both, because Schneider's case was excluded from the federal settlement agreements.

Reality: Completely misleading. The whistleblower case was dismissed with prejudice except for one minor claim. The Nation's core theory was rejected by the judge who oversees the NMS. This does not mention that there is an appeal. The second case is on its fourth amended complaint; two of Schneider's lawyers quit.

Few would expect Jeff Sessions's Justice Department to pursue such a case, but what this sorry episode most highlights is the pathetic disciplining of Wall Street during the Obama administration.

Reality: Completely misleading. Obama's DOJ rejected the case. Every state attorney general rejected the case. Trump's DOJ, again, said the core claim about the write-offs has no merit. Assuming he wasn't outright misleading his readers, Dayen clearly did not pull and read the cases.

JPMorgan's litany of acknowledged criminal abuses over the past decade reads [like a rap sheet](#), extending well beyond mortgage fraud to encompass practically every part of the bank's business. But instead of holding JPMorgan's executives responsible for what looks like a criminal racket, Obama's Justice Department negotiated weak settlement after weak settlement. Adding insult to injury, JPMorgan then wriggled out of paying its full penalties by using other people's money.

Reality: The first part of the paragraph is close enough, though the other banks weren't any better. The last sentence is misleading: a judge ruled it is not true.

The larger lessons here command special attention in the Trump era. Negotiating weak settlements that don't force mega-banks to even pay their fines, much less put executives in prison, turns the concept of accountability into a mirthless farce. Telegraphing to executives that they will emerge unscathed after committing crimes not only invites further crimes; it makes another financial crisis more likely. The widespread belief that the United States has a two-tiered system of justice—that the game is rigged for the rich and the powerful—also enabled the rise of Trump. We cannot expect Americans to trust a system that lets Wall Street fraudsters roam free while millions of hard-working taxpayers get the shaft.

Reality: Well, yes, but that did not happen in this case. More to the point, in this era where reality is commingled with "fake news" it is important to get facts right and to verify information. This story is a quality control meltdown on the part of The Nation.

Second Story

Today we [published a story](#) about how JPMorgan Chase used other people's money to pay off penalties assessed for the mortgage-related fraud that contributed to the 2008 financial crisis.

The bank forgave numerous loans that it had sold years earlier, and then used those cancellations to receive credit under a pair of settlements with state and federal prosecutors. (JPMorgan declined to comment on this story.)

Reality: This is already wrong. JPMC wasn't asked to comment; Jamie Dimon was. The story about the story is off to a bad start.

The revelation comes out of two lawsuits filed by one of the purchasers of JPMorgan Chase's loans, Larry Schneider, an investor from Boca Raton, Florida. And the narrative Schneider offers for how he wound up in this fight, if accurate, provides a new window into how Chase treats the people it does business with. The first-person account calls to mind Bernie Sanders's [famous assertion](#) that "the business model of Wall Street is fraud."

Reality: On "if accurate," why would The Nation or Dayen publish a piece where they are unsure about the accuracy? I've shown that Schneider's narrative is inaccurate. All they had to do was look at public records. "How Chase treats people it does business with"? Why no mention about how Schneider treats people *he* does business with? Squeezing them of every cent and frequently foreclosing.

Initially, Schneider had a decent relationship with JPMorgan Chase. From 2003 to 2008, S&A Capital Partners, one of Schneider's three companies, bought 531 mortgages from Chase for less than face value. Schneider then worked out new repayment terms, allowing borrowers to stay in their homes. By being flexible and dealing with homeowners directly, Schneider was able to create a business that worked for him—and his clients. "We ask borrowers what day of the month they're able to make a payment," he said in an interview. "We're able to create stability for the borrower and help their credit."

Reality: Less than face value? Try an average of under 12-cents on the dollar. Allowing people to stay in their homes? Not Willie and Edrica, nor plenty of others. Why no mention of Schneider's foreclosures? Not one word. Flexible? By charging 144% interest? Even the quote is ludicrous: his flexibility is asking what day they can pay? My great-uncle Lennie the Loan Shark, may he rest in peace, probably exhibited at least as much flexibility.

Schneider reports no significant problems in working with Chase during this period. But near the end of 2008, as the financial crisis raged, Schneider's Chase contact, Eddie Guerrero, showed him a bulk spreadsheet of over 6,000 mortgages. Guerrero said these were primary mortgages (known as "first liens") that had been delinquent for over 180 days, located in the hardest-hit areas of the country. He told Schneider that the bank no longer found it viable to hold onto these properties. Instead, the "highest levels of management" simply wanted to get rid of the mortgages.

Reality: OK. For context, Dayen should remind readers that JPMC had emergency acquired Bear Stearns and, with it, EMC, plus WaMu so all of a sudden they had a lot of bad loans. This was a time of pandemonium.

Guerrero sent a data tape for Schneider to scrutinize. Schneider's first hint that something was off was when he found properties on the list that JPMorgan had already sold him. Guerrero apologized, claiming his team had made a mistake.

