Regulators Prepare Penalties for JPMorgan

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Two federal regulators are preparing a series of enforcement actions and fines against JPMorgan Chase stemming from its dealings with consumers during the recession in the latest legal woes facing the nation's biggest bank.

The regulators, the Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau, plan to announce the actions as soon as next month, according to people briefed on the matter. Under the terms of the civil orders, the bank will have to acknowledge internal flaws and dole out at least $80 million in fines, said the people, who spoke anonymously because they were not authorized to speak publicly about the matter.

The most costly cases for JPMorgan center on concerns that the bank duped its credit card customers into buying products pitched as a way to shield them from identity theft. In separate actions reflecting their varied jurisdictions, the consumer bureau will levy a roughly $20 million fine, while the comptroller's office is expected to extract about $60 million.

In another set of actions, the regulators are aiming at the bank for the way it collected overdue bills from consumers, the people said. It is unclear whether those cases will yield any fines.

Even if some fines are assessed, those penalties will barely nick the bottom line of the bank, which earned record profits in recent quarters. Yet the actions represent one element of a broader federal crackdown on JPMorgan.

In a public filing this month, JPMorgan disclosed to investors a bevy of pending investigations from federal authorities scrutinizing the bank's financial crisis-era mortgage business and its multibillion-dollar trading loss in London last year. In the filing, the bank also acknowledged the pending cases related to identity theft and that the regulators had decided to penalize the bank over its "operational processes and control functions related to collections litigation practices."

On Tuesday, the bank declined to comment on the looming enforcement actions from the consumer bureau and the comptroller. Representatives for the agencies also declined to comment.

Both sets of cases zero in on the bank's credit card business.

The regulators are investigating reports that the bank sold credit card customers, through a third-party vendor, the identity-theft protection with false promises. The investigation focused partly, the people briefed on the matter said, on whether the bank or its vendor had misled customers into thinking that the product was free, mandatory and would bolster credit scores.

Last year, the Hawaii attorney general sued JPMorgan and six other large banks over claims that the lenders had employed unfair and deceptive sales tactics to improperly pitch similar so-called add-on products. That case is still pending.

People close to JPMorgan say it no longer sells the identity-theft product in question.

The other federal actions spring from an investigation into debt collection lawsuits the bank filed against its credit card customers from 2009 to 2011, the people said. As JPMorgan plowed through a glut of overdue credit card bills and other loans, authorities suspect, the bank deluged state courts with lawsuits that used faulty documentation to substantiate the amount owed by consumers. Often, the bank relied on outside law firms without double-checking their work.

The comptroller's office, in a preliminary review, spotted errors in about 9 percent of monetary judgments the bank won against consumers, the people close to the matter said, adding that the action was not yet final and the details could change. In nearly all those cases, however, the consumers never paid the bank the full amount owed.

The case from the consumer bureau and the comptroller, Thomas J. Curry, comes after a similar lawsuit from the California attorney general, who accused the bank in May of committing "debt collection abuses against tens of thousands of California consumers." JPMorgan, the attorney general said, took shortcuts when filing thousands of lawsuits each month to collect soured credit card debt.

JPMorgan, which has moved to dismiss that case, has decided not to file any new collection lawsuits until executives can verify that the cases are filed correctly. In courts across the nation, according to judges and lawyers, JPMorgan has also dropped pending collection lawsuits.

The questionable debt collection practices recalled some of the tactics banks used to foreclose on homes during the mortgage crisis. Those problems — like robo-signing, where bank employees and outside lawyers churned through piles of foreclosures without vetting them for errors — were at the center of a wide-ranging settlement this year between the nation's biggest banks and the comptroller's office. Under that settlement, JPMorgan analyzed roughly 900,000 troubled mortgages and agreed to pay more than $750 million in cash and $1.2 billion in other relief to homeowners.

Until now, unlike the foreclosure practices, banks' pursuit of credit card and other consumer debts have fallen into something of a regulatory gulf. The primary federal law that governs how companies pursue consumers behind on their bills does not apply to lenders like JPMorgan. Instead, it polices third-party debt collection firms.

But the Dodd-Frank financial overhaul law, a 2010 law that regulators are beginning to apply, emboldened federal authorities to take a tougher stance with lenders. In July, Richard Cordray, the director of the Consumer Financial Protection Bureau, warned at a public hearing that the agency under Dodd-Frank had the authority to prohibit banks from employing any "unfair, deceptive or abusive acts."

“It doesn’t matter who is collecting the debt — unfair, deceptive or abusive practices are illegal,” Mr. Cordray said at the time.

The dual enforcement actions from Mr. Cordray and Mr. Curry come at a precarious time for JPMorgan, once a darling in regulatory circles. The bank is already at the center of investigations by a spate of federal agencies, a state regulator and two foreign nations.

The latest matter to surface is a bribery investigation by the Securities and Exchange Commission into JPMorgan’s hiring practices in China. The agency is examining whether the bank hired the children of powerful Chinese officials to help it secure lucrative business in the country, according to a confidential copy of an S.E.C. document reviewed by The New York Times.

The bank is also under the spotlight for a trading blowup in London that generated more than $6 billion in losses. On Tuesday, a former JPMorgan trader was arrested in Spain, weeks after the United States government charged him and another former bank employee with cloaking the trading losses.

The arrest is the latest development in a case that came to be known as the “London Whale.” The losses, which originated from a soured bet on derivatives, spurred Congressional hearings and several investigations.

In one of them, the S.E.C. is looking to win a rare admission of wrongdoing from the bank related to the losses. A settlement, which is expected to include a fine in the hundreds of millions of dollars, could be reached as early as this fall, according to people briefed on the matter. The penalties have not been made final, these people said.

Beyond the trading losses, JPMorgan is grappling with civil and criminal investigations in California related to the bank’s mortgage business during the financial crisis. In the quarterly filing this month, JPMorgan said the civil division of the United States attorney’s office for the Eastern District of California was investigating whether the bank sold shoddy mortgage securities to investors.

JPMorgan’s mortgage business also landed it in the cross hairs of a housing regulator. The Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, accused JPMorgan and 17 other banks of selling mortgage securities that later imploded. The housing regulator balked at JPMorgan’s offer to settle, people briefed on the matter said, a setback that could foreshadow a big fine.

Jamie Dimon, the bank’s chief executive, has apologized for letting “our regulators down” and vowed to “do all the work necessary to complete the needed improvements.”

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