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JPM Chase Quietly Halts Suits Over Consumer Debts

By Jeff Horwitz
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JPMorgan Chase & Co. has quietly ceased filing lawsuits to collect consumer debts around the nation, dismissing in-house attorneys and virtually shutting down a collections machine that as recently as nine months ago was racking up hundreds of millions of dollars in monthly judgments.

A sampling of court records in the major cities in five states shows that Chase collection suits have virtually disappeared. In a sixth state, Illinois, contract attorneys continue to file small-dollar cases, though at a reduced rate.

It is unclear whether Chase has stopped pursuing collection on many claims nationwide, or if intends to pursue the debts in some other fashion. The bank has not explained its apparent moratorium and declined comment.

Chase's halt does, however, follow scattered defeats in state courts and a whistle-blower's allegation that it falsely overstated the balances of thousands of delinquent accounts it sold to a third party. Former Chase employees and debt collection experts insist that the bank would not have abruptly retreated from its collections efforts in the absence of trouble.

In a sign that Chase acted with urgency, numerous regional collections teams were fired in mid-2011 at the order of the New York bank's headquarters, according to people familiar with the events.

"Nobody told anybody anything. It was very traumatic," says a former Chase attorney who asked to remain anonymous because of a nondisclosure agreement. "I think there were investigations by the [Office of the Comptroller of the Currency] and other government entities. If we're not there, we can't be interviewed."

The OCC declined to comment. Chase declined to say whether its moves were related to government investigations or legal concerns. In an email to *American Banker*, a spokesman for the bank called its collection strategy "proprietary."

Chase and other credit card issuers have historically filed lawsuits to compel consumers to repay defaulted loans. Such suits typically involve only a few thousand dollars each, but en masse add up; Chase recovered $1.4 billion from defaulted credit card accounts last year, according to its financial filings with the Securities and Exchange Commission. (Not all of that necessarily came from judgments.)

Jerry Salzberg, a lawyer who represents debt collectors and banks in the Chicago area, was familiar with Chase's dismissed Illinois collections attorneys, whom he describes as experienced, productive and profitable.

"Someone from New York brought in the three lawyers, kicked them out with no warning and dismissed all their cases," Salzberg says. "These were people who were by the book. ... If they weren't the most profitable [of Chase's regional collection teams], they sure as hell were making a lot of money for the bank. ... Obviously something happened."

Chase collections cases have dropped off sharply in Illinois in recent months, in addition to disappearing in five other states, an American Banker review indicates. The review focused on California, Florida Maryland, New York and Washington, where local court records are electronically searchable.

In Dade County, Florida, which includes Miami, Chase filed 640 collections claims in January 2011, most seeking between $3,000 and $12,000. On Jan. 4 alone it filed suits seeking over $200,000, which represents a rate of $50 million annually.

But in April of last year, Chase ceased filing claims altogether in Dade County. That month, *The Wall Street Journal* first reported that Chase had dropped "more than a thousand" consumer debt cases around the country. Some contract attorneys cited documentation irregularities for the move, the paper reported.

Robo-signing, or the high-volume production of signed legal documents, has been a key element of the governmental and media foreclosure reviews. Chase's current pullback raises at least the possibility that at least some banks may have documentation problems in other business lines.

Academics and attorneys who defend consumers against debt claims have leveled their heaviest criticism at collection agencies rather than banks themselves. The agencies allegedly seek on a regular basis to collect debts in the absence of legitimate documentation. Efforts to collect a bank's own debt generally have been regarded by consumer advocates as more credible than those by collections agencies, which pursue secondhand claims.

"If sloppy record keeping and problems with false affidavits is a problem with mortgages, it's 100 times bigger in credit card accounts," says Michelle Weinberg of the Legal Assistance Foundation of Metropolitan Chicago. Even so, Weinberg says, "On documentation issues, it wouldn't occur to me that Chase wouldn't be able to prove up its own account."

So far judges have questioned the validity of banks' own consumer debt records in only a few low-profile cases. However, a whistle-blower claim settled last year raises further questions.

Linda Almonte, a former team leader in Chase's San Antonio credit card services division, accused the bank of firing her for objecting to the sale of $200 million in legal judgments obtained by bank attorneys. Half the accounts lacked adequate documentation of judgment and one-sixth listed the wrong amounts owed, Almonte claimed in a suit filed in U.S. District Court for the Western District of Texas.

In its response, Chase did not dispute inaccuracies in the debt balances and documentation. Instead, it said its sales agreement allowed for errors and thus was proper. "[T]he parties explicitly agreed that the judgments were purchased 'as is' and "with all faults," Chase's attorney wrote.

Chase was unsuccessful in getting the case dismissed and settled it on undisclosed terms last April; it ceased filing new consumer debt lawsuits in many states the same month.

Should Chase stop pursuing such claims for any reason, the move could prove costly. The threat of litigation has an unquantifiable but significant influence on consumers' decisions to pay off their debts. What's more, even partial recoveries can be substantial and may already be declining as the result of Chase's pullback. After recouping $405 million in the first quarter of 2011, Chase's recoveries fell to $321 million in the second quarter and $266 million in the third quarter.

It is hard to say whether the absence of new suits has contributed to the decline. Credit card recoveries tend to be volatile and lag writeoffs. In the absence of its own collections activities, Chase could also be recouping money selling delinquent loans to collections agencies who then seek recoveries on their own. But a search for defendants in 10 cases that Chase dropped this spring did not uncover any surrogate claims.

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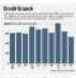

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