UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Mortgage Resolution Servicing, LLC, 1st Fidelity Loan Servicing, LLC, and S&A Capital Partners, Inc., Plaintiffs, -against- JPMorgan Chase Bank, N.A., Chase Home Finance LLC, and JPMorgan Chase & Co., Defendants.	INDEX NO. 15-CV-293-LTS-JCF

PLAINTIFF'S RICO CASE STATEMENT PURSUANT TO THE INITIAL CONFERENCE ORDER

Pursuant to Paragraph 3 of the Court's January 22, 2015 Initial Conference Order (Doc. 6), Mortgage Resolution Servicing, LLC ("MRS"), 1st Fidelity Loan Servicing, LLC ("1st Fidelity"), and S&A Capital Partners, Inc. ("S&A") (collectively, "Plaintiffs" or the "Schneider Entities") hereby submit this RICO Case Statement. The allegations in the Amended Complaint are supported by a substantial amount of evidence already in Plaintiffs' possession. However, due to the nature of the fraud and wrongdoing alleged in the Amended Complaint, a significant amount of additional relevant information is exclusively within Defendants' possession and will only be available to Plaintiffs after discovery. Therefore, Plaintiffs reserve the right to amend this RICO Case Statement as discovery progresses and further information is learned.

a. State whether the alleged unlawful conduct is in violation of 18 U.S.C. §§ 1962(a), (b), (c) and/or (d).

Plaintiffs assert claims for violations of 18 U.S.C. §§ 1962(c). Plaintiffs allege that Defendants violated 18 U.S.C. § 1962(c) by conducting or participating in the conduct of an enterprise's affairs through a pattern of racketeering activity involving mail and wire fraud and obstruction of justice.

b. List each defendant and describe the alleged misconduct and basis of liability of each defendant.

Three defendants are named in this action: JPMorgan Chase & Co. ("JPMorgan"); JPMorgan Chase Bank N.A. ("Chase Bank") and Chase Home Finance, LLC ("Chase Home Finance") (collectively, "Chase" or "Defendants").[1]

i. Overview

Defendants' misconduct and liability stem from their scheme to evade their legal obligations and liabilities with respect to the proper servicing of federally related mortgages and requirements under certain consent orders, settlements and agreements that Defendants entered into with various branches of federal and state governments (the "Lender Settlements"). These obligations include numerous federal laws such as:

- the Real Estate Settlement Procedures Act (RESPA);
- the Truth in Lending Act (TILA);
- the Fair Trade Commission Act (FTC);
- the Fair Debt Collection Practices Act (FDCPA);
- the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank);
- the Equal Credit Opportunity Act; and
- the Fair Housing Act.

Defendants' unsafe and unsound practices related to mortgage servicing has been the focus of several consent orders issued by its "Prudential Regulators," including:

[1] Chase Home Finance served as Defendants' primary contact with Plaintiffs. Chase Home Finance merged into Chase Bank effective May 1, 2011. Accordingly, Chase Bank is liable for Chase Home Finance's misconduct.

- the Controller of the Currency (OCC);
- the Board of Governors of the Federal Reserve Board (FRB);
- the Federal Deposit Insurance Corporation (FDIC);
- the Securities and Exchange Commission (SEC); and
- the Consumer Financial Protection Bureau (CFPB).

ii. RCV1 Queue

Defendants' violations of servicing standards and the Lender Settlements arise from the process by which Defendants illicitly handled (and failed to service) defaulted mortgage loans that they deemed not to be profitable enough to foreclose. Since 2000, Defendants have removed these loans from their active servicing queue and concealed them within an unregulated queue known as the "RCV1." The RCV1 is a hidden secondary system of records maintained outside of Defendants' primary record system, and the loans contained therein are not maintained or serviced according to any servicing standards or requirements under applicable federal, state and local laws. Instead, the practices implemented by Defendants on the RCV1 population are focused on debt collection. Defendants seek to maximize revenue by converting residential mortgage loans into collection cases that are akin to bad credit card debt, and, in the process, ignore most, if not all, servicing obligations. In short, the RCV1 is a "no man's land" where mortgage loans and associated borrowers are intentionally mishandled in such a manner that compliance with regulatory requirements is impossible.

In an effort to evade liability for its legal violations stemming from and relating to the RCV1, Defendants sought to conceal this systematic misconduct by passing those loans on to others, including the Schneider Entities.

iii. Realization of Need to Sell Illegally Serviced Loans; EMC and WAMU

Though Defendants have regularly rid themselves of loans since 2000, Defendants' need to shed the loans in the RCV1 became more pronounced after JPMorgan acquired EMC Mortgage Corporation and Bear Stearns Companies LLC (collectively, "EMC") and WAMU-Henderson in 2008. As described in further detail in the Amended Complaint, in September 2008, the Federal Trade Commission ("FTC") filed a complaint against EMC asserting improper residential lending and loan servicing practices. To settle the charges, EMC ultimately agreed to pay $28 million, abide by servicing and foreclosure standards, and establish and maintain a comprehensive data integrity program. Though the FTC's complaint stated that the alleged activities predated JPMorgan's acquisition of EMC, JPMorgan realized that it had been, and was still, engaging in similar large scale mishandling of its own mortgage loans and was therefore exposed to significant potential liability.

