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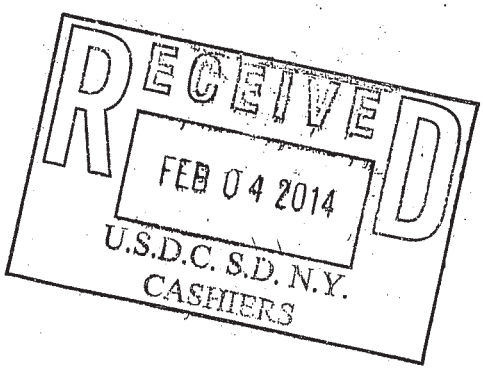


**UNITED STATES DISTRICT COURT**
**SOUTHERN DISTRICT OF NEW YORK**

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| UNITED STATES OF AMERICA *ex rel.* KEITH EDWARDS,<br><br>Plaintiff/Relator,<br><br>v.<br><br>JPMORGAN CHASE BANK, N.A., and JPMORGAN CHASE & CO.,<br><br>Defendants. | 13 Civ. 0220 (JPO)<br><br>**COMPLAINT-IN-INTERVENTION OF THE UNITED STATES OF AMERICA**<br><br>**Jury Trial Demanded** |
| UNITED STATES OF AMERICA,<br><br>Plaintiff,<br><br>v.<br><br>JPMORGAN CHASE BANK, N.A., and JPMORGAN CHASE & CO.,<br><br>Defendants. | |

The United States of America ("United States" or "Government"), by its attorney, Preet Bharara, United States Attorney for the Southern District of New York, brings this action against JPMorgan Chase Bank, N.A., and JPMorgan Chase & Co. (collectively, "Chase"), alleging upon information and belief as follows:

## INTRODUCTION

1. This is a civil fraud action by the United States to recover treble damages and civil penalties under the False Claims Act ("FCA"), as amended, 31 U.S.C. §§ 3729 *et seq.*, and common law damages arising from fraud on the United States Department of Housing and Urban Development ("HUD"), the Federal Housing Administration ("FHA") — a component of HUD — and the United States Department of Veterans Affairs ("VA") in connection with Chase's residential mortgage lending business.

2. From January 1, 2002 through January 31, 2014 ("Covered Period"), Chase was authorized to approve residential mortgage loans for government insurance and refinancing by the FHA and the VA. However, before Chase could approve a loan for government insurance or refinancing, it had to confirm that the loan met the underwriting requirements applicable to FHA/VA loans. Notwithstanding this requirement, throughout the Covered Period, Chase routinely approved loans for government insurance and refinancing that clearly did not meet the applicable underwriting requirements. Indeed, thousands of the loans that Chase approved for government insurance or refinancing during the Covered Period had multiple, obvious violations of the applicable underwriting requirements, including instances where: (1) the loan files were missing required documents, such as pay stubs, bank statements, and W-2s; (2) the documents in the loan files were inconsistent with one another, such as where the income reflected on a borrower's pay stubs was inconsistent with the income reflected on the borrower's W-2s; and (3) in the case of refinances, the loans were delinquent at the time of closing.

3. Chase nevertheless certified that all of the loans that it approved for government insurance or refinancing met all of the underwriting requirements applicable to FHA/VA loans. These false certifications misled HUD and the VA into believing that thousands of loans had

been properly underwritten and were eligible for government insurance or refinancing when, in fact, the loans were high-risk and did not qualify for such insurance or refinancing. Based on these false certifications, HUD and the VA accepted thousands of loans for government insurance or refinancing that they otherwise would not have accepted for such insurance or refinancing. When these deficient loans ultimately defaulted, HUD and the VA — which had insured the loans against default based on Chase's false certifications — were left to cover the losses.

4. Compounding its misconduct, throughout the Covered Period, Chase was repeatedly put on notice of its reckless underwriting and yet failed to fix the problem. During the Covered Period, HUD conducted periodic audits of loans that Chase had previously approved for FHA insurance, and HUD communicated the results of those audits to Chase. The audits revealed numerous instances of reckless underwriting, including a 2004 audit that found underwriting violations in 56% of the loans that HUD had reviewed.

5. Furthermore, for more than a decade, Chase has been manipulating TOTAL Mortgage Scorecard ("TOTAL") — a credit-rating algorithm maintained by the FHA that works in conjunction with Chase's automated underwriting system ("AUS") — to obtain "accept/approve" ratings for its FHA loans, in violation of HUD rules. TOTAL rates loans as either "accept/approve" or "refer" based on data points that Chase enters into its AUS, including, for example, the dollar value of the borrowers' income and assets. Loans that receive an "accept/approve" rating are subject to less stringent documentation requirements and underwriter scrutiny than loans that receive a "refer" rating. During the Covered Period, if Chase ran a loan through its AUS and the loan did not receive an "accept/approve" rating from TOTAL, Chase frequently: (1) re-ran the loan through its AUS/TOTAL multiple times over a short period, each

time entering into the AUS/TOTAL hypothetical data points that lacked a factual basis, to determine the data point values that would result in an "accept/approve" rating; and then (2) communicated the qualifying data point values to the borrower, thus recklessly increasing the risk of borrower fraud.

6. Finally, during the Covered Period, Chase repeatedly violated HUD's self-reporting requirement and kept a substantial number of its deficient loans a secret. Chase knew that HUD rules required it to perform quality control reviews on a subset of the loans it had approved for FHA insurance, and to self-report to HUD any loans that it identified as having been affected by fraud or other serious violations. This self-reporting requirement was meant to enable HUD to investigate bad loans and to request reimbursement or indemnification from lenders, as appropriate. Chase, however, repeatedly failed to comply with the self-reporting requirement, thus concealing from HUD many of its bad loans and shoddy underwriting practices.

7. Between January 2007 and December 2009, Chase — one of the largest originators of FHA loans — self-reported only 210 loans, a startlingly small number given that during that three-year period, it had approved tens of thousands of loans for FHA insurance. In two of those years, 2007 and 2008, Chase self-reported only 25 and 50 loans, respectively. Moreover, during the period that Chase self-reported only 210 loans, it internally identified another 582 loans that it concluded were affected by borrower or correspondent fraud or other material deficiencies, and therefore should have been self-reported to HUD. Yet Chase did not self-report these loans until March 2012 — after it had received notice that the Government was investigating its FHA-lending practices, after many of the 582 loans had already defaulted, and

after HUD had already paid approximately $50 million in FHA insurance claims on the defaulted loans.

## JURISDICTION AND VENUE

8. This Court has jurisdiction pursuant to 31 U.S.C. § 3730(a) and 28 U.S.C. § 1331.

9. Venue is appropriate in this judicial district pursuant to 31 U.S.C. § 3732(a) and 28 U.S.C. §§ 1391(b)(1), (b)(3), and (c) because Chase can be found and transacts business within this district.

## PARTIES

10. Plaintiff is the United States of America.

11. Defendant JPMorgan Chase & Co., a financial holding company, is one of the largest banking institutions in the United States. JPMorgan Chase & Co. has a number of bank subsidiaries, including Defendant JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A., is a national bank with U.S. branches across the country, including in New York. JPMorgan Chase Bank, N.A. (together with its predecessor entities, Chase Manhattan Mortgage Corp. ("CMMC") and Chase Home Finance LLC ("CHF")), has been approving loans for insurance and refinancing by the FHA and the VA since at least January 1, 2002. In 2005, CMMC merged into CHF, which, in turn, merged into JPMorgan Chase Bank, N.A., in 2011. CMMC and CHF are included within the term "Chase" for purposes of this complaint.

## FACTUAL BACKGROUND

## I. HUD'S DIRECT ENDORSEMENT LENDER PROGRAM

### A. Background

12. The FHA, a part of HUD (and included within the term "HUD" for purposes of this complaint), is the largest insurer of residential mortgage loans in the world. Pursuant to the National Housing Act of 1934, HUD offers various mortgage insurance programs. Through these programs, the FHA insures approved lenders ("mortgagees" or "Direct Endorsement Lenders") against losses on mortgage loans made to buyers of single-family homes.

13. Under HUD's mortgage insurance programs, if a homeowner defaults on an FHA-insured loan and the mortgage holder forecloses on the property, HUD will pay the mortgage holder the balance of the loan and assume ownership and possession of the property. By protecting mortgage holders against defaults on mortgages, FHA mortgage insurance encourages lenders to make loans to millions of creditworthy Americans who might not qualify for loans under conventional underwriting criteria. FHA mortgage insurance also makes mortgage loans valuable in the secondary markets, as FHA loans are expected to have met HUD underwriting requirements and because they are secured by the full faith and credit of the United States.

14. HUD's Direct Endorsement Lender program is one of HUD's mortgage insurance programs. Under this program, an approved lender (*i.e.*, a Direct Endorsement Lender) is authorized to underwrite mortgage loans, decide whether the borrower represents an acceptable credit risk for HUD, and certify loans for FHA mortgage insurance without prior review or approval of the loans by the FHA or HUD. Direct Endorsement Lenders are private entities, such as banks and mortgage companies.

15. To qualify for FHA mortgage insurance, a mortgage must meet all of the applicable HUD underwriting requirements. These underwriting requirements relate to, among other things, the adequacy of the borrower's income and assets to meet his or her mortgage payments, the borrower's credit history, and the valuation of the property that is the subject of the mortgage.

16. HUD relies on the experience and expertise of Direct Endorsement Lenders in approving loans for FHA insurance. HUD expects Direct Endorsement Lenders to determine whether borrowers represent an acceptable credit risk for HUD. Direct Endorsement Lenders are therefore obligated to act with the utmost good faith, honesty, fairness, undivided loyalty, and fidelity in their dealings with HUD. The duty of good faith also requires all Direct Endorsement Lenders to make full and fair disclosures to HUD of all material facts and to take on the affirmative duty of employing reasonable care to avoid misleading HUD in all circumstances.

