JP MORGAN TO PAY $92 MILLION FOR BOND BID RIGGING, AG COOPER ANNOUNCES

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Settlement includes restitution for Charlotte, Wake County and NCSU

Raleigh: JP Morgan Chase will pay $92 million to North Carolina and 20 other states as part of a multistate settlement for its part in a bid rigging scheme that defrauded local governments and schools, Attorney General Roy Cooper said Thursday.

“At a time when every dollar counts, this scheme unfairly kept money from local governments and schools,” Cooper said. “I’m pleased that those in North Carolina who were harmed will finally get their money.”

The settlement resolves allegations that JPMC defrauded state agencies, cities and towns, schools and non-profits that purchased a type of investment through the bank called municipal bond derivatives. Under the settlement, governments and non-profits that were injured by the scheme will get money back, including a total of $126,326 to Charlotte, Wake County and North Carolina State University.

As part of the multistate settlement, JPMC has agreed to pay $65.5 million in restitution to affected state agencies, municipalities, school districts and non-profits nationwide that entered into municipal derivative contracts with the company between 2001 and 2005. In addition, JPMC will pay $9.5 million in penalties and fees to be divided among North Carolina and the other states involved in the case.

The states’ settlement is part of a global settlement worth $228 million that JPMC is entering into with the U.S. Securities and Exchange Commission, the Office of the Comptroller of the Currency, the U.S. Department of Justice, the Internal Revenue Service and the Federal Reserve Board.

This is the third settlement Cooper’s office has reached regarding municipal bond derivatives in the past year. In December 2010, Bank of America agreed to pay $3.4 million to North Carolina local governments, schools and non-profits as part of a $67 million multistate settlement. In May 2011, UBS agreed to pay $252,995 to entities in North Carolina as part of a $90.8 million multistate settlement.

Governments and non-profits use municipal investment derivatives to reinvest the proceeds from tax-exempt bond offerings until the funds are needed or to guard against fluctuating interest rates. In April 2008, North Carolina and the other states began investigating allegations that some banks, insurance companies, brokers and swap advisors had engaged in deceptive and fraudulent conduct in the municipal bond derivatives market.

The ongoing investigation has so far revealed that JPMC, UBS and Bank of America along with certain brokers kept the process from being fair by rigging bids and submitting non-competitive courtesy bids.

The alleged schemes enriched financial institutions or brokers at the expense of state agencies, towns, cities, school districts, non-profits and the taxpayers who fund them. As a result, governments and non-profits got artificially low rates of return on these investments or paid higher rates than they should have.
“Bid rigging prevents fair competition,” Cooper said. “Companies can do business the right way and still make a profit.”

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