Similarly, in September 2008, Chase Bank entered into an agreement with the FDIC as receiver for WAMU-Henderson. Chase Bank made a number of representations in its agreement with the FDIC, including that Chase Bank and its subsidiaries were in compliance with all applicable federal, state and local laws. However, at the time of execution and delivery of the agreement, Chase owned thousands of loans with respect to which, through its improper servicing and other misconduct relating to the RCV1, it was in violation of many federal and state laws. These circumstances created a further motive for Chase Bank to participate in the scheme to transfer thousands of noncompliant loans.

iv. 2008 and 2009 Legislation Compounds Chase's Problems; HAMP and MHA

Moreover, Chase has sought to, and still seeks to, benefit from incentive payments that were made available through the Making Home Affordable ("MHA") Program and Home Affordable Modification Program ("HAMP"). However, MHA and HAMP contain strict guidelines, which Chase could not and does not satisfy in light of its servicing failures relating to the RCV1 queue. The passage of additional legislation and adoption of regulations by the federal government between September 2008 and March 2009 further spurred the need for Defendants to quickly "dump" their problem loans, which, in addition to creating liability, would also have prevented Defendants from qualifying for incentive payments through the federal loan modification programs.

v. MLPA and Scapegoating the Enterprise

Thus, Defendants formulated a plan to transfer their most problematic loans. To effectuate this plan, JPMorgan coordinated the pattern of misconduct in its capacity as the holding company of which Chase Bank and Chase Home Finance are a part. The first part of Defendants' plan involved the execution of the Mortgage Loan Purchase Agreement ("MLPA"), through which Defendants sought to dump a large pool of Defendants' most problematic loans on Plaintiff MRS. As described in further detail in the Amended Complaint, using interstate mail and wires, JPMorgan and Chase Bank, through Chase Home Finance, proceeded to make numerous fraudulent misrepresentations to induce MRS to sign the MLPA. This included the fraudulent representation that all of the loans were in compliance with all applicable federal, state and local laws—a misrepresentation that was knowingly false, as the non-compliance of those loans was particularly what incentivized Chase to enter into the MLPA in the first instance. Defendants also fraudulently represented that the loans being sold were first lien mortgages and defined the loans as such, when, in fact, the loan pool included, inter alia, deficiency judgments.

Defendants' misconduct continued after the MLPA. Following the sale of loans to the Schneider Entities, Defendants, including through the use of interstate mail and wires, took various actions with respect to those loans that they had no right to take and that caused significant injury to the Schneider Entities. For example, Defendants have: (1) approved short sales on properties subject to loans that were previously sold to the Schneider Entities; (2) wrongfully directed enforcement agencies, who were seeking to investigate complaints by homeowners regarding Defendants' violations of servicing and other obligations, to the Schneider Entities as the responsible party; (3) sent written correspondence to borrowers of loans sold to the Schneider Entities, in which Defendants falsely represented that Defendants owned the loan at issue and/or Defendants' collection agency was the authorized servicer for the loans at issue; (4) contacted borrowers and falsely conveyed that Defendants had reacquired their loans, and that the borrowers should make payments to Defendants; and (5) failed to maintain and provide proper records for loans sold to the Schneider Entities, thereby impeding the Schneider Entities' ability to respond to borrower inquiries about such loans.

On September 19, 2011, Deloitte was engaged by Defendants to address the harms and unsafe or unsound practices that were identified in the 2011 Consent Orders. This process included examination of Defendants entire population of systems of records pertaining to its mortgage banking business to identify borrowers potentially harmed between January 1, 2009 and December 31, 2010. In addition to these criteria, Deloitte created a sampling methodology to both identify past harms and to structure a framework for testing loss mitigation procedures, including the determination whether a loan was foreclosed in accordance with the requirements of HAMP. They also created metrics, sampling and reporting requirements under a Quality Assurance ("QA") function.

vi. Chase Acts to Evade Lender Settlement Obligations

A. The National Mortgage Settlement Agreement ("NMSA") and Defendants' Efforts to Evade the Consent Judgment

Some of Defendants' more public improper actions prompted the federal government and many states in 2012 to bring a complaint against JPMorgan and Chase Bank, as well as other banks responsible for fraudulent and unfair mortgage practices that cost consumers, the federal government, and the states tens of billions of dollars. The complaint alleged that JPMorgan and Chase Bank, as well as other financial institutions, engaged in improper practices related to mortgage origination, mortgage servicing, and foreclosures, including, but not limited to, irresponsible and inadequate oversight of the banks' quality control standards. Unfortunately, the complaint failed to note, and the government appeared unaware of, the Defendants' deeper institutional directives designed to hide their improprieties (such as the establishment of the RCV1 and its true purpose).

The filing of this complaint led to the NMSA being entered into between the United States and Defendants in 2012. The operative document of this agreement was the Consent Judgment (one of the Lender Settlements). The Consent Judgment contains, among other things, Consumer Relief provisions that required JPMorgan and Chase Bank to provide over $4 billion in relief to their borrowers, including through loan forgiveness and refinancing. Under the Consent Judgment, Chase would receive "credits" towards its Consumer Relief obligations by forgiving or modifying loans it owned in accordance with the procedures and requirements contained in Exhibits D and D-1 of the Consent Judgment. In addition, under the Consent Judgment, Defendants were required to adhere to servicing standards for their mortgage loans through mandatory compliance with the Treasury Directives under the MHA Handbook.

From the outset, after entering into the Consent Judgment, Defendants, through a series of improper acts, sought to claim credits towards Consumer Relief obligations by targeting loans for release that did not actually qualify for the credits. Instead, many of those loans, maintained in the RCV1, were Defendants' least collectible and least valuable loans. Certain of those loans were no longer owned by Defendants but had been sold to the Schneider Entities.

B. Second Lien Extinguishment Program; Forgiveness Letters

In addition, after JPMorgan became a party to the Lender Settlements, which included settlements relating to servicing of residential mortgage loans, Defendants engaged in even more misconduct relating to loans sold to the Schneider Entities in an effort to evade obligations under those settlements. For example, in order to claim Consumer Relief benefits under the Lender Settlements to which Defendants were not entitled, between September 2012 and January 2013, Defendants mailed debt forgiveness letters (the "Forgiveness Letters") to thousands of defaulted borrowers whose loans were in the RCV1 queue, including borrowers whose loans Chase had previously sold to one or more of the Schneider Entities. As a result, a number of borrowers informed the Schneider Entities that they would no longer be making payments on their mortgages. The Schneider Entities have documentation to prove that Chase devised this part of its scheme with purposeful intent to evade Consent Judgment obligations.