**B. HUD Underwriting Due Diligence Requirements**

17. Direct Endorsement Lenders are responsible for all aspects of the mortgage application, the property analysis, and the underwriting of the loan. Direct Endorsement Lenders must employ underwriters to "evaluate [each] mortgagor's credit characteristics, [the] adequacy and stability of [the mortgagor's] income to meet the periodic payments under the mortgage and all other obligations, and the adequacy of the mortgagor's available assets to close the transaction, and render an underwriting decision in accordance with applicable regulations, policies and procedures." 24 C.F.R. § 203.5(d). In addition, Direct Endorsement Lenders must ensure that their underwriters "have [each] property appraised in accordance with [the] standards and requirements" prescribed by HUD. 24 C.F.R. § 203.5(e).

18. Direct Endorsement Lenders must also ensure that their underwriters: (1) are capable of detecting fraud, as well as warning signs that may be indicators of fraud; and (2) exercise due diligence in making underwriting decisions. HUD Handbook 4000.4 REV-1, ¶ 2-4(C)(5); HUD Handbook 4155.2 ¶ 2.A.4.b.

19. HUD relies on Direct Endorsement Lenders to conduct due diligence on all loans before approving them for FHA insurance. To satisfy this due diligence requirement, Direct Endorsement Lenders must: (1) evaluate each borrower's ability and willingness to repay the mortgage debt (*i.e.*, conduct a credit analysis), to limit the possibility of default and collection difficulties, *see* 24 C.F.R. § 203.5(d); and (2) examine the property offered as security for the loan to determine if it provides sufficient collateral (*i.e.*, conduct an analysis of the subject property), *see* 24 C.F.R. § 203.5(e)(3). The due diligence requirement thus requires an evaluation of, among other things, a borrower's credit history, income, assets, and collateral. In all cases, each Direct Endorsement Lender owes HUD the duty, as prescribed by federal regulation, to "exercise the same level of care which it would exercise in obtaining and verifying information for a loan in which the mortgagee would be entirely dependent on the property as security to protect its investment." 24 C.F.R. § 203.5(c).

20. HUD has set specific rules for due diligence predicated on sound underwriting principles. In particular, HUD requires Direct Endorsement Lenders to comply with all governing HUD Handbooks and Mortgagee Letters, which set forth the underwriting requirements applicable to Direct Endorsement Lenders. These materials specify the minimum due diligence requirements with which Direct Endorsement Lenders must comply in endorsing loans for FHA insurance.

21. For example, in conducting the required credit analysis for a loan, the Direct Endorsement Lender must evaluate the borrower's credit in accordance with all governing HUD Handbooks, such as HUD Handbook 4155.1 (Mortgage Credit Analysis for Mortgage Insurance on One- to Four-Unit Mortgage Loans). The rules set forth in HUD Handbook 4155.1 exist to ensure that each Direct Endorsement Lender sufficiently evaluates whether each borrower has the ability and willingness to repay the mortgage debt. HUD has informed Direct Endorsement Lenders that past credit performance serves as an essential guide in determining a borrower's attitude toward credit obligations and in predicting a borrower's future actions.

### C. Underwriting Loans Using an AUS/TOTAL

22. Underwriters employed by Direct Endorsement Lenders may underwrite loans one of two ways: (1) manually, or (2) by using a HUD-approved automated underwriting system.

23. All HUD-approved AUSs interface with, and operate in conjunction with, a credit-evaluating algorithm maintained by the FHA called *Technology Open to Approved Lenders* ("TOTAL") Mortgage Scorecard. When a loan is underwritten using an AUS/TOTAL, the Direct Endorsement Lender enters various credit variables into the AUS, such as the dollar amount of the borrower's monthly income and available assets, and then, based on those variables, TOTAL evaluates the borrower's overall credit and assigns the loan a rating. This rating indicates the level of underwriting that must be performed on the loan.

24. If TOTAL concludes that a borrower's credit is acceptable, it assigns the loan an "accept/approve" rating, which means that the loan may be underwritten with less stringent documentation requirements and without the underwriter having to evaluate the borrower's creditworthiness. By contrast, if TOTAL concludes that a borrower's credit requires further

analysis, it assigns the loan a "refer" rating, in which case the loan must be manually underwritten and is subject to more stringent documentation requirements and underwriter scrutiny.

25. For loans that are underwritten manually (*i.e.*, not using an AUS/TOTAL), Direct Endorsement Lenders must, among other things, analyze credit histories, analyze debt obligations, calculate debt and income ratios and compare those ratios to the fixed ratios set by HUD rules, and consider and document any compensating factors permitting deviations from the fixed ratios. These requirements do not apply to loans that receive an "accept/approve" rating from TOTAL.

26. Direct Endorsement Lenders are not permitted to manipulate the information they enter into an AUS/TOTAL to determine what specific variable amounts would result in an "accept/approve" rating. For example, if a Direct Endorsement Lender receives a "refer" rating after entering all relevant data points into an AUS/TOTAL, the lender may not then enter hypothetical income or asset amounts (*i.e.*, income or asset amounts that lack a factual basis) in an effort to determine what level of income or assets would generate an "accept/approve" rating. Rather, as made clear by Mortgagee Letter 05-15 and FHA's TOTAL Mortgage Scorecard User Guide, there must be a factual basis for each variable entered into an AUS/TOTAL. Lenders are not to "willfully manipulat[e] the application variables . . . to obtain an accept/approve risk classification." Mortgagee Letter 05-15.

27. The prohibition on entering unsubstantiated data points into an AUS/TOTAL exists, among other reasons, to protect against fraud. For instance, if a Direct Endorsement Lender entered factually unsupported income or asset amounts into an AUS — and thereby determined the precise amount of income or assets necessary to obtain an "accept/approve"

rating from TOTAL — the lender could falsify loan documents to state that the borrower possesses the required amount of income or assets. Similarly, if a Direct Endorsement Lender manipulated an AUS/TOTAL to determine the precise amount of income or assets necessary to obtain an "accept/approve" rating and then communicated that information to the borrower, the borrower could falsify loan documents to state that he or she possesses the required amount of income or assets.

### D. HUD Underwriting Rules Governing Refinances

28. In addition to approving new loans for FHA insurance, Direct Endorsement Lenders are authorized to approve pre-existing FHA loans for refinancing. A refinancing generally results in the lowering of the borrower's monthly principal and interest payments. Direct Endorsement Lenders are paid fees in connection with each pre-existing FHA loan they approve for refinancing. Direct Endorsement Lenders therefore have a monetary incentive to approve FHA loans for refinancing.

29. To satisfy the due diligence requirement in connection with refinances, Direct Endorsement Lenders must ensure, among other things, that "[t]he borrower [is] current on the loan being refinanced for the month due prior to the month in which he/she closes the refinancing, and for the month in which he/she closes [the refinancing]." HUD Handbook 4155.1.3.A.1.h; *see also* HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6). Thus, for example, if a refinancing closes on July 18, the Direct Endorsement Lender must ensure that the borrower made both the June and the July payments at or before the July 18 closing. *See id.*

### E. HUD Individual Loan Certifications

30. For each loan that a Direct Endorsement Lender approves for FHA insurance or refinancing, the lender must certify that it conducted due diligence to ensure that the endorsed

mortgage complies with HUD rules and is "eligible for HUD mortgage insurance under the Direct Endorsement program." Form HUD-92900-A. For each loan that is underwritten using an AUS/TOTAL, the Direct Endorsement Lender must additionally certify to "the integrity of the data supplied by the lender [to the AUS/TOTAL]." *Id.*

31. Whether a loan is underwritten manually or using an AUS/TOTAL, the Direct Endorsement Lender must further certify as follows: "I, the undersigned, as authorized representative of mortgagee at the time of closing of this mortgage loan, certify that I have personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents. I hereby make all certifications required for this mortgage as set forth in HUD Handbook 4000.4." *Id.* HUD Handbook 4000.4 requires, among other things, that the mortgage comply "with HUD underwriting requirements as contained in all outstanding HUD handbooks and Mortgagee Letters." HUD Handbook 4000.4, Appendix 3.

32. Absent a truthful individual loan certification, a Direct Endorsement Lender is not permitted to approve a loan for FHA insurance or refinancing.

**F. HUD's Self-Reporting Requirement**

33. To maintain its status as an approved lender, a Direct Endorsement Lender must implement and maintain a compliant quality control program. To comply with HUD's quality control requirements, a Direct Endorsement Lender's quality control program must, among other things: (1) review a sample of all closed FHA loan files to ensure they were underwritten in accordance with HUD guidelines; and (2) conduct a full review of "all loans going into default within the first six payments." HUD Handbook 4060.1 REV-1, ¶¶ 6-6(C), 6-6(D); HUD Handbook 4060.1 REV-2, ¶¶ 7-6(C), 7-6(D); HUD Handbook 4700.2 REV-1, ¶¶ 6-1(B), 6-1(D).

34. Under HUD rules, a Direct Endorsement Lender must self-report to HUD all loans that it identifies as having been affected by "[s]erious deficiencies, patterns of non-compliance, or fraud" during the "normal course of business and by quality control staff during reviews/audits of FHA loans." HUD Handbook 4060.1 REV-1, CHG-1, ¶¶ 6-13, 6-3(J); *see also* HUD Handbook 4060.1 REV-2, ¶ 7-3(J) (requiring Direct Endorsement Lenders to "immediately" report findings of "fraud or other serious violations" affecting an FHA loan); HUD Handbook 4060.1 REV-2, ¶ 2-23 ("Mortgagees are required to report to HUD any fraud, illegal acts, irregularities or unethical practices."). Such loans must be self-reported to HUD within 60 days of the initial discovery of the fraud or other serious violations. *Id.*

35. Until 2005, HUD's rules instructed Direct Endorsement Lenders to make the required self-reports of loans with "[s]erious deficiencies, patterns of noncompliance, or fraud" in writing to HUD through the Quality Assurance Division of the HUD Homeownership Centers ("HOCs") having jurisdiction. In May 2005, HUD issued Mortgagee Letter 2005-26, which notified Direct Endorsement Lenders that going forward they would have to make the required self-reports through HUD's online Neighborhood Watch system. That new method became mandatory at the end of November 2005, and required mortgagees "to report serious deficiencies, patterns of noncompliance, or suspected fraud, to HUD in a uniform, automated fashion" and in lieu of written reports to the various individual HOCs. Mortgagee Letter 2005-26.