Reality: Um... If the tape included a loan JPMC already sold him, it should have been more than a hint. Given the disclaimers in the sale agreement (we should upload and link to it) Larry knew he was buying a dumpster on fire. But the price was right.

Overall, the tape was a mess, lacking borrower names, property addresses, even the payment history or amounts due. That's because these were loans Chase had stuffed into the Recovery One (RCV1) database, a toxic-waste dump for defaulted mortgages Chase had no hope of resurrecting.

Reality: Yes. The Nation should mention that the DC judge references RCV1 and doesn't seem to care or see any problem.

On RCV1 loans, Chase ostensibly didn't follow any federal requirements for servicing mortgages, like giving borrowers the chance to pay off past-due amounts. The RCV1 loans were "charged-off," a legal term allowing Chase to collect default insurance, and sent out to third-party collection agencies, which then attempted to squeeze whatever cash they could out of the borrowers. Specific information about the loans was not retained.

Reality: There is no way to independently verify this. If David has firm evidence he should upload and link to it.

Guerrero promised Schneider several times that he would deliver the full data on the mortgages. Behind the scenes, employees at Chase were scrambling to patch up the information. According to an internal e-mail quoted in one of the lawsuits, Guerrero asked JPMorgan Chase colleagues, "Do we have a list that contains the entire collateral address or can we bump this list up against something to fill in the street address?"

Reality: It would be useful to know why they didn't have complete information. Were these WaMu or EMC garbage loans? JPMC's underwriting was better than many during the housing bubble. They were famously conservative, barely dabbling in RMBS CDOs despite the fact that they invented the CDO (for commercial loans).

Guerrero enticed Schneider by highlighting valuable, erroneously charged-off loans—"cherries," he called them—hidden in the database. A few cherries could recoup whatever Schneider paid for the loans all by themselves. Guerrero also promised future benefits if Schneider helped Chase out. "This is an important issue for the way higher ups, so it makes me look like a hero and should help you get some good deals too," Guerrero wrote Schneider on November 6, 2008. He was pushing for a sale by the end of the year to keep the RCV1 loans off Chase's 2009 books.

Reality: The sale agreement makes clear these loans are a dumpster. Quoting pleading 184 from the NY lawsuit: "On October 31, 2009, Guerrero passed away mysteriously at the age of 29.

Prior to his death, Guerrero had told Schneider he was putting together an updated Exhibit A to the MLPA which would correct all the errors in the Corrupted List and reimburse MRS for the loans it recalled.” Missing from Dayen’s story: Exhibit A of the executed agreement, that Larry signed, is entirely empty. Larry arguably agreed to take anything, or nothing at all. Plus, they’re attributing quite a bit to the actions of a 29-year-old: this was not a senior banker.

Schneider considered Guerrero a friend. “I never had a problem with him in 1,000 transactions,” he said. And he was able to confirm that there were some “cherries,” mortgages with balances of \$500,000 or more located in good neighborhoods. But Schneider was busy with another major loan purchase with HSBC, so he turned down the offer.

Reality: Friend? Did he attend the funeral? Send flowers at least? Why isn’t Guerrero’s death mentioned? In any event, Schneider didn’t reach 1,000 transactions until 2010; he kept buying loans from JPMC after the big sale and after Guerrero’s death.

Guerrero then pitched Schneider a bargain-basement deal: \$200,000 for approximately \$100 million in mortgages. It was so trifling—two-tenths of a penny on the dollar—that Schneider couldn’t help but bite. Oddly enough, by the time Schneider made the deal (through a separate company, Mortgage Resolution Services), the Mortgage Loan Purchase Agreement included 3,529 loans initially worth \$156 million, a 56 percent upsell for no additional cost.

Reality: Guerrero, Guerrero, Guerrero. He’s a 29-year-old selling bad loans.

But Schneider wasn’t getting what he asked for. Chase stated the loans were primary mortgages; but Schneider claims that significant numbers of them were home-equity loans or “deficiency judgments,” overdue balances on loans already put into foreclosure. Deficiency judgments are not even mortgages; there’s no property to secure as collateral if the debt isn’t repaid. Numerous properties, in fact, were occupied by whoever bought them after Chase foreclosed.

Reality: Why didn’t Dayen insist on a list and publish it? Can’t be for privacy because the list of the other 1,003 mortgages is in the public record.

Chase also said it owned all the loans and had the right to transfer them to Schneider. But many of them, according to an internal October 2008 spreadsheet cited in one of the lawsuits, were owned by other investors. Chase was selling loans it didn’t own to a third party. Plus, Chase promised in the purchase agreement that “each Mortgage Loan complies...with all applicable federal, state, or local laws.” But the RCV1 loans were not being serviced according to Schneider, and therefore weren’t compliant. “They took everything that was a liability or a fraud and just threw it in there,” he said.