C. RMBS Settlement; Lien Releases

In addition, JPMorgan is a party to that certain agreement (the "RMBS Agreement"), which related to the packaging, marketing, sale and issuance of residential mortgage-backed securities ("RMBS"). Pursuant to the RMBS Agreement, JPMorgan agreed to pay over $13 billion to the federal government and certain states which included $4 billion in consumer relief ("RMBS Consumer Relief"). The RMBS Consumer Relief was to be managed and enforced by a monitor (the "Monitor"). The Defendants' misrepresentation under the past Lender Settlements induced the government to enter into this additional settlement with similar controls. In exchange, JPMorgan received a release from the federal government and certain states; however, excluded from the release, upon information and belief, were claims under the FCA Complaint (defined below in subparagraph e).

D. Alternative Foreclosure Program

Under one or more of the Lender Settlements, Defendants became obligated to take steps to deter community blight caused by massive numbers of foreclosures on defaulted mortgages that Defendants held. To evade these obligations, Defendants implemented the "Alternative Foreclosure Program," through which Defendants essentially released liens without disclosure to borrowers or governments in order to walk away from Defendants' obligations to deter community blight. The released liens included liens on properties that served as collateral for loans Defendants had already sold to the Schneider Entities. The scores of lien releases are ongoing, and targeted at the Schneider Entities, despite the Schneider Entities' repeated written notices to Chase that those releases are improper.

The lien releases include releases with respect to loans in the RCV1 whose servicing violations have been concealed from the Monitor. Upon information and belief, some of the loans in the RCV1 have been transferred to MRS, without MRS's knowledge, to further the Defendants' goal of concealment of their violations. These transfers were used by Defendants, upon information and belief, to facilitate the issuance of lien releases designed to improperly take advantage of credits for RMBS Consumer Relief (while also exacerbating their evasion of community blight deterrence obligations). As noted above, some scores of the lien releases released liens on properties associated with loans sold to the Schneider Entities.

These activities interfere with the Schneider Entities' relationships with its borrowers. They further wrongfully entangle the Schneider Entities in JPMorgan's efforts to claim unfair RMBS Consumer Relief credits. In addition, these actions expose the Schneider Entities to liability to borrowers whose liens Defendants may have released. However, because of Defendants' use of MRS as a repository to "dump" loans from the RCV1 queue that otherwise have been concealed from the Monitor, MRS is unable to presently determine the scope of liability it may be incurring to borrowers.

E. Pre DOJ Lien Release Project

When Plaintiffs became aware of the scope of Defendants' misconduct, Plaintiffs took steps to assert their rights. In retaliation, and to further evade their responsibilities under the Lender Settlements, Defendants took aim directly at the Plaintiff and put to use a pre-existing process that they referred to internally as the "Pre DOJ Lien Release Project." This process had been developed to release liens on loans in the RCVI and aid the Defendants in circumventing their obligations under the various Lender Settlements, but it also became useful in punishing Plaintiffs for asserting their rights. The Pre DOJ Lien Release Project was implemented in the fall of 2014, after the execution and implementation of the Consent Judgment, yet was designated as the "Pre DOJ Lien Release Project." A number of actions under the Pre DOJ Lien Release Project were directed purposefully at retaliating against Plaintiffs' principal, Laurence Schneider, for having filed a federal False Claims Act complaint (the "FCA Complaint") as relator against Defendants. The FCA Complaint was partially unsealed on or about November 1, 2013[2] and likely became known to Defendants on or about that date. And, the FCA Complaint

[2] That complaint was filed on May 6, 2013 and entitled *United State of America et al. ex rel. Laurence Schneider v. J.P. Morgan Chase Bank, National Association et al.*, C/A: 3:13-1223-JFA. The partial unsealing was made with consent of Mr. Schneider's acting counsel in the

was, upon information and belief, excluded from the release provided to JPMorgan by the federal government under the RMBS Settlement.

To summarize, Defendants improperly failed to service thousands of residential mortgage loans. Beginning in 2008, they became aware of the scope of actual and potential liability for failing to service these loans. In response, they set up a scheme to "dump" thousands of those loans and their attendant liabilities. Plaintiffs, who relied on Defendants for their supply of loans, were victims of this scheme and unknowingly agreed to acquire the loans. Meanwhile, as a result of improper servicing, certain of the Defendants became parties to Lender Settlements that obligated them to take various actions to rectify violations of laws and servicing obligations. In an effort to evade those obligations, and to claim improper credits under the Lender Settlements and other federal incentive programs, Defendants took further actions, such as sending out false Forgiveness Letters and wrongfully releasing liens associated with mortgages that the Plaintiffs had acquired. These actions directly harmed Plaintiffs. When Plaintiffs' principal learned of the scope of Defendants' wrongful activities, he took steps to vindicate Plaintiffs' rights, which led Defendants to retaliate by damaging Plaintiffs' business even further through their actions, such as the non-rescission of Forgiveness Letters, the Pre DOJ Lien Release Project and, the Alternative Foreclosure Programs.

c. List other wrongdoers, other than the named defendants, and describe the alleged misconduct of each wrongdoer.

The list of the following individuals constitutes a partial list of Chase employees whose actions facilitated the racketeering activity that Defendants have perpetrated. Plaintiffs anticipate that further names will emerge during discovery.