36. In addition to reporting loans affected by fraud or other serious violations to HUD, Direct Endorsement Lenders are required to take corrective action in response to such findings. In particular, findings of fraud or other serious violations must "be reported to the mortgagee's senior management within one month of completion of the initial report" and

"[m]anagement must take prompt action to deal appropriately with any material findings. The final report or an addendum must identify the actions being taken, the timetable for their completion, and any planned follow-up activities." HUD Handbook 4060.1 REV-2, ¶ 7-3(I); *see also* HUD Handbook 4060.1 REV-1, ¶ 6-3(I); HUD Handbook 4700.2 REV-1, ¶ 6-1(F).

## II. THE VA'S HOME LOAN GUARANTY PROGRAM

### A. Background

37. Pursuant to the Servicemen's Readjustment Act of 1944, the VA offers mortgage assistance through the VA Home Loan Guaranty Program. Through this program, the VA facilitates home ownership for veterans, active duty personnel, certain surviving spouses, and reservists (collectively, "veterans") by partially guaranteeing approved lenders against losses on mortgage loans made to veterans.

38. Like FHA loans, VA-guaranteed loans are made by private lenders, such as banks and mortgage companies. To obtain a VA loan, a veteran must apply to an approved lender ("VA Lender"). If the loan is approved, the VA will guarantee a portion of the loan, which protects the VA Lender against loss up to the amount guaranteed. The maximum amount that the VA guarantees is 50% of the loan. By partially guaranteeing loans against default, the VA loan guarantee encourages lenders to make loans to veterans, and makes the resulting loans valuable on the secondary market.

39. Many VA Lenders, including Chase, are authorized to underwrite mortgage loans, decide whether the borrower represents an acceptable credit risk for the VA, and approve loans for the VA guarantee without prior review or approval by the VA.

40. To qualify for the VA guarantee, a mortgage must meet all of the applicable VA underwriting requirements. Much like the HUD underwriting requirements, the VA

underwriting requirements relate to such things as the borrower's income and assets, the borrower's credit history, and the valuation of the subject property.

### B. VA Underwriting Due Diligence Requirements

41. In underwriting loans and evaluating whether to approve loans for the VA guarantee, VA Lenders are required to follow the VA's applicable underwriting guidelines. These guidelines are set forth in the VA Lenders' Handbook, *see* VA Pamphlet 26-7 at Ch. 4, and are incorporated into regulations at 38 C.F.R. § 36.4340. The VA's underwriting guidelines contain rules that must be followed to ensure that each borrower's "present and anticipated income and expenses, and credit history[,] are satisfactory" such that the borrower "is a satisfactory credit risk." 38 C.F.R. § 36.4340.

42. The VA relies on VA Lenders to conduct due diligence on loans before approving them for the VA guarantee. *See id.* § 36.4340(j). To satisfy this due diligence requirement, VA Lenders must, among other things, develop all credit information; obtain all required verifications and a credit report; ensure the accuracy of all information on which the loan decision is based; and comply with all of the applicable VA underwriting guidelines. *Id.*; *see* VA Pamphlet 26-7 at 4-3; VA Form 26-1820.

### C. VA Underwriting Rules Governing Refinances

43. Like HUD, the VA not only authorizes lenders to approve new loans for the VA guarantee, but also to approve pre-existing VA loans for refinancing.

44. In conducting due diligence in connection with refinances, VA Lenders must ensure, among other things, that the loan has not been in default within the 30 days prior to closing. 38 C.F.R. § 36.4307(a)(5); *see* VA Pamphlet 26-7 at 4-5; VA Form 26-1820. If there

has been a default within 30 days of closing, the loan must be submitted to the VA for prior approval of the refinancing. *Id.*

### D. VA Individual Loan Certifications

45. For each loan that a VA Lender approves for the VA guarantee or refinancing, the lender must certify that it conducted due diligence to ensure that the mortgage complies with the applicable VA underwriting rules. *See* 38 C.F.R. § 36.4340(k). Pursuant to VA regulations, each loan approved for the VA guarantee or refinancing incorporates the following certification:

> The undersigned lender certifies that the (loan) (assumption) application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 CFR part 36; that all credit reports obtained or generated in connection with the processing of this borrower's (loan) (assumption) application have been provided to VA; that, to the best of the undersigned lender's knowledge and belief the (loan) (assumption) meets the underwriting standards recited in chapter 37 of title 38 United States Code and 38 CFR part 36; and that all information provided in support of this (loan) (assumption) is true, complete and accurate to the best of the undersigned lender's knowledge and belief.

*Id.* at § 36.4340(k)(2)(i). Additionally, for each loan that a VA Lender approves for the VA guarantee or refinancing, the lender must execute VA Form 26-1820, pursuant to which it further certifies, among other things, that "[t]he loan conforms with the applicable provisions of Title 38, U.S. Code, and the Regulations concerning guaranty or insurance of loans to veterans."

46. Absent a truthful individual loan certification, a VA Lender is not permitted to approve a loan for the VA guarantee or refinancing.

## III. SINCE JANUARY 2002, CHASE HAS SUBMITTED THOUSANDS OF FALSE INDIVIDUAL LOAN CERTIFICATIONS TO HUD AND THE VA

47. From January 2002 through January 2014, Chase recklessly underwrote thousands of FHA and VA loans, and falsely certified to HUD and the VA that the loans were eligible for FHA insurance or the VA guarantee (collectively, "government insurance"). During the Covered Period, Chase also recklessly approved hundreds of pre-existing FHA and VA loans for

refinancing, and falsely certified to HUD and the VA that the loans were eligible for refinancing. As demonstrated below, the loans that Chase recklessly approved for government insurance and refinancing did not suffer from minor or technical defects. Rather, the defects involved critical aspects of the loans, were apparent from the face of the loan files, and prevented Chase from reasonably concluding that the loans were eligible for government insurance or refinancing. Among the most common defects were Chase's failure to:

- obtain the required financial documentation from the borrowers (such as pay stubs, bank statements, and W-2s);
- reconcile inconsistent information in the loan files (such as where the income reflected on a borrower's pay stubs was inconsistent with the income reflected on the borrower's W-2s, where documents in a loan file reflected multiple social security numbers for the same borrower, and where documents in a loan file reflected multiple addresses for the same borrower's primary residence);
- verify the borrowers' employment and rental histories; and
- in the case of refinances, confirm that the loans being refinanced were current at the time of closing.

48. Moreover, throughout the Covered Period, Chase was repeatedly put on notice that it was recklessly underwriting and approving loans for government insurance and refinancing. As discussed below, HUD audits — the results of which were communicated to Chase — revealed numerous instances of reckless underwriting. Yet, for more than a decade, the bank failed to address its deficient lending practices.

49. As a result of Chase's reckless underwriting and false individual loan certifications, HUD and the VA paid claims on thousands of defaulted loans that Chase knew, or should have known, did not meet the applicable HUD/VA underwriting guidelines and, therefore, were ineligible for government insurance or refinancing. The Government has suffered substantial losses in connection with these claims.

### A. Chase Recklessly Underwrote and Approved Thousands of Loans for Government Insurance or Refinancing

50. As set forth above, for each loan that Chase approved for FHA insurance, Chase was required to certify that it had conducted due diligence to ensure that the loan was "eligible for HUD mortgage insurance under the Direct Endorsement program." Form HUD-92900-A. In addition, if Chase used an AUS/TOTAL in approving a loan for FHA insurance, it also had to certify to "the integrity of the data" that it entered into the AUS/TOTAL. *Id.*

51. As with FHA loans, for each loan that Chase approved for the VA guarantee, it was required to certify that it had conducted due diligence to ensure that the loan satisfied the VA's underwriting guidelines. *See* 38 C.F.R. § 36.4340(k); VA Form 26-1820.

52. Finally, for each pre-existing FHA or VA loan that Chase approved for refinancing, it had to certify that the loan was eligible for refinancing. Specifically, for each such FHA loan, Chase had to certify, among other things, that the borrower was current on his or her mortgage payments both for the month in which the refinancing closed and for the prior month; and for each such VA loan, Chase had to certify that the borrower had not missed a mortgage payment during the 30 days prior to closing. HUD Handbook 4155.1.3.A.1.h; HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6); Form HUD-92900-A; 38 C.F.R. § 36.4307; VA Form 26-1820.

53. Notwithstanding the above certifications, throughout the Covered Period, Chase routinely failed to conduct the required due diligence on the loans it approved for government insurance and refinancing. Thousands of these loans contained at least one material violation of the applicable HUD/VA underwriting guidelines, and many of the loans contained two or more such violations. Moreover, the violations were not difficult to detect; rather, they were apparent from the face of the documents in the loan files. Any reasonably diligent underwriter should

have noticed the violations in underwriting the loans, and any reasonably diligent quality control personnel should have uncovered the violations while conducting the mandatory quality control reviews of Chase's closed loan files. Accordingly, Chase knew, or should have known, that a substantial number of the loans that it approved for government insurance and refinancing contained unacceptable risk and did not qualify for such insurance or refinancing.

54. Furthermore, in violation of the additional certification applicable to FHA loans underwritten using an AUS/TOTAL, Chase entered data into its AUS/TOTAL that lacked integrity. Specifically, when loans did not receive an "accept/approve" rating from TOTAL, many Chase loan officers and/or underwriters resubmitted the loans to TOTAL multiple times over a short period, each time entering into Chase's AUS hypothetical data points that lacked a factual basis in order to determine the data point values that would generate an "accept/approve" rating. Many of these employees then communicated the qualifying data point values to the borrowers, thus inviting borrower fraud. By telling the borrowers the precise data point values that would qualify them for an FHA loan, Chase provided the borrowers with the information they needed to create and submit fraudulent loan documents. Chase also gave the borrowers an incentive to submit fraudulent documents; the borrowers knew that if they submitted fraudulent documents reflecting the qualifying data point values, they would qualify for an FHA loan.

### 1. Examples of Loans Approved for FHA Insurance or Refinancing in Violation of HUD's Underwriting Guidelines

55. The following examples represent a small fraction of the thousands of loans that Chase recklessly approved for FHA insurance or refinancing in violation of HUD's underwriting guidelines. The first eight examples reflect new loans that Chase recklessly approved for FHA insurance, while the remaining four examples reflect pre-existing FHA loans that Chase recklessly approved for refinancing.