Reality: Where is the spreadsheet? As for the statement “They took everything that was a liability or a fraud and just threw it in there” well, yeah, probably. Which explains the price. Schneider isn’t some clueless borrower: he is an investor who buys bad debt. The sales agreement reads “Purchaser acknowledges that it has had an opportunity to conduct a due diligence review of each Mortgage Loan. Purchaser acknowledges and agrees that, notwithstanding the results of such due diligence and notwithstanding any failure of Purchase

[sic] to conduct a due diligence review of any Mortgage Loan, Purchaser will purchase the mortgage Loans pursuant to this Agreement AS IS with no representations or warranties except as expressly provided herein, and with NO RE COURSE whatever to Seller.” Schneider signed that. Dayen doesn’t cite or mention it.

After the sale, Schneider never got the complete loan data, including the key documents required to prove ownership. His company painstakingly recreated loan information through cold calls and public-records searches. But it were severely hampered in doing anything with the properties without the documents.

Reality: Why didn’t Schneider sue a lot earlier then? [The “it were” is a copy and paste: The Nation needs better copy editors and fact checkers.]

As a final insult, Chase told Schneider in March 2009 that it was recalling \$6 million in loans that were included by mistake. These were the cherries. Schneider saw it as a bait-and-switch: Chase hooked him with some valuable loans intermingled with the dreck, and then took the good stuff away. The purchase agreement prohibited pulling back any loans after the sale, but since Schneider hadn’t yet received the full loan information, there was no way for him to claim possession. “I really didn’t have any recourse,” he said.

Reality: Final insult? Schneider knew any performing loans, anything not entirely beat up, didn’t belong in there. Larry signed a sales agreement with an empty “Exhibit A” where the loans belonged. It must not have been the final insult because Larry kept buying loans from JPMC after March 2009.

Chase never stopped trying to collect on these loans. Both Chase and third-party debt collectors acting on its behalf deluged borrowers of Schneider’s loans with letters asking for payments.

Reality: It’s not clear JPMC sold “these loans” to Larry. The list of loans is *empty*. It’s unclear what exactly they sold.

A series of letters to a Mr. Fred Allen Frederick of San Antonio, Texas, on a loan Schneider purportedly bought, serves as a good example. “We know you struggled to make your mortgage payments,” Chase wrote Frederick on January 21, 2015. “Together, we can find a solution.” By July 2015, Chase was advising Frederick about “new options when it comes to your mortgage debt,” including a repayment plan to “pay off the amount over time.” His account balance had somehow shrunk. But in a September 2016 letter, Chase was still hoping to work out a solution with “a new team” assigned to the debt. Even by May of this year, Chase was soliciting Frederick, stating that “we may be able to settle for less than you owe.”

Reality: OK. Purportedly bought is the key word here.

These letters look somewhat suspicious even before you learn that Chase didn’t even seem to own Frederick’s loan anymore. Think of all the different revenue streams JPMorgan Chase managed from these same toxic loans. It took the \$200,000 from Schneider, borrower payments intended for the owner but routed to and held by Chase, payments from insurance carriers on the

defaulted properties, and whatever money eked out from debt collection. And then, [as we detail](#), when mortgage settlements required Chase to provide consumer relief for homeowners, it likely used many of these same loans sold to Schneider and other investors, forgiving them and taking credit toward its penalty.

Reality: Nope. I'd be surprised if Schneider didn't make back his \$200,000 from that basket of loans. Other dealings with JPMC more than made up for it if not. He made \$100,000 from Willie and Edrica's house alone. About \$150,000 from the Warwicks, plus whatever they paid him. The title insurance payout was JPMC's legitimately as were payments, because loans in the \$200K basket were supposed to be nonperforming. If there were payments, they did not belong there.

We can't say whether Chase treats all of its clients the way it appears to have treated Larry Schneider. But in 2012, former Goldman Sachs manager Greg Smith [explained](#) how modern bank culture mostly involves determining new and exciting ways to rip off clients. That's certainly how these allegations feel. Chase reportedly used Schneider to dump off its legal exposures, then changed the terms of the deal after the fact to maximize profits. Schneider managed to be one of the few investors with the means and determination to fight back; he's four years into these cases. But what about all the Chase customers who don't have that ability?

Reality: How JPMC treats Larry Schneider? Does Dayen mean making Schneider rich off the backs of their poorer customers? Especially after the disgraceful vote to allow mandatory arbitration, banks definitely steamroll their customers. Except, in this specific case, Larry Schneider is, in reality, more victimizer than victim. I'd personally much rather have JPMC hold my mortgage than Schneider. As for the lawsuits, this was one last chance to point out Schneider has already lost the one that contains the core claim to the main story, and that it was now at the appeal stage.

"I've dedicated the last six or so years of my life, in pursuit of justice," Schneider said to me. "I have a moral obligation to never give up and never give in."

Reality: Tell it to Willie and Edrica, Larry.