District of South Carolina at the time but Mr. Schneider himself did not authorize or consent to that partial unsealing. Counsel for Defendants in the present action is the same counsel for Chase Bank and JPMorgan in the action commenced by the filing of the FCA Complaint.

- Omar Kassem; AVP Portfolio Management. Main counterpoint from 2010 - 2013, Loan Lists, 2nd Lien Ext. Program, AFP, Repurchase Agreements
- Jason Oquendo; AVP Business Processes/Project Manager DOJ 2nd Lien Ext. Program; Project Manager MLPA 2008-2009, Project Manager 2nd Lien Ext. Program, Project Manager Strategy RMBS credit 2013 - 2015
- Patrick "Mike" Boyle; VP Loss Mitigation and National Recovery
- Mark Davis; SVP Loss Mitigation and National Recovery
- Steve Hemperly; Senior Vice President, Default Operations Management; facilitated DOJ Lien Release Project
- Launi Solomon; Recovery Support Supervisor
- Matt Simon, Esq.; in-house counsel advising on above matters
- Stephanie Mudick; Head of Supervisory Regulatory Strategy/DOJ Oversight
- Joy Palazzo; Assistant General Counsel/DOJ Legal
- Steve Mackey; SVP & Risk Executive Mortgage Banking/DOJ Risk
- Kevin Smith; Managing Director & Chief Control Officer/DOJ Controls-"DOJ Risk"
- Lynn Newby; AVP Operations at JPMorgan Chase – "DOJ Compliance/Litigation"
- Tekla White; Project Manager Supervisory Regulatory Strategy, V.P. at JPMorgan Chase
- Panikos Palletas; Decision Sciences - Statistical Models and Populations - RCV1
- Ingrid Whitty; Vice President at Chase; robo-signed lien releases
- Amy Knight; Vice President at Chase; robo-signed lien releases
- Deandra Chapman; Vice President at Chase; (robo-signed lien releases)

d. List the victims and state how each victim was injured.

The known victims are the three Schneider Entities: MRS, 1st Fidelity, and S&A.

Starting in 2005, the Schneider Entities associated with Defendants to acquire defaulted residential mortgage loans from Defendants. The Schneider Entities would then work out payment plans with the borrowers of those loans. By working directly with homeowners, the

Schneider Entities are able to increase the value of the loans above their purchase price and provide avenues for borrowers to stay in their homes and rebuild their credit.

MRS was injured by Defendants' fraud and misconduct relating to the pool of mortgage loans that MRS acquired through the MLPA. MRS was victimized by Defendants' scheme to unload thousands of residential mortgage loans for which they had abandoned servicing standards and other legal obligations. By fraudulently misrepresenting the nature and legal propriety of the loans, and then saddling MRS with the law-violating loans, Defendants have jeopardized MRS's relationships with the borrowers, undermined its business models, and eroded MRS's ability to collect on the loans it had purchased.

In addition, each of the Schneider Entities have been injured by Defendants' subsequent and ongoing post-MLPA fraud and misconduct in relation to the loans Defendants sold to the Schneider Entities, including the following acts:

- Defendants have continued to approve short sales on properties subject to loans that Chase Home had previously sold to one or more of the Schneider Entities.
- Defendants have wrongfully directed enforcement agencies seeking to investigate complaints by homeowners regarding Defendants' violations of servicing and other obligations to the Schneider Entities as the responsible party. This has forced and continues to force the Schneider Entities to incur significant expenses in dealing with the governmental entities and, more significantly, potentially exposes the Schneider Entities to damages for Defendants' violations of laws.
- Defendants and collection agencies working on Defendants' behalf have sent written correspondence to borrowers of loans sold to the Schneider Entities misrepresenting that

Chase or the collection agency owned the loan at issue and/or was the authorized servicer for the loans at issue.

- Defendants have misrepresented to borrowers that Chase had reacquired their loans, and that the borrowers should make payments to Chase.
- Defendants falsely represented to certain borrowers that their loans had been transferred to one of the Schneider Entities when, in fact, the Schneider Entities never acquired the loans at issue. Such false statements have led to significant damages to and potential liability for the Schneider Entities, including prompting complaints to be filed with various state and federal agencies and impeding the ability of the Schneider Entities to generate new business.
- The deficient records maintained and provided by Defendants have impeded the Schneider Entities' ability to respond to borrower inquiries about loan balances, payment histories and other information relating to their loans.
- Between September 2012 and January 2013, Defendants mailed debt Forgiveness Letters to thousands of defaulted borrowers whose loans were in the RCV1 queue, including borrowers whose loans Chase had previously sold to one or more of the Schneider Entities. As a result, a number of borrowers informed the Schneider Entities that they would no longer be making payments on their mortgages.
- Defendants have engaged in a practice of wrongfully releasing and discharging liens on properties that served as collateral for loans sold to the Schneider Entities. The scores of lien releases are ongoing, and targeted at the Schneider Entities, despite the Schneider Entities' repeated written notices to Chase that those releases are improper.

In addition to the specific harm to the Schneider Entities described above, Defendants' post-sale misconduct also has caused grave injury to the Schneider Entities' business relationships and reputation. The Schneider Entities' business model relies on good will between borrowers and the Schneider Entities. Defendants' misconduct has entangled the Schneider Entities in Defendants' ongoing disputes with borrowers and governmental agencies, with whom the Schneider Entities previously enjoyed positive working relationships. Defendants' misconduct has harmed the Schneider Entities' reputation by effectively portraying the Schneider Entities as predatory businesses attempting to collect payments on loans that had been forgiven or released, when, to the contrary, the Schneider Entities only took action to which they were legally entitled as the rightful owners of the loans at issue.