### a. The Higgins Drive Property in Indiana

56. FHA case number 151-8225250 relates to a property on Higgins Drive in Jeffersonville, Indiana ("Higgins Drive Property"). Chase manually underwrote the loan for the Higgins Drive Property, reviewed and approved it for FHA insurance, and certified that a qualified underwriter had conducted the required due diligence on the loan application and that the loan was eligible for FHA insurance. The mortgage closed in December 2006.

57. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance, and did not exercise due diligence in underwriting the loan. Instead, Chase violated multiple HUD underwriting rules, including HUD Handbook 4155.1 ¶¶ 2-3, 2-5, 2-10, 3-1.

58. Chase's violation of HUD Handbook 4155.1 ¶ 3-1 is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. Paragraph 3-1 prohibits a lender from relying on stale documents in underwriting a loan. With respect to documents used to verify a borrower's assets, Paragraph 3-1 requires that such documents not be more than 120 days old when the loan closes. Notwithstanding this rule, the documents that Chase relied on to verify the borrower's assets for this loan were more than 120 days old when the loan closed. The documents were stale, and thus were unreliable and unacceptable for use.

59. Chase's false certification to having used due diligence in underwriting this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

60. The borrower made only three payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $109,253.29, including costs.

### b. The Wembley Drive Property in Texas

61. FHA case number 491-8313481 relates to a property on Wembley Drive in Garland, Texas ("Wembley Drive Property"). Chase underwrote the loan for the Wembley Drive Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the loan was eligible for FHA insurance, including that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in February 2004.

62. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance. For example, multiple variables that Chase entered into its AUS/TOTAL lacked integrity, including the variables relating to the borrower's income, assets, and employment. In approving this loan, Chase also violated HUD Handbook 4000.4 ¶ 2-4, which requires that a lender show an awareness of irregularities and warning signs of fraud.

63. Chase's entry of asset variables into its AUS/TOTAL that lacked integrity is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. The asset variables that Chase entered into its AUS/TOTAL indicated that the borrower's only asset was a gift of $4,695, and that the borrower needed only $2,850 of that gift to close the loan. However, according to the documentation in the loan file, to close the loan the borrower needed the full gift amount of $4,695, plus an additional $2,500. For this reason alone, the asset variables that Chase entered into its AUS/TOTAL lacked integrity.

64. Moreover, there are inconsistencies that were never reconciled in connection with the documentation in the loan file regarding the $2,500. The loan file contains a letter from the borrower stating that the additional $2,500 consisted of cash that the borrower had accumulated at home over a period of six months. However, the afore-mentioned letter is internally

inconsistent and conflicts with other information in the loan file. The letter indicates that the borrower had been saving more than $1,500 per month for six months and had been keeping the money at home because he "do[es] not trust the system of banking." But the letter goes on to state that the borrower had "cash on hand" totaling only $2,500 — the precise amount needed to close the loan. Furthermore, while the borrower's letter states that his take home pay was $2,674, Chase calculated his gross monthly income as only $2,295.70. There was no reconciliation of any of this conflicting information.

65. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

66. Less than one year after closing, this loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $100,697.97, including costs.

**c. The Calle de San Alberto Property in Arizona**

67. FHA case number 022-2005328 relates to a property on E. Calle de San Alberto in Tucson, Arizona ("Calle de San Alberto Property"). Chase underwrote the loan for the Calle de San Alberto Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the loan was eligible for FHA insurance, including that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in October 2008.

68. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance. For example, multiple variables that Chase entered into its AUS/TOTAL lacked integrity, including the variables relating to the borrower's income, assets, and employment. In approving this loan, Chase also violated HUD Handbook 4000.4 ¶ 2-4.

69. Chase's entry of an income variable into its AUS/TOTAL that lacked integrity is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. The income variable that Chase entered into its AUS/TOTAL indicated that the co-borrower had income of $867 per month. However, the income documentation in the loan file does not support that entry. For example, the loan file contains a note from the underwriter stating, "YTD paystub for co-borrower average is only $684, at which loan cannot be approved." Yet rather than entering the income as calculated by the underwriter ($684 per month), Chase entered an overstated income of $867 per month.

70. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrowers would make the monthly mortgage payments.

71. The borrowers made only six payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $60,280.95, including costs.

**d. The Strasburg Drive Property in Oregon**

72. FHA case number 431-3702699 relates to a property on Strasburg Drive in Forrest Grove, Oregon ("Strasburg Drive Property"). Chase manually underwrote the loan for the Strasburg Drive Property, reviewed and approved it for FHA insurance, and certified that a qualified underwriter had conducted the required due diligence on the loan application and that the loan was eligible for FHA insurance. The mortgage closed in January 2002.

73. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance, and did not exercise due diligence in

underwriting the loan. Instead, Chase violated multiple HUD underwriting rules, including HUD Handbook 4155.1 ¶¶ 1-8, 2-3, 2-6, 2-10, and HUD Handbook 4000.4 ¶ 2-4.

74. Chase's violation of HUD Handbook 4155.1 ¶ 1-8 is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. Paragraph 1-8 states that where, as here, the seller and the borrower have an identity-of-interest (*i.e.*, a landlord-tenant relationship), the loan-to-value ratio ("LTV") cannot exceed 85%. There is an exception to this rule, but the exception applies only if the borrower is a tenant who has lived in the subject property for at least six months prior to closing. Here, the borrower represented in his loan application that he had been renting the subject property for only three months, yet, in violation of Paragraph 1-8, Chase approved the loan with an LTV of 96.83%. In addition, there was no verification of rent in the loan file, in violation of HUD Handbook 4155.1 ¶ 2-3, so there was nothing to confirm that the borrower had been renting the property for even three months, much less the required six months.

75. Chase's false certification to having used due diligence in underwriting this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

76. Less than one year after closing, this loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $185,670.46, including costs.

**e. The Roesner Drive Property in Illinois**

77. FHA case number 137-3596980 relates to a property on Roesner Drive in Markham, Illinois ("Roesner Drive Property"). Chase manually underwrote the loan for the Roesner Drive Property, reviewed and approved it for FHA insurance, and certified that a

qualified underwriter had conducted the required due diligence on the loan application and that the loan was eligible for FHA insurance. The mortgage closed in June 2007.

78. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance, and did not exercise due diligence in underwriting the loan. Instead, Chase violated multiple HUD underwriting rules, including HUD Handbook 4155.1 ¶¶ 1-7, 2-3, 3-1.

79. Chase's violation of HUD Handbook 4155.1 ¶ 1-7 is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. Paragraph 1-7 requires that the borrower make a down payment of at least 3% of the appraised value of the subject property. Here, however, the documentation in the loan file reveals that the borrower made an initial Earnest Money Deposit of $500 before the loan closed, but then received the full amount of this Earnest Money Deposit back at closing. Therefore, rather than making the required 3% investment in the property, Chase allowed the borrower to invest $0. With no investment in the property, the borrower promptly defaulted.

80. Chase's false certification to having used due diligence in underwriting this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

81. The borrower made only one payment on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $136,008.30, including costs.

**f. The Verna Street Property in Louisiana**

82. FHA case number 221-4168810 relates to a property on Verna Street in Metairie, Louisiana ("Verna Street Property"). Chase underwrote the mortgage for the Verna Street

Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the loan was eligible for FHA insurance, including that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in April 2009.

83. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance. For example, multiple variables that Chase entered into its AUS/TOTAL lacked integrity, including the variables relating to the borrower's assets, monthly debt obligations, history of paying housing obligations, and employment.

84. Chase's entry of a monthly debt obligations variable into its AUS/TOTAL that lacked integrity is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. Specifically, the monthly debt obligations variable that Chase entered into its AUS/TOTAL grossly understated the borrowers' monthly debt by excluding certain debts that should not have been excluded, including one borrower's pre-existing monthly mortgage payments. When these monthly mortgage payments are included, the borrowers' debt-to-income ratio increases to over 60% — more than 17 percentage points higher than the 43% debt-to-income ratio limit that was in effect for manual loans at the time this loan was underwritten.

85. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrowers would make the monthly mortgage payments.

86. The borrowers made only four payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $220,246.34, including costs.

### g. The Matthes Avenue Property in Delaware

87. FHA case number 071-1052597 relates to a property on Matthes Avenue in Wilmington, Delaware ("Matthes Avenue Property"). Chase manually underwrote the loan for the Matthes Avenue Property, reviewed and approved it for FHA insurance, and certified that a qualified underwriter had conducted the required due diligence on the loan application and that the loan was eligible for FHA insurance. The mortgage closed in September 2007.

88. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance, and did not exercise due diligence in underwriting the loan. Instead, Chase violated multiple HUD underwriting rules, including HUD Handbook 4155.1 ¶¶ 2-3, 3-1, and HUD Handbook 4000.4 ¶ 2-4.

89. Chase's violation of HUD Handbook 4155.1 ¶ 2-3 and HUD Handbook 4000.4 ¶ 2-4 are interrelated and examples of the multiple rules that Chase violated in approving this loan for FHA insurance. Paragraph 2-3 requires that the lender consider and evaluate the borrower's prior rent payment history, including by obtaining a verification of rent ("VOR") directly from the borrower's landlord. As discussed above, Paragraph 2-4 requires that the lender show an awareness of irregularities and warning signs of fraud. Here, the borrower represented in his initial loan application, which was executed in July 2007, that he had been living at a particular address for 1.5 years. But in the borrower's final loan application, which was executed only two months later, he represented that he had been living at a different address for one year, and had been paying $895 per month in rent. The VOR obtained by Chase, by contrast, indicates that the borrower had been living at yet a third address within the last year, and had been paying $1,100 per month in rent. Moreover, the borrower's 2006 W-2 was sent to

the borrower at a fourth address. Chase never resolved this conflicting information, in violation of Paragraphs 2-3 and 2-4.

90. Chase's false certification to having used due diligence in underwriting this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

91. Less than one year after closing, this loan defaulted. As a result, HUD paid the holder of the mortgage note an FHA insurance claim of $187,683.08, including costs.

**h. The Rist Trail Property in Pennsylvania**

92. FHA case number 441-7252438 relates to a property on Rist Trail in Fairfield, Pennsylvania ("Rist Trail Property"). Chase underwrote the loan for the Rist Trail Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the loan was eligible for FHA insurance, including that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in June 2003.

