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J.P. Morgan Chase's Ugly Family Secrets Revealed

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Global Research, March 17, 2012
Rolling Stone 17 March 2012

Region: USA
Theme: Global Economy

In a story that should be getting lots of attention, *American Banker* has released an excellent and disturbing exposé of J.P. Morgan Chase's credit card services division, relying on multiple current and former Chase employees. One of them, Linda Almonte, is a whistleblower whom I've known since last September; I'm working on a recount of her story for my next book.

One of the things we were promised by the lawmakers who passed the Dodd-Frank reform bill a few years back is that this would be a new era for whistleblowers who come forward to tell the world about problems in our financial infrastructure. This story now looms as a test case for that proposition. *American Banker* reporter Jeff Horwitz did an outstanding job in this story detailing the sweeping irregularities in-house at Chase, but his very thoroughness means the news may have ramifications for Linda, which is why I'm urging people to pay attention to this story in the upcoming weeks.

The Cliff's Notes version of the story goes something like this: Late in 2009, Chase's credit card services division sold a parcel of nearly $200 million worth of credit card judgments to a debt collector at a discount. This common practice in the credit-card industry is a little like a bookie selling the outstanding debts of his delinquent gamblers to a leg-breaker for 25 cents on the dollar. If the leg-breaker gets half the delinquents to pay, the deal works out for both sides — the bookie gets 25 percent of money he wasn't going to collect, and the leg-breaker makes a 100 percent profit.

In the case of credit cards, of course, you're selling the debts to collection agents, not leg-breakers, but aside from that unpleasantly minor distinction the process is the same. The most valuable kinds of sales in this world are sales of credit card judgments, in other words accounts in which the debtor has already been successfully brought to court. That, ostensibly, is what this bloc of accounts Chase sold in 2009 involved.

Almonte came to Chase in the summer of 2009 as a mid-level executive in the credit card services division's offices in San Antonio, and was quickly put in charge of preparing the documentation for this enormous sale of credit card judgments. When Chase regional offices from places like southern California and Illinois began sending in the papers for these "judgments," Almonte very soon found out that something was seriously wrong. From Horwitz's piece:

> Nearly half of the files [Linda's] team sampled were missing proofs of judgment or other essential information, she wrote to colleagues. Even more worrisome, she alleged in her wrongful-termination suit, nearly a quarter of the files misstated how much the borrower owed.

> In the "vast majority" of those instances, the actual debt was "lower that what Chase was representing," her suit stated.

Linda subsequently found an enormous range of errors. Some judgments, she told me, were not judgments at all. In some cases, she said, Chase actually owed the customer money.

When she brought these concerns to her superiors, what do you think their response was? They told her and others to shut up and just sell the stuff anyway. Her boss, Jason Lazinbat, allegedly told her "she had better go along with the plan to sell the misrepresented asset."

Think of the consequences of this: because Chase was so anxious to make money off this debt sale, countless credit card borrowers would now have collection agents chasing them for money they did not owe. The debt-buyer, too, was victimized by being sold accounts it could not collect on. It is almost impossible to estimate how many man-hours of pointless court proceedings would be lost because of this decision.

Anyway, when Linda refused to go along with the sale, she was fired. This was in November of 2009. She then went through a post-firing odyssey that is an epic tale in itself: her many attempts to get any of the major bank regulators interested in this case were disturbingly fruitless for a long time (although the Office of the Comptroller of the Currency is apparently looking into it now), and she struggled to find work in the industry.

She has been repeatedly harassed and has gone through all sorts of personal hardship as a result of this incident. She filed a whistleblower claim with the SEC as part of the new whistleblower program created by Dodd-Frank, but so far there's been no progress there.

When I met Linda last year, my first reaction to her story was that I was skeptical. The tale she told went far beyond the bank knowingly selling millions of dollars worth of errors into the financial system. She also recounted, firsthand, the bank's elaborate robosigning operation, which Horvitz, talking to other Chase employees, also discussed:

> "We did not verify a single one" of the affidavits attesting to the amounts Chase was seeking to collect, says Howard Hardin, who oversaw a team handling tens of thousands of Chase debt files in San Antonio. "We were told [by superiors] 'We're in a hurry. Go ahead and sign them.'"

And there were other stories…suffice to say that the picture Linda painted of life inside Chase reminded me a little of Upton Sinclair's *The Jungle*: they were putting just about everything into those sausages. When I was writing it all up for my book I went through a period where I was waking up nights, seized with the urge to close every credit account I had – her story makes you think that most credit card companies are essentially indistinguishable from giant identity theft operations.

Again, though, when I first heard the story, I was skeptical – until I found other people in the company who verified Almonte's account, all the way down the line. Horvitz, too, found numerous employees in Chase's credit card services division who confirmed the story of the company knowingly selling a mountain of errors into the market, and manufacturing robo-signed documents to the tune of thousands per week.

The financial crash wouldn't have happened if even a slim plurality of financial executives had done what Linda Almonte did, i.e. simply refuse to sign off on a bogus transaction. If companies had merely upheld their own stated policies and stayed within the ballpark of the law, none of these messes could have accumulated: fraudulent mortgages wouldn't have been sold, families wouldn't have been foreclosed upon based on robo-signed documentation, investors wouldn't have been duped into buying huge packets of "misrepresented assets."

But most executives didn't refuse to go along, precisely because powerful companies make it so hard on people who come forward. Almonte, after being fired, entered into a modest settlement with Chase that prohibited her from coming forward publicly. At the time she entered into the settlement she was in an extremely desperate state, and she made a bad decision, taking a very bad deal.

Still, like Jeffery Wygand, the tobacco scientist from the movie *The Insider*, she was sitting on top of a story that, morally speaking, should not ever be protected by a confidentiality agreement — and the subsequent lack of regulatory action eventually moved her to speak out to people like Horvitz and me. Of course, now that her story is out there in public, the concern is that the bank will move swiftly to take her to court.

This person does not have any money, so an action by Chase at this point would be purely punitive, to send a message to future whistleblowers. They'll be more likely to do it if they think no one is paying attention. I'll keep you posted on that score.

In the meantime, please check out Horvitz's piece. It should give everyone who has a credit card pause.

The original source of this article is [Rolling Stone]

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