As a result of Defendants' fraud and misconduct, the Schneider Entities have suffered significant losses and remain mired in legal issues.

e. Describe in detail the pattern of racketeering activity or collection of unlawful debts for each RICO claim. The description of the pattern of racketeering shall:

(1) List the predicate acts and the specific statutes which were violated;

The predicate acts for Plaintiffs' RICO claims include mail fraud in violation of 18 U.S.C. § 1341 and wire fraud in violation of 18 U.S.C. § 1343, including the specific examples listed in Section (e)(3) below. In addition, the acts to corrupt Defendants' compliance with the Lender Settlements represent violations of 18 U.S.C. § 1503.

(2) State the dates of the participants' involvement in the predicate acts, and the facts surrounding the predicate acts;

The predicate acts of mail and wire fraud began no later than 2000, when, as described in Section (b) above, Defendants began engaging in a scheme to evade their legal obligations and liabilities with respect to the proper servicing of federally related mortgages and certain consent orders, settlements and agreements that Defendants entered into with various branches of federal and state governments (the "Lender Settlements"). Defendants' acts of mail and wire fraud continue to this day.

Defendants' violations of servicing standards and the Lender Settlements stems from Defendants' use of the RCV1 for defaulted mortgage loans that it deemed not to be profitable enough to foreclose. As described in greater detail in Section (b) above and in the Amended Complaint, the RCV1 is a "no man's land" where mortgage loans and associated borrowers are intentionally mishandled in such a manner that compliance with regulatory requirements becomes impossible. In an effort to evade liability for its legal violations relating to RCV1, Defendants sought to conceal their systematic misconduct by passing those loans on to others, including the Schneider Entities.

To this end, using interstate mail and wires, Defendants proceeded to make numerous fraudulent misrepresentations, including the misrepresentation that all of the loans Plaintiffs were acquiring were first lien mortgages and were in compliance with all applicable federal, state and local laws. This was a knowingly false representation, as the non-compliance of those loans was particularly what incentivized Chase to enter into the MLPA in the first instance.

The predicate acts did not cease with the execution, delivery and breach of the MLPA. Defendants sought to avoid their obligations to deter community blight and comply with various servicing and reporting obligations under the Lender Settlements by instituting and implementing the Alternative Foreclosure Program. Through this program, Defendants simply filed satisfactions of mortgages on subject properties, without any notice to interested parties, even though many of the mortgages were held by the Schneider Entities. Defendants then walked away from their responsibilities under the Lender Settlements, saddling actual holders of the mortgages, including the Schneider Entities, with the consequences of those actions. Defendants utilized interstate mail and wires to effectuate these lien releases, and many of the lien releases were fraudulent because Defendants had already sold the loans to the Schneider Entities and had no right to release liens on the properties at issue. The purposeful undermining of obligations under the Lender Settlements was effectuated by a series of acts by Defendants, each of which "corruptly influences, obstructs, or impedes, or endeavors to influence, obstruct, or impede, the due administration of justice." 18 U.S.C. § 1503.

In addition, in an improper attempt to gain benefits to which Defendants were not entitled under the Lender Settlements, Defendants mailed Forgiveness Letters to thousands of defaulted borrowers, including those whose loans Defendants had previously sold to the Schneider Entities. Finally, in response to the Schneider Entities' efforts to defend their rights, Defendants took even harsher retaliatory action against the Schneider Entities through the Defendants' establishment of the "Pre DOJ Lien Release Project" around in or about October 2013. A portion of the activities under the Pre DOJ Lien Release Project were directed at retaliating against Mr. Schneider for his actions to defend the rights of the Schneider Entities (including filing a federal False Claims Act complaint that was partially unsealed on or about November 1, 2013).

(3) If the RICO claim is based on the predicate offenses of wire fraud, mail fraud, or fraud in the sale of securities, the "circumstances constituting fraud or mistake shall be stated with particularity." Fed. R. Civ. P. 9(b). Identify the nature, time, place and contents of misrepresentations, and the identity of persons to whom and by whom the alleged misrepresentations were made; it must be clear why the plaintiff claims the acts to constitute fraud or misrepresentations;

The predicate acts include Defendants' use of interstate mail and wires to make myriad fraudulent misrepresentations, including, but not limited to, the following:

- Defendants' representative Eddie Guerrero's misrepresentation to Mr. Schneider in 2008 that the loans MRS would be acquiring were "closed end first lien residential mortgage loans" from which Defendants had decided to "walk away" based on a financial cost-benefit analysis (i.e., the value of the loans was below the costs associated with foreclosing on the loans), when in fact (a) Defendants were really seeking to transfer liabilities associated with these loans to an unsuspecting acquirer, and (b) Defendants actually intended to, and did, transfer deficiency claims, not first lien mortgages;
- Defendants' description of the November 2008 Data Tape, Defendants sent to and discussed with Mr. Schneider in and around November 2008, as consisting of "first lien mortgages," when in fact the tape lacked sufficient information to accurately make that assertion and – based upon subsequent, painstaking inquiry by Mr. Schneider – most of the loans on the tape turned out to be deficiency claims, not first lien mortgages;
- Defendants' delivery of the "Corrupted List" to Mr. Schneider in February 2009, which Defendants depicted as an updated schedule of the loans MRS was acquiring, but in fact was materially incomplete, and was designed to lure Mr. Schneider into falsely believing that Defendants had transferred the first lien mortgages to which MRS was entitled;
- Defendants' claims in and around March of 2009 that the reason why the November 2008 and Corrupted List were deficient was related to logistical delays associated with converting information from Washington Mutual's system, when in fact the informational failures resulted from Defendants' abandonment of all servicing obligations with respect to those and other loans in the RCV1 queue;