93. Contrary to Chase's certification, Chase did not comply with HUD rules in reviewing and approving this loan for FHA insurance. For example, multiple variables that Chase entered into its AUS/TOTAL lacked integrity, including the variables relating to the borrower's credit score and employment. In approving this loan, Chase also violated HUD Handbook 4000.4 ¶ 2-4.

94. Chase's entry of a credit score variable into its AUS/TOTAL that lacked integrity is one example of the multiple rules that Chase violated in approving this loan for FHA insurance. On May 23, 2003, Chase entered into its AUS/TOTAL a borrower credit score of 636. However, the borrower's credit report, also dated May 23, 2003, states that the borrower's

credit score was actually 574, more than 60 points lower than the credit score that Chase entered into its AUS/TOTAL.

95. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

96. The borrower made only two payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $130,582.22, including costs.

**i. The Williamsburg Court Property in Michigan**

97. FHA case number 261-9522798 relates to a property in Williamsburg Court in Detroit, Michigan ("Williamsburg Court Property"). Chase reviewed and approved the loan for the Williamsburg Court Property for refinancing and certified that a qualified underwriter had conducted the required due diligence on the refinancing application and that the loan was eligible for refinancing. The refinancing closed in October 2008.

98. Notwithstanding Chase's certification to the contrary, this loan was not eligible for refinancing because, among other things, the borrower had not made her October 2008 loan payment at or prior to closing. *See* HUD Handbook 4155.1.3.A.1.h; HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6). Moreover, the borrower had a history of missed loan payments, including for the month prior to closing. Leading up to the refinancing, the borrower had missed payments in each of the following months (and, at times, was delinquent for several months at the same time): December 2007 (six months), February 2008 (one month), March 2008 (two months), April 2008 (two months), May 2008 (three months), August 2008 (one month), and September 2008 (one month).

99. Chase's false certification to having used due diligence in evaluating this loan for refinancing was material and bore upon the loan's eligibility for refinancing and the likelihood that the borrower would make the monthly mortgage payments following refinancing.

100. Following the refinancing, the borrower made zero loan payments and the loan immediately defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $96,529.92, including costs.

**j. The Pinecreek Road Property in Georgia**

101. FHA case number 105-3790880 relates to a property on Pinecreek Road in Forest Park, Georgia ("Pinecreek Road Property"). Chase reviewed and approved the loan for the Pinecreek Road Property for refinancing and certified that a qualified underwriter had conducted the required due diligence on the refinancing application and that the loan was eligible for refinancing. The refinancing closed in June 2008.

102. Notwithstanding Chase's certification to the contrary, this loan was not eligible for refinancing because, among other things, the borrower had not made his June 2008 loan payment at or prior to closing. *See* HUD Handbook 4155.1.3.A.1.h; HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6). Moreover, the borrower had a history of missed loan payments, including for the month prior to closing. Leading up to the refinancing, the borrower had missed payments in April 2008 and May 2008.

103. Chase's false certification to having used due diligence in evaluating this loan for refinancing was material and bore upon the loan's eligibility for refinancing and the likelihood that the borrower would make the monthly mortgage payments following refinancing.

104. Following the refinancing, the borrower made only one loan payment before the loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $89,335.43, including costs.

**k. The Wabash Road Property in Michigan**

105. FHA case number 264-0090329 relates to a property on Wabash Road in Rochester Hills, Michigan ("Wabash Road Property"). Chase reviewed and approved the loan for the Wabash Road Property for refinancing and certified that a qualified underwriter had conducted the required due diligence on the refinancing application and that the loan was eligible for refinancing. The refinancing closed in February 2009.

106. Notwithstanding Chase's certification to the contrary, this loan was not eligible for refinancing because, among other things, the borrower had not made her February 2009 loan payment at or prior to closing. *See* HUD Handbook 4155.1.3.A.1.h; HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6). Moreover, the borrower had a history of missed loan payments, including for the month prior to closing. Leading up to the refinancing, the borrower had missed payments in each of the following months (and, at times, was delinquent for several months at the same time): June 2008 (one month), July 2008 (two months), September 2008 (one month), October 2008 (two months), November 2008 (two months), and January 2009 (one month).

107. Chase's false certification to having used due diligence in evaluating this loan for refinancing was material and bore upon the loan's eligibility for refinancing and the likelihood that the borrower would make the monthly mortgage payments following refinancing.

108. Following the refinancing, the borrower made only one loan payment before the loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $42,335.56, including costs.

### l. The Claude Jones Road Property in Tennessee

109. FHA case number 483-3927458 relates to a property on Claude Jones Road in Murfreesboro, Tennessee ("Claude Jones Road Property"). Chase reviewed and approved the loan for the Claude Jones Road Property for refinancing and certified that a qualified underwriter had conducted the required due diligence on the refinancing application and that the loan was eligible for refinancing. The refinancing closed in October 2008.

110. Notwithstanding Chase's certification to the contrary, this loan was not eligible for refinancing because, among other things, the borrowers had not made their October 2008 loan payment at or prior to closing. *See* HUD Handbook 4155.1.3.A.1.h; HUD Handbook 4155.1, REV-5, ¶¶ 1-10(E), 1-12(D)(6). Moreover, the borrowers had a history of missed loan payments. Leading up to the refinancing, the borrowers had missed payments in February 2008, May 2008, and August 2008.

111. Chase's false certification to having used due diligence in evaluating this loan for refinancing was material and bore upon the loan's eligibility for refinancing and the likelihood that the borrowers would make the monthly mortgage payments following refinancing.

112. Following the refinancing, the borrowers made only three loan payments before the loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $54,498.81, including costs.

### 2. Examples of FHA Loans Where Chase Manipulated Data Point Values to Obtain "Accept/Approve" Ratings from TOTAL

113. In addition to recklessly approving loans for FHA insurance in obvious violation of HUD's underwriting guidelines, many Chase employees systematically manipulated the data they entered into the bank's AUS to determine the variable amounts that would generate "accept/approve" ratings from TOTAL.

114. When a Chase employee initially ran a loan through the bank's AUS/TOTAL, he or she would enter variable amounts consistent with the borrower's representations and/or the documents in the loan file. However, if a loan received a "refer" rating, many Chase employees would isolate one or more variables (*e.g.*, the borrower's assets and/or income) and slightly yet systematically increase or decrease the variable(s) during successive AUS/TOTAL runs over a short period of time to identify the variable amount(s) that would result in an "accept/approve" rating. After identifying the qualifying variable amount(s), many of these employees would then communicate that information to the borrower, thus inviting the borrower to create and submit fraudulent documents reflecting the qualifying variable amount(s).

115. The following examples represent a small fraction of the many loans for which Chase manipulated the data it entered into its AUS/TOTAL.

**a. The Flinn Street Property in Texas**

116. FHA case number 495-7138249 relates to a property on Flinn Street in Hutto, Texas ("Flinn Street Property"). Chase underwrote the loan for the Flinn Street Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in December 2004.

117. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On December 3, 2004, Chase ran this loan through its AUS/TOTAL eight times over the span of nine minutes, slightly increasing or decreasing the asset variable until it zeroed in on the lowest asset variable amount that resulted in an "accept/approve" rating. Chase began by entering an asset value of $3,570, and received a "refer" rating. Chase then increased that variable by $500 increments until it received an "accept/approve" rating at $4,570. Next, Chase decreased the

variable by smaller increments ($100) until it received a "refer" rating at $4,270. Chase then increased the variable by even smaller increments ($50 and then $25) until it received a final "accept/approve" rating at $4,345. The below chart reflects each of these AUS/TOTAL submissions:

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 12/3/04 | 4:27 pm | $3,570 | Refer |
| 12/3/04 | 4:28 pm | $4,070 | Refer |
| 12/3/04 | 4:29 pm | $4,570 | Accept/Approve |
| 12/3/04 | 4:31 pm | $4,470 | Accept/Approve |
| 12/3/04 | 4:32 pm | $4,370 | Accept/Approve |
| 12/3/04 | 4:33 pm | $4,270 | Refer |
| 12/3/04 | 4:34 pm | $4,320 | Refer |
| 12/3/04 | 4:35 pm | $4,345 | Accept/Approve |

118. The above-referenced asset variables, entered within the span of nine minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the entry of the above-referenced asset variables other than to determine the lowest asset amount that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

119. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

120. The borrower made only four payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $62,290.49, including costs.

**b. The Young Lane Property in Rhode Island**

121. FHA case number 451-0935333 relates to a property on Young Lane in Johnston, Rhode Island ("Young Lane Property"). Chase underwrote the mortgage for the Young Lane Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and

certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in April 2008.

122. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On April 23, 2008, Chase ran this loan through its AUS/TOTAL nine times over the span of five minutes, slightly increasing or decreasing the asset variable until it zeroed in on the lowest asset variable amount that resulted in an "accept/approve" rating. Chase began by entering an asset value of $5,873, and received an "accept/approve" rating. Chase then decreased that variable by $1,000 (to $4,873), and again received an "accept/approve" rating. Chase then decreased the asset variable by $500 (to $4,373), and received a "refer" rating. Next, Chase increased the variable by $250 (to $4,623), which produced an "accept/approve" rating. Chase then decreased the asset variable by $50 and $100 increments on four successive AUS/TOTAL runs until it received another "refer" rating (at $4,373). Chase then ran the loan through its AUS/TOTAL one final time, re-entering the last asset value that had produced an "accept/approve" rating ($4,423). The below chart reflects each of these AUS/TOTAL submissions:

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 4/23/08 | 11:24 am | $5,873 | Accept/Approve |
| 4/23/08 | 11:25 am | $4,873 | Accept/Approve |
| 4/23/08 | 11:25 am | $4,373 | Refer |
| 4/23/08 | 11:25 am | $4,623 | Accept/Approve |
| 4/23/08 | 11:26 am | $4,573 | Accept/Approve |
| 4/23/08 | 11:27 am | $4,473 | Accept/Approve |
| 4/23/08 | 11:27 am | $4,423 | Accept/Approve |
| 4/23/08 | 11:28 am | $4,373 | Refer |
| 4/23/08 | 11:28 am | $4,423 | Accept/Approve |

123. The above-referenced asset variables, entered within the span of five minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the

entry of the above-referenced asset variables other than to determine the lowest asset amount that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

124. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

125. Less than one year after closing, this loan defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $242,839.88, including costs.

**c. The Monroe Street Property in Texas**

126. FHA case number 495-7283118 relates to a property on James Monroe Street in Manor, Texas ("Monroe Street Property"). Chase underwrote the loan for the Monroe Street Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in September 2005.

127. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On July 27, 2005, Chase ran this loan through its AUS/TOTAL 14 times over the span of 45 minutes (with 11 of the runs occurring over the span of only 13 minutes), slightly increasing or decreasing the asset variable until it zeroed in on the lowest asset variable amount that resulted in an "accept/approve" rating. Chase began by entering an asset value of $8,707, and received an "accept/approve" rating. Chase then decreased that variable by $100 increments all the way down to $7,807. Each of those entries received an "accept/approve" rating except for the final $7,807 entry, which received a "refer" rating. On the next run, Chase increased the asset

variable by $100, to $7,907, and received an "accept/approve" rating. The below chart reflects each of these AUS/TOTAL submissions:

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 7/27/05 | 12:57 pm | $8,707 | Accept/Approve |
| 7/27/05 | 12:59 pm | $8,607 | Accept/Approve |
| 7/27/05 | 1:00 pm | $8,507 | Accept/Approve |
| 7/27/05 | 1:01 pm | $8,407 | Accept/Approve |
| 7/27/05 | 1:02 pm | $8,307 | Accept/Approve |
| 7/27/05 | 1:03 pm | $8,207 | Accept/Approve |
| 7/27/05 | 1:04 pm | $8,207 | Accept/Approve |
| 7/27/05 | 1:05 pm | $8,207 | Accept/Approve |
| 7/27/05 | 1:06 pm | $8,107 | Accept/Approve |
| 7/27/05 | 1:08 pm | $8,007 | Accept/Approve |
| 7/27/05 | 1:09 pm | $7,907 | Accept/Approve |
| 7/27/05 | 1:36 pm | $8,707 | Accept/Approve |
| 7/27/05 | 1:40 pm | $7,807 | Refer |
| 7/27/05 | 1:42 pm | $7,907 | Accept/Approve |

128. The above-referenced asset variables, entered within the span of 45 minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the entry of the above-referenced asset variables other than to determine the lowest asset amount that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

129. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

130. The borrower made only four payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $122,660.76, including costs.

### d. The Middle Grove Property in Maryland

131. FHA case number 241-7686634 relates to a property on Middle Grove Court in Westminster, Maryland ("Middle Grove Property"). Chase underwrote the loan for the Middle Grove Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in December 2005.

132. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On December 19, 2005, Chase ran this loan through its AUS/TOTAL six times over the span of 34 minutes, slightly increasing or decreasing the asset variable until it zeroed in on the lowest asset variable amount that resulted in an "accept/approve" rating. Chase began by entering an asset value of $11,500, and received a "refer" rating. Chase then increased that variable by $100 increments (to $11,600 and $11,700), each time receiving a "refer" rating. Thereafter, Chase increased the variable by $300 (to $12,000), and received an "accept/approve" rating. Chase then decreased the asset variable by $200 (to $11,800), and received a "refer" rating. Chase then ran the loan through its AUS/TOTAL one last time, returning the asset variable to $12,000, which again produced an "accept/approve" rating. The below chart reflects each of these AUS/TOTAL submissions:

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 12/19/05 | 1:49 pm | $11,500 | Refer |
| 12/19/05 | 1:52 pm | $11,600 | Refer |
| 12/19/05 | 1:58 pm | $11,700 | Refer |
| 12/19/05 | 1:59 pm | $12,000 | Accept/Approve |
| 12/19/05 | 2:02 pm | $11,800 | Refer |
| 12/19/05 | 2:22 pm | $12,000 | Accept/Approve |

133. The above-referenced asset variables, entered within the span of 34 minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the entry of the above-referenced asset variables other than to determine the lowest asset amount that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

134. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

135. The borrower made only six payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $221,796.71, including costs.

**e. The Summerhill Lane Property in Texas**

136. FHA case number 492-7281141 relates to a property on Summerhill Lane in Fort Worth, Texas ("Summerhill Lane Property"). Chase underwrote the loan for the Summerhill Lane Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in October 2004.

137. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On September 28, 2004, Chase ran this loan through its AUS/TOTAL 13 times over the span of 30 minutes, slightly increasing or decreasing the asset variable until it zeroed in on the lowest asset variable amount that resulted in an "accept/approve" rating. Chase began by entering an asset value of $2,737, and received a "refer" rating. Chase then increased or decreased the asset variable several times until it ended up with an asset variable of $12,515, which resulted in an

"accept/approve" rating. Chase then decreased that variable by $600 (to $11,915), and again received an "accept/approve" rating. Chase then decreased the asset variable by $900 (to $11,015), which resulted in a "refer" rating. Thereafter, Chase entered increasingly greater asset values on successive runs ($11,465, $11,715 and $11,815), each of which received a "refer" rating. Those entries represented increases of $450, $250, and $100, respectively. Chase then increased the asset variable by $100 one final time (to $11,915), and received an "accept/approve" rating. The below chart reflects each of these AUS/TOTAL submissions.

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 9/28/04 | 4:07 pm | $2,737 | Refer |
| 9/28/04 | 4:09 pm | $8,737 | Refer |
| 9/28/04 | 4:10 pm | $10,715 | Refer |
| 9/28/04 | 4:13 pm | $11,715 | Accept/Approve |
| 9/28/04 | 4:13 pm | $11,715 | Accept/Approve |
| 9/28/04 | 4:21 pm | $10,037 | Refer |
| 9/28/04 | 4:26 pm | $12,515 | Accept/Approve |
| 9/28/04 | 4:28 pm | $11,915 | Accept/Approve |
| 9/28/04 | 4:30 pm | $11,015 | Refer |
| 9/28/04 | 4:32 pm | $11,465 | Refer |
| 9/28/04 | 4:33 pm | $11,715 | Refer |
| 9/28/04 | 4:35 pm | $11,815 | Refer |
| 9/28/04 | 4:36 pm | $11,915 | Accept/Approve |

138. The above-referenced asset variables, entered within the span of 30 minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the entry of the above-referenced asset variables other than to determine the lowest asset amount that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

139. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

140. When this loan defaulted, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $149,869.69, including costs.

**f. The N.W. Fourth Street Property in Florida**

141. FHA case number 095-0728900 relates to a property on N.W. Fourth Street in Delray, Florida ("N.W. Fourth Street Property"). Chase underwrote the loan for the N.W. Fourth Street Property using its AUS/TOTAL, reviewed and approved the loan for FHA insurance, and certified that the data supplied to Chase's AUS/TOTAL had integrity. The mortgage closed in July 2008.

142. Contrary to Chase's certification, the data supplied to the bank's AUS/TOTAL lacked integrity. Indeed, Chase manipulated the data to obtain an "accept/approve" rating. On June 27, 2008, Chase ran this loan through its AUS/TOTAL 7 times over the span of 11 minutes, slightly increasing or decreasing the asset variable until it zeroed in on the lowest range of asset values that would result in an "accept/approve" rating. On June 25, 2008, Chase had entered an asset value of $12,184, which had received an "accept/approve" rating. On June 27, 2008, Chase began by decreasing the asset value to $9,060, which resulted in a "refer" rating. Chase then entered increasingly greater asset values on successive runs ($9,784, $9,960, $10,560, $11,060, and $11,560), each of which resulted in a "refer" rating. The last three of those entries represented increases of $600, $500 and $500, respectively. Chase then increased the asset variable by $500 one final time (to $12,060), and received an "accept/approve" rating. The below chart reflects each of these AUS/TOTAL submissions.

| Date | Time | Asset Amount Entered Into AUS | TOTAL Rating |
|---|---|---|---|
| 6/25/08 | 12:44 pm | $12,184 | Accept/Approve |
| 6/27/08 | 9:36 am | $9,060 | Refer |
| 6/27/08 | 9:37 am | $9,784 | Refer |
| 6/27/08 | 9:38 am | $9,960 | Refer |
| 6/27/08 | 9:39 am | $10,560 | Refer |
| 6/27/08 | 9:45 am | $11,060 | Refer |
| 6/27/08 | 9:46 am | $11,560 | Refer |
| 6/27/08 | 9:46 am | $12,060 | Accept/Approve |

143. The above-referenced asset variables, the final 7 of which were entered within the span of 11 minutes, lacked a basis in fact and therefore lacked integrity. There is no plausible explanation for the entry of the above-referenced asset variables other than to determine the lowest range of asset values that would result in an "accept/approve" rating — a prohibited use of Chase's AUS/TOTAL.

144. Chase's false certification to the integrity of the data used to underwrite this loan was material and bore upon the loan's eligibility for FHA insurance and the likelihood that the borrower would make the monthly mortgage payments.

145. The borrower made only three payments on this loan before it defaulted. As a result, HUD paid Chase, as holder of the mortgage note, an FHA insurance claim of $227,337.88, including costs.

### 3. Chase's Reckless Underwriting Extended to Its VA Loans

146. Internal Chase reports created during the Covered Period demonstrate that the bank's reckless underwriting was not limited to its FHA loans, and extended to its VA loans.

147. For example, in 2003, Chase retained an outside consultant to evaluate its FHA and VA lending practices. The consultant issued a report to Chase in September 2003 in which it observed that loan "[f]iles must be defect free before submission to FHA or VA," but that "[c]urrently 90% of the files . . . have some type of document defect."

148. Similarly, an internal Chase report from December 2005 ("December 2005 report") stated that 56% of the closed VA loans that were reviewed in October 2005 had defects. The December 2005 report also stated that the batches of closed VA loans that were reviewed in November and December 2005 had similarly high defect rates of between 46% and 57%.