- Defendants' representations, including in the MLPA, that the mortgage loans being acquired by MRS were in compliance with all federal, state and local laws, when in fact Defendants had abandoned all of its servicing obligations with respect to those loans;
- Defendants' December 2009 e-mail to MRS, which purported to include an additional 850 loans in the portfolio that had been sold to MRS, when in fact Defendants were referencing loans that were not included on the November 2008 data tape for which Defendants were seeking to transfer liability to MRS;
- Defendants' September 2012 mailing of debt Forgiveness Letters to thousands of defaulted borrowers whose loans were in the RCV1 queue, which falsely represented to the recipients that Chase was cancelling the amount owed by the homeowner and that the homeowner "owe[s] nothing more on the loan and your debt will be canceled" – statements that were false at least with respect to those loans that had been transferred to the Schneider Entities, and for which Defendants were not authorized to forgive the debt;
- Defendants' communications through mail and/or wire to release liens on property associated with loans sold to the Schneider Entities (examples include: (a) Defendants' execution in October 2013, and recording in December 2013, of a release on Loan number 167446, which had been held by borrower Ray Robert Brazelle and was acquired by MRS, and (b) Defendants' execution and recording in November 2013, of a release on loan number 20040177974, held by Barbaros Ayaz and M. Ayaz, which had been sold to MRS);[3]
- Defendants' use of wire to implement the Pre DOJ Lien Release Project; and

[3] These two examples are illustrative. Several more examples are provided in paragraph 80 of the Amended Complaint. Further, the improper releases of publicly recorded liens is also a violation of 18 U.S.C. § 1503.

- Defendants' ongoing misrepresentation in the WAMU agreement, dated September 25, 2008, transmitted or delivered by wire or mail, that Chase is not "in violation of any statute, regulation, order, decision, judgment or decree of, or any restriction imposed by, the United States of America, and State, municipality or other political subdivision or agency of any of the foregoing, or any court or other tribunal having jurisdiction over [Chase] … with respect to the conduct of the business of [Chase or the ownership of the properties of [Chase], which, either individually or in the aggregate with all other such violations, would materially and adversely affect the business, operations or condition of [Chase] or the ability of [Chase] to perform, satisfy or observe any obligation or condition under this Agreement."

(4) State whether there has been a criminal conviction for violation of the predicate acts;

Plaintiffs are not aware of any criminal conviction for violation of the predicate acts.

(5) State whether civil litigation has resulted in a judgment with regard to the predicate acts;

Plaintiffs are not aware of any civil litigation that has resulted in a judgment with regard to the predicate acts.

(6) Describe how the predicate acts form a "pattern of racketeering activity"; and

The predicate acts are part of a larger effort by Defendants to relieve themselves of their legal obligations and liabilities and to conceal their improper receipt of credit under, *inter alia*, applicable law and the Lender Settlements, by defrauding the Schneider Entities and making misrepresentations to homeowners. The predicate acts form a pattern of racketeering activity as Defendants regularly and repeatedly used interstate mail and wires, together with obstruction of justice relative to the enforcement of the Lender Settlements, to transmit fraudulent communications in furtherance of this scheme.

(7) State whether the alleged predicate acts relate to each other as part of a common plan. If so, describe in detail.

As described in further detail above, the predicate acts relate to each other as part of a plan for Defendants to evade their legal obligations and liabilities with respect to mortgage servicing, under other applicable legislation enacted in 2008 and 2009 in response to the economic crisis facing the country and the Lender Settlements, to claim credits and incentives under various Lender Settlements and to use fraudulent misrepresentations to shift those obligations and liabilities to the Schneider Entities.

f. Describe in detail the alleged enterprise for each RICO claim. A description of the enterprise shall:

(1) State the names of the individuals, partnerships, corporations, associations, or other legal entities that constitute the enterprise;

The § 1962(c) enterprise is made up of each of the Defendants (JPMorgan, Chase Bank and Chase Home Finance), each of the Schneider Entities (MRS, 1st Fidelity and S&A), and the homeowners on the loans that Defendants sold to the Schneider Entities.

(2) Describe the structure, purpose, function and course of conduct of the enterprise;

The association-in-fact enterprise between Defendants, the Schneider Entities and the homeowners on the loans that Defendants sold to the Schneider Entities began in 2005, when S&A and 1st Fidelity began regularly purchasing defaulted residential mortgage loans from Chase Home Finance. From 2005 to 2010, S&A and 1st Fidelity purchased approximately 1,000 residential mortgage loans from Chase Home Finance. The Schneider Entities would then work closely with homeowners to establish payment plans that frequently enabled those homeowners to stay in their homes and rebuild their credit. Through this relationship, S&A and 1st Fidelity achieved high levels of recovery on the mortgage loans—results that Defendants could not accomplish on their own. After the many years of the close, reliable and mutually beneficial relationship that Defendants experienced with S&A and 1st Fidelity, in 2008, Eddie S. Guerrero, then Chase Home Finance's Recovery Loss Supervisor, approached Mr. Schneider about the opportunity to purchase a pool of loans from which Chase had decided to "walk away." On February 25, 2009, Chase Home Finance and a third Schneider Entity, MRS, executed the Mortgage Loan Purchase Agreement ("MLPA") on a portfolio allegedly consisting of defaulted first lien residential mortgage loans. With respect to that portfolio of loans, MRS attempted to utilize the same strategy as S&A and 1st Fidelity, working closely with homeowners to establish sustainable payment plans.

The function and purpose of the enterprise was to enable Defendants properly to unload defaulted mortgage loans, enable the Schneider Entities to build profitable servicing businesses with strong portfolios and high levels of recovery, and enable homeowners to rebuild their credit and stay in their homes. Until the cumulative effects of Defendants' fraud and other misconduct, including the predicate acts of mail and wire fraud and obstruction of justice described above, disrupted the enterprise's otherwise legitimate and mutually beneficial operation, the close association between the members of the enterprise enabled the parties to accomplish successfully the enterprise's purpose. Indeed, Defendants themselves have acknowledged this success. For example, Mr. Guerrero wrote in a January 2009 letter that "S&A Capital continues to exceed our expectations" and that may borrowers had contacted Chase regarding "the great experience that they have had with S&A Capital Partners."