149. Finally, the individual who managed Chase's "Government Insuring Unit" from 2003 through 2005 ("manager") observed that a substantial number of the loans that Chase approved for FHA insurance and the VA guarantee during that period suffered from similar defects. Employees within the Government Insuring Unit were responsible for (1) reviewing all closed FHA and VA loan files immediately after the loans had been approved for government insurance, and then (2) submitting the necessary paperwork to HUD/the VA to obtain certificates confirming that the loans had been accepted for insurance by HUD/the VA. From 2003 through 2005, the manager of the Government Insuring Unit observed that a substantial number of the FHA and VA loans that Chase underwriters had approved for government insurance were missing such key (and required) documents as verifications of employment, pay stubs, gift letters, tax returns, and bank statements. The manager further observed that many FHA and VA loans also suffered from other document defects, such as containing documentation that was internally inconsistent or that otherwise did not meet the requirements of the applicable underwriting guidelines.

### B. Chase Was On Notice of Its Reckless Underwriting

150. Throughout the Covered Period, Chase was repeatedly put on notice that it was recklessly approving loans for government insurance and refinancing in violation of the applicable underwriting rules. As set forth above, thousands of the loans that Chase approved for government insurance or refinancing during the Covered Period had underwriting defects that

were obvious on the face of the loan files and should have been apparent to Chase's underwriting and quality control staff. In addition, Chase had access to data that revealed that its employees were systematically manipulating AUS/TOTAL variables in violation of HUD rules. Based on this evidence alone, Chase knew or should have known of the reckless conduct described herein. Aside from this evidence, however, periodic audits by HUD of Chase's closed FHA loan files also put the bank on notice of its reckless underwriting.

151. Between March 26, 2004 and April 6, 2004, HUD conducted a comprehensive audit of Chase's FHA lending practices. This audit included the re-underwriting by HUD of 169 closed loans that Chase had previously approved for FHA insurance. Following the audit, HUD issued a report to Chase dated August 4, 2004 ("August 2004 report"), in which HUD stated, among other things, that "[a] number of deviations from FHA requirements were evident in the origination, processing, underwriting and closing of FHA loans by Chase." The August 2004 report further stated that "[t]he review disclosed instances of non-compliance in the processing and underwriting of FHA-insured mortgages in 56%, or 95 of the 169 files reviewed." Among the most common defects were "loan documentation deficiencies in [the] case file," "employment history not verified or documented," and "undocumented transfer gift funds/financial assistance."

152. Following the 2004 audit and the issuance of the August 2004 report, HUD periodically reviewed additional closed loans that Chase had previously approved for FHA insurance. In connection with these reviews, HUD found many material underwriting violations, and, each time it found a violation, it informed Chase of the nature of the violation. Many of these violations mirrored those identified in the August 2004 report. Moreover, the violations were obvious from the face of the loan files and are clear evidence of recklessness. The

examples set forth below represent a small fraction of the underwriting violations that HUD brought to Chase's attention after the 2004 audit and the issuance of the August 2004 report.

- **FHA case number 381-7620080.** In 2006, HUD informed Chase that the "bank statement found in [the] endorsement file [for this loan] reflected conflicting balance information that was not questioned by the Underwriter," and that "[c]onflicting employment information was not resolved in the file."

- **FHA case numbers 441-7109599 and 071-0971091.** In 2006, HUD informed Chase that both of these loans were deficient because "the borrowers' employment was not adequately documented," and "the files included conflicting information . . . that [Chase] failed to resolve" (including conflicting social security numbers for the same borrower).

- **FHA case number 372-3486315.** In 2007, HUD informed Chase that there was conflicting information in the loan file, including that the address listed for the borrower on his loan application was different than the address listed on the borrower's driver's license and W-2.

- **FHA case number 561-7739765.** In 2008, HUD informed Chase that the loan file contained clear signs of fraud, including that the borrowers' Social Security identification cards contained "SSNs [that] were illegible and incorrectly positioned," that "the borrowers' signatures on the cards differ[ed] from the names printed on the cards," and that the names on the cards did "not match the names used [by the borrowers] to obtain their FHA-insured loan."

- **FHA case number 241-7901018.** In 2008, HUD informed Chase that the loan file included "irregularities that [Chase] failed to resolve" (including that the borrower's pay stubs showed significantly lower earnings than his W-2s).

- **FHA case number 441-8110593.** In 2008, HUD informed Chase that the borrowers' income was not adequately documented (including that there was no documentation to substantiate the borrowers' alleged retirement/Social Security income or income from commissions), that the source of funds to close was not properly documented, and that Chase had failed to account properly for the borrowers' liabilities.

- **FHA case number 413-4757051.** In 2009, HUD informed Chase that "[t]he source of funds used for the earnest money deposit (EMD) was not documented," and that "[l]iabilities were omitted from the underwriting analysis without documentation to support the omission."

- **FHA case number 374-5056637.** In 2009, HUD informed Chase that the source of funds to close was not adequately documented (in fact, the loan file did not include any asset documentation).

- **FHA case number 413-4757051.** In 2009, HUD informed Chase that certain liabilities had been improperly omitted from the debt analysis, and there was insufficient documentation to support using the co-borrower's alleged income.

- **FHA case number 374-5547340.** In 2011, HUD informed Chase that "[t]he borrower's income/employment was not properly documented" (specifically, "[t]he file did not contain Verifications of Employment"), and that "[d]ebts were omitted from the borrower's total debt to income ratio."

- **FHA case number 446-0021826.** In 2011, HUD informed Chase that Chase had "failed to accurately document the source of funds used by the borrower to qualify for the loan. Specifically, the lender failed to provide evidence of the $80,000 gift funds."

- **FHA case number 374-5547340.** In 2011, HUD informed Chase that a significant debt had been improperly omitted from the borrowers' debt-to-income ratio (no leases were provided to substantiate the claim that rental income would offset the omitted mortgage debt).

* * * * *

153. In short, during the Covered Period, Chase engaged in reckless underwriting practices, and falsely certified that thousands of loans were eligible for government insurance or refinancing when they were not. As a result of Chase's false certifications, the United States has suffered substantial losses in connection with claims that HUD and the VA have paid on defaulted mortgage loans that were not eligible for government insurance or refinancing.

154. The United States Department of Justice ("DOJ") learned the facts material to its claims against Chase related to the bank's reckless underwriting of FHA loans no earlier than 2011, when the United States Attorney's Office for the Southern District of New York ("USAO for the SDNY") commenced an investigation into Chase's FHA lending practices.

155. DOJ learned the facts material to its claims against Chase related to the bank's reckless underwriting of VA loans no earlier than 2013, when the above-captioned *qui tam* action was filed.

## IV. CHASE FAILED TO SELF-REPORT TO HUD 582 FHA LOANS THAT IT IDENTIFIED AS HAVING SERIOUS DEFICIENCIES OR SIGNS OF FRAUD

156. As discussed above, Chase was required to report to HUD any loans that, during its post-closing reviews, it identified as having been affected by fraud or other material deficiencies. HUD Handbook 4060.1, REV-1, CHG-1. Chase was required to report these loans within 60 days of "initial discovery." *Id.* Yet, for many years, Chase largely ignored this requirement and self-reported a paltry number of loans. For instance, Chase reported only 25 loans in 2007 and 50 loans in 2008 (out of the more than 15,000 loans it originated during those years).

157. During the three-year period from January 2007 through December 2009, Chase self-reported only 210 loans. However, during that same period, Chase identified another 582 loans that it concluded were affected by borrower or correspondent fraud or other material deficiencies, but that it failed to bring to HUD's attention until March 2012 — after it had received notice that the USAO for the SDNY was investigating its FHA lending practices. By the time Chase got around to self-reporting these loans, many of the loans had already defaulted and HUD had already paid Chase approximately $50 million in FHA insurance claims on the defaulted loans.

158. Because Chase failed to fulfill its self-reporting obligation with respect to the 582 loans, HUD was deprived of the opportunity to seek reimbursement or indemnification on the loans. Had HUD known of Chase's failure to comply with its self-reporting obligation, it would not have paid any insurance claims on the 582 loans.

159. Notably, in May 2011, Chase belatedly self-reported to HUD seven loans that, in 2008 and 2009, it had identified as having been affected by borrower or correspondent fraud or other material deficiencies. In response, by letter dated August 4, 2011, HUD informed Chase

that it would not pay any insurance claims on these loans and counseled Chase that it was required to self-report loans within 60 days of discovering that they reflected "[s]erious deficiencies, patterns of non-compliance, or fraud." Even after receiving this letter, Chase waited another six months before bringing the 582 loans at issue here to HUD's attention.

160. DOJ learned the facts material to its claims against Chase related to the bank's failure to self-report the 582 loans no earlier than 2012, when DOJ first learned that Chase had brought the loans to HUD's attention.

## FIRST CLAIM

### Violations of the False Claims Act (31 U.S.C. § 3729(a)(1) (2006), and, as amended, 31 U.S.C. § 3729(a)(1)(A)) Presenting or Causing False Claims to Be Presented (Reckless Underwriting)

161. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

162. The Government seeks relief against Chase under Section 3729(a)(1) of the FCA, 31 U.S.C. § 3729(a)(1) (2006), and, as amended, Section 3729(a)(1)(A) of the FCA, 31 U.S.C. § 3729(a)(1)(A).

163. As set forth above, during the Covered Period, Chase knew, or should have known, that it was regularly approving for government insurance and refinancing a substantial number of loans that were not eligible for such insurance or refinancing. Nonetheless, Chase certified that its entire portfolio of FHA and VA loans was eligible for government insurance or refinancing, and thereby falsely certified that thousands of FHA and VA loans were eligible for insurance or refinancing when they were not.

164. Chase knowingly, or acting with deliberate ignorance and/or with reckless disregard for the truth, presented or caused to be presented false or fraudulent claims for payment

or approval. Chase did so by, among other things, submitting false individual loan certifications to HUD and the VA, which prompted HUD and the VA to accept loans for government insurance and refinancing that did not qualify for such insurance or refinancing.

165. HUD and the VA have paid claims, and incurred losses, on FHA and VA loans because Chase falsely certified that they were eligible for government insurance or refinancing.

166. By reason of the foregoing, the Government has been damaged in a substantial amount to be determined at trial, and is entitled to treble damages and a civil penalty as required by law for each violation.

## SECOND CLAIM

**Violations of the False Claims Act**
**(31 U.S.C. § 3729(a)(2) (2006), and, as amended, 31 U.S.C. § 3729(a)(1)(B))**
**Use of False Statements in Support of False Claims (Reckless Underwriting)**

167. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

168. The Government seeks relief against Chase under Section 3729(a)(2) of the FCA, 31 U.S.C. § 3729(a)(2) (2006), and, as amended, Section 3729(a)(1)(B) of the FCA, 31 U.S.C. § 3729(a)(1)(B).