(3) State whether any defendants are employees, officers or directors of the alleged enterprise;

No Defendants are employees, officers or directors of the alleged enterprise.

(4) State whether any defendants are associated with the enterprise;

Each Defendant is associated with the enterprise.

(5) State whether you claim that the defendants are individuals or entities separate from the enterprise, or that the defendants are the enterprise itself, or members of the enterprise; and

Each Defendant is a member of the enterprise, but the Defendants are not the entire enterprise themselves.

(6) if any defendants are alleged to be the enterprise itself, or members of the enterprise, explain whether such defendants are perpetrators, passive instruments, or victims of the alleged racketeering activity.

Each Defendant is a perpetrator of the alleged racketeering activity.

g. State and describe in detail whether you claim that the pattern of racketeering activity and the enterprise are separate or have merged into one entity.

The pattern of racketeering activity and the enterprise are separate. The racketeering activity has been conducted by employees of each of the three Defendants, for the benefit of each of the Defendants. The enterprise itself and the other members of the enterprise, the Schneider Entities and the borrowers whose loans Defendants sold to the Schneider Entities, did not knowingly or willfully participate in the predicate acts, but were instead used by Defendants to further their scheme.

h. Describe the relationship between the activities of the enterprise and the pattern of racketeering activity. Discuss how the racketeering activity differs from the usual and daily activities of the enterprise, if at all.

The enterprise was organized to enable Defendants to transfer defaulted mortgage loans to the Schneider Entities, to enable the Schneider Entities to build profitable servicing businesses with strong portfolios and high levels of recovery, and to enable homeowners to rebuild their credit and stay in their homes. In the enterprise's initial years, Defendants transferred to the Schneider Entities non-performing residential mortgage loans that were no longer profitable for Defendants to hold. The Schneider Entities then worked with borrowers on many of those loans to develop payment plans that were manageable and sustainable given the borrowers' unique personal and financial circumstances. Through this close and tailored interaction with borrowers, the Schneider Entities were able to both increase the value of the loans above their purchase price and enable borrowers to stay in their homes and rebuild their credit. Until the cumulative effects of Defendants' pattern of racketeering activity commandeered and disrupted the enterprise's otherwise legitimate operation, the close association between the members of the enterprise enabled the parties to accomplish the enterprise's purpose successfully.

Seeking to avoid legal consequences arising from, inter alia, (a) the non-performance of required servicing activities for a large subset of Defendants' loans as a result of Defendants' use of the covert RCVI records system; (b) increasing legal consequences that have arisen since 2008 as a result of legislation and enforcement actions; and (c) actions to evade obligations under the Lender Settlements, followed by further actions to harm the Schneider Entities and retaliate against them for taking steps to defend their rights. Defendants, through a pattern of racketeering activity, coopted the enterprise for their own purposes, to the detriment of the enterprise in general and the Schneider Entities in particular. Defendants' pattern of racketeering activity consisted of multiple acts of mail and wire fraud and obstruction of justice over the course of several years.

Recognizing that the Schneider Entities relied on Defendants for their supply of loans, Defendants' fraudulent conduct in connection with the enterprise began in 2008, with their efforts to use the enterprise and their close association with the Schneider Entities to unload a large pool of Defendants' most problematic loans through the MLPA. As described in further detail in the Amended Complaint, using interstate mail and wires, JPMorgan and Chase Bank, through Chase Home Finance, proceeded to make numerous fraudulent misrepresentations to induce MRS to sign the MLPA. This included the fraudulent representation that all of the loans were first lien residential mortgage loans and that all of the loans were in compliance with all applicable federal, state and local laws—a misrepresentation that was knowingly false, as the non-compliance of those loans was particularly what incentivized Chase to enter into the MLPA in the first instance.

Defendants' racketeering activity continued after the execution, delivery and breach of the MLPA. Because of the scope of basic servicing violations, Defendants became the target of enforcement actions by the federal and state governments, ultimately leading to one or more of the Lender Settlements. The Lender Settlements imposed, inter alia, obligations to deter community blight and to comply with various servicing and reporting obligations. Instead of meeting those obligations, Defendants sought to avoid them by instituting and implementing the Alternative Foreclosure Program, through which Defendants simply filed satisfactions of mortgages on subject properties, without any notice to interested parties and with callous disregard for the multitude of damages that those acts caused. Defendants then walked away from their responsibilities under the Lender Settlements, saddling actual holders of mortgages (such as the Schneider Entities) with the consequences of those actions. Defendants utilized interstate mail and wires to effectuate these lien releases, and many of the lien releases were fraudulent because Defendants had already sold the loans to the Schneider Entities and had no right to release liens on the properties at issue.

In addition, in an improper attempts to gain benefits to which Defendants were not entitled under the Lender Settlements, Defendants mailed Forgiveness Letters to thousands of defaulted borrowers, including those whose loans Defendants had previously sold to the Schneider Entities. Defendants' interference with the Schneider Entities' relationship with these borrowers, has led, among other things, to borrowers refusing to pay under agreements with the Schneider Entities and to involve local and state consumer protection enforcement agencies to seek to impose further liabilities on the Schneider Entities.

Because of the Schneider Entities' efforts to defend their rights, Defendants took even harsher retaliatory action against the Schneider Entities. In or about October 2013 it established the "Pre DOJ Lien Release Project" as it is described on internal Chase records. Upon information and belief, this is a project within the Alternative Foreclosure Program. A portion of the activities under the Pre DOJ Lien Release Project were directed purposely at retaliating against Mr. Schneider for his actions to defend the rights of the Schneider Entities (including filing a federal False Claims Act complaint that was partially unsealed on or about November 1, 2013).

Though this pattern of racketeering activity, Defendants effectively commandeered and disrupted the enterprise's otherwise legitimate operations, caused significant harm to the Schneider Entities, and wreaked havoc in the lives of affected borrowers.

i. Describe what benefits, if any, the enterprise receives from the alleged patterns of racketeering.

The enterprise has not benefited from the pattern of racketeering activity. Though Defendants have benefitted from their racketeering activity, the Schneider Entities and the borrowers have been greatly harmed. Further, the legitimate commercial corpus of activity of the enterprise itself has been destroyed and has had its purpose thwarted by Defendants' racketeering activity.

j. Describe the effect of the activities of the enterprise on interstate or foreign commerce.

Defendants JPMorgan, Chase Bank and Chase Home Finance are banking and financial services companies that do business across state lines. JPMorgan is a multinational banking and financial services holding company that serves customers across the United States through the Defendant subsidiaries Chase Bank and Chase Home Finance. Chase Bank maintains more than 5,000 branches in 26 states, and Chase Home Finance offers mortgage-related services to customers in multiple states. Thousands of borrowers and loans across state lines are affected by the racketeering activities of Defendants. Plaintiffs MRS, 1st Fidelity and S&A are Florida-based companies that also operate across state lines, servicing loans held by borrowers in multiple states. Borrowers are home purchasers located in multiple states whose loans were sold to Plaintiffs by Defendants. Through its operation, the enterprise has engaged in, and affected, interstate commerce by using interstate mail and wires to arrange for the sale and transfer of loans, to solicit, make, and collect mortgage payments, negotiate payment terms, service loans and release mortgage liens. Defendants' interstate mail and wire fraud in conducting the affairs of the enterprise (together with Defendants' violations of 18 U.S.C. § 1503) gives rise to Plaintiffs' RICO claims under § 1962(c).

k. If the complaint alleges a violation of U.S.C. § 1962(a):

(1) State who received the income derived from the pattern of racketeering activity or through the collection of an unlawful debt; and

(2) Describe the use or investment of such income.

The Amended Complaint does not allege a violation of 18 U.S.C. § 1962(a).

l. If the complaint alleges a violation of 18 U.S.C. § 1962(b), describe in detail the acquisition or maintenance of any interest in or control of the alleged enterprise.

The Amended Complaint does not allege a violation of 18 U.S.C. § 1962(b).

m. If the complaint alleges a violation of 18 U.S.C. § 1962(c):

(1) State who is employed by or associated with the enterprise; and

Each of the Defendants, JPMorgan, Chase Bank, and Chase Home Finance were associated with the enterprise consisting of Defendants, each of the Schneider Entities and the borrowers on the loans that Defendants sold to the Schneider Entities. The employees of Defendants set forth in Section c above are some of the employees of Defendants who facilitated the racketeering activity that Defendants perpetrated. The Schneider Entities employ a number of persons who in the ordinary course of their work conduct the business of servicing, negotiating restructuring of and collecting on mortgage loans acquired through the enterprise.

(2) Describe whether the same entity is both the liable "person" and the "enterprise" under § 1962(c).

The same entity is not both the liable "person" and the "enterprise" under § 1962(c). Though each of the Defendants are a member of the enterprise, the enterprise is separate and distinct from each Defendant and includes parties that are distinct from the Defendants.

n. If the complaint alleges a violation of 18 U.S.C. § 1962(d), describe in detail the alleged conspiracy.

The Amended Complaint does not allege a violation of 18 U.S.C. § 1962(d).

o. Describe the alleged injury to business or property.

The injury to business or property includes:

- Loss of benefit of the bargain under loans purchased by the Schneider Entities from Chase;

- Destruction of the Schneider Entities' successful business model, which converted non-performing loans into sustainable payment plans that provided streams of income to the Schneider Entities while enabling many borrowers to keep their homes;
- Loss of revenue resulting from Chase's retention of payments on loans sold to the Schneider Entities;
- Loss of revenue from borrowers who cease making payments, or dispute the Schneider Entities' right to collect payments or initiate foreclosure proceeding after the borrowers received Forgiveness Letters from, or had their liens released by, Chase;
- Inability to collect on loans sold by Chase to the Schneider Entities where borrowers have received Forgiveness Letters or Chase has released the corresponding mortgage lien;
- Exposure to legal liability for Chase's failure to deter community blight, comply with consumer protection laws and otherwise fulfill their servicing obligations, the scope of which is not yet ascertainable.

p. Describe the direct causal relationship between the injury and the violation of the RICO statute.

The destruction of the Schneider Entities' businesses, the expenses and liability incurred by the Schneider Entities, and the loss of revenue from and impairment of the value of the loans that Defendants sold to the Schneider Entities are directly caused by Defendants' use of interstate mail and wires to (1) perpetrate the frauds in connection with the MLPA, (2) fraudulently evade their liabilities occasioned by their mishandling of loans in the RCV1, and (3) fraudulently evade their obligations, and claim wrongful credit, under the Lender Settlements, including by carrying out the Alternative Foreclosure Program, mailing wrongful Forgiveness Letters and issuing lien releases. The specific causal relationships between Plaintiffs' injury and Defendants' acts of mail and wire fraud include the following:

- Plaintiffs have lost the benefit of the bargain under loans purchased from Defendants as a result of Defendants' approval short sales on properties subject to loans sold to the Schneider Entities.
- Plaintiffs have lost revenue from borrowers who cease making payments, or dispute the Schneider Entities' right to collect payments or initiate foreclosure proceeding, after the borrowers received Forgiveness Letters from or had liens on the subject properties improperly released by Defendants.