169. As set forth above, during the Covered Period, Chase knowingly, or acting in deliberate ignorance and/or with reckless disregard of the truth, made, used, or caused to be made or used, false records and/or statements material to false or fraudulent claims in connection with thousands of FHA and VA loans that Chase falsely certified were eligible for government insurance or refinancing. Specifically, during the Covered Period, Chase submitted thousands of false individual loan certifications to HUD and the VA representing, among other things, that each loan was eligible for government insurance or refinancing.

170. HUD and the VA have paid claims, and incurred losses, on FHA and VA loans because Chase falsely certified that they were eligible for government insurance or refinancing.

171. By reason of the foregoing, the Government has been damaged in a substantial amount to be determined at trial, and is entitled to treble damages and a civil penalty as required by law for each violation.

## THIRD CLAIM

### Violations of the False Claims Act (31 U.S.C. § 3729(a)(1) (2006), and, as amended, 31 U.S.C. § 3729(a)(1)(A)) Presenting or Causing False Claims to Be Presented (Self-Reporting)

172. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

173. The Government seeks relief against Chase under Section 3729(a)(1) of the FCA, 31 U.S.C. § 3729(a)(1) (2006), and, as amended, Section 3729(a)(1)(A) of the FCA, 31 U.S.C. § 3729(a)(1)(A).

174. As set forth above, from 2007 through 2012, Chase failed to self-report to HUD at least 582 loans that it knew failed to meet the FHA loan program parameters, contained an unacceptable level of risk, and were not eligible for FHA insurance. Moreover, Chase submitted claims for, and was paid FHA insurance on, a substantial number of the loans.

175. Chase knowingly, or acting with deliberate ignorance and/or with reckless disregard for the truth, presented or caused to be presented false or fraudulent claims for payment or approval. Chase did so by, among other things, submitting false individual loan certifications to HUD for the above-referenced loans and then failing to self-report the loans, which the bank had internally identified as needing to be self-reported.

176. HUD has paid claims, and incurred losses, on a subset of the above-referenced loans that Chase falsely certified were eligible for government insurance and then wrongfully failed to self-report.

177. By reason of the foregoing, the Government has been damaged in a substantial amount to be determined at trial, and is entitled to treble damages and a civil penalty as required by law for each violation.

## FOURTH CLAIM

### Violations of the False Claims Act (31 U.S.C. § 3729(a)(2) (2006), and, as amended, 31 U.S.C. § 3729(a)(1)(B)) Use of False Statements in Support of False Claims (Self-Reporting)

178. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

179. The Government seeks relief against Chase under Section 3729(a)(2) of the FCA, 31 U.S.C. § 3729(a)(2) (2006), and, as amended, Section 3729(a)(1)(B) of the FCA, 31 U.S.C. § 3729(a)(1)(B).

180. As set forth above, Chase knowingly, or acting with deliberate ignorance and/or with reckless disregard for the truth, made, used, or caused to be made or used, false records and/or statements material to false or fraudulent claims in connection with at least 582 loans that it knew failed to meet the FHA loan program parameters, contained an unacceptable level of risk, and were not eligible for FHA insurance, but that it nevertheless failed to self-report.

181. During the Covered Period, Chase made numerous false statements, and used numerous false records to prompt HUD to pay false claims for FHA insurance, in connection with the above-referenced loans. These false statements and false records include, but are not limited to, (1) individual loan certifications for the 582 loans that Chase identified as needing to

be self-reported, and (2) Chase's self-reports of loans to HUD from 2007 through 2012, which omitted at least 582 loans that the bank had identified as needing to be self-reported.

182. HUD has paid claims, and incurred losses, on a subset of the above-referenced loans that Chase falsely certified were eligible for government insurance and then wrongfully failed to self-report.

183. By reason of the foregoing, the Government has been damaged in a substantial amount to be determined at trial, and is entitled to treble damages and a civil penalty as required by law for each violation.

## FIFTH CLAIM

### Violations of the False Claims Act (31 U.S.C. § 3729(a)(7) (2006), and, as amended, 31 U.S.C. § 3729(a)(1)(G)) Reverse False Claims (Self-Reporting)

184. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

185. The Government seeks relief against Chase under Section 3729(a)(7) of the FCA, 31 U.S.C. § 3729(a)(7) (2006), and, as amended, Section 3729(a)(1)(G) of the FCA, 31 U.S.C. § 3729(a)(1)(G).

186. As set forth above, Chase knowingly, or acting in deliberate ignorance and/or with reckless disregard of the truth, made, used, or caused to be made or used, false records and/or statements material to an obligation to pay or transmit money or property to the United States, and/or knowingly, or acting in deliberate ignorance and/or with reckless disregard of the truth, made, used, or caused to be made or used, false records and/or statements to conceal, avoid, or decrease an obligation to pay or transmit money or property to the United States. These false statements and false records include, but are not limited to, (1) individual loan

certifications for the 582 loans that Chase identified as needing to be self-reported, and (2) Chase's self-reports of loans to HUD from 2007 through 2012, which omitted at least 582 loans that the bank had identified as needing to be self-reported.

187. HUD has paid claims, and incurred losses, on a subset of the above-referenced loans that Chase falsely certified were eligible for government insurance and then wrongfully failed to self-report.

188. By reason of the foregoing, the Government has been damaged in a substantial amount to be determined at trial, and is entitled to treble damages and a civil penalty as required by law for each violation.

## SIXTH CLAIM

### Breach of Fiduciary Duty

189. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

190. During the Covered Period, HUD and Chase, and the VA and Chase, had a special relationship of trust and confidence by virtue of Chase's participation in HUD's Direct Endorsement Lender program and the VA's Home Loan Guaranty program. These programs empowered Chase to obligate HUD and the VA to insure and guarantee loans that the bank issued without any independent review by HUD or the VA. Chase was therefore in a position of advantage or superiority in relation to HUD and the VA, and was a fiduciary of HUD and the VA.

191. As a fiduciary, Chase had a duty to act for, and give advice to, HUD and the VA for the benefit of HUD and the VA as to whether loans should be insured/guaranteed by the FHA and the VA, or approved for refinancing.

192. As a fiduciary, Chase had an obligation to act in the utmost good faith, candor, honesty, integrity, fairness, undivided loyalty, and fidelity in its dealings with HUD and the VA.

193. As a fiduciary, Chase had a duty to exercise sound judgment, prudence, and due diligence on behalf of HUD and the VA in approving loans for government insurance and refinancing.

194. As a fiduciary, Chase had a duty to refrain from taking advantage of HUD or the VA by the slightest misrepresentation, to make full and fair disclosures to HUD and the VA of all material facts, and to use reasonable care to avoid misleading HUD and the VA in all circumstances.

195. As set forth above, Chase breached its fiduciary duties to HUD and the VA.

196. As a result of these breaches, HUD and the VA have paid claims and incurred losses relating to thousands of loans that Chase wrongfully approved for government insurance or refinancing.

197. By reason of these breaches, the Government is entitled to compensatory damages in an amount to be determined at trial.

## SEVENTH CLAIM

### Gross Negligence

198. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

199. Chase owed HUD and the VA a duty of reasonable care and a duty to conduct due diligence in connection with the loans it approved for government insurance and refinancing.

200. As set forth above, Chase breached its duties to HUD and the VA.

201. As set forth above, Chase recklessly disregarded its duties to HUD and the VA.

202. As a result of Chase's gross negligence, HUD and the VA have paid claims and incurred losses relating to thousands of loans that Chase wrongfully approved for government insurance or refinancing.

203. By reason of this gross negligence, the Government is entitled to compensatory and punitive damages, in an amount to be determined at trial.

## EIGHTH CLAIM

### Negligence

204. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

205. Chase owed HUD and the VA a duty of reasonable care and a duty to conduct due diligence in connection with the loans it approved for government insurance and refinancing.

206. As set forth above, Chase breached its duties to HUD and the VA.

207. As a result of Chase's negligence, HUD and the VA have paid claims and incurred losses relating to thousands of loans that Chase wrongfully approved for government insurance or refinancing.

208. By reason of this negligence, the Government is entitled to compensatory damages, in an amount to be determined at trial.

## NINTH CLAIM

### Unjust Enrichment

209. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

210. Chase submitted, and HUD and the VA paid to Chase, claims in connection with defaulted mortgage loans that the bank falsely certified were eligible for government insurance or refinancing.

211. By reason of these payments by HUD and the VA, Chase was unjustly enriched. The circumstances of Chase's receipt of the above-referenced payments are such that in equity and good conscience Chase should not retain the payments, in an amount to be determined at trial.

## TENTH CLAIM

### Payment Under Mistake of Fact

212. The Government incorporates by reference each of the preceding paragraphs as if fully set forth in this paragraph.

213. The Government seeks relief against Chase to recover payments made under mistake of fact.

214. Chase submitted, and HUD and the VA paid to Chase, claims in connection with defaulted mortgage loans that the bank falsely certified were eligible for government insurance or refinancing.

215. HUD and the VA made payments to Chase under the mistaken belief that the defaulted loans had been eligible for government insurance or refinancing, and that the bank had been exercising due diligence in its underwriting. HUD also made payments to Chase under the mistaken belief that the bank had been self-reporting loans as required.

216. By reason of these payments by HUD and the VA, the Government has been damaged in a substantial amount to be determined at trial.

WHEREFORE, the Government respectfully requests that judgment be entered in its favor and against Chase as follows:

a. For treble the Government's damages;

b. For compensatory damages;

c. For punitive damages;

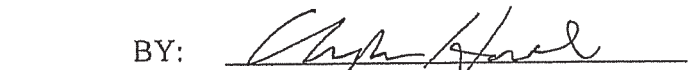
d. For such civil penalties as are required by law;

e. For costs pursuant to 31 U.S.C. § 3729(a); and

f. For such further relief as the Court deems proper.

Dated: New York, New York
January 31, 2014

PREET BHARARA
United States Attorney for the
Southern District of New York
Attorney for the United States

BY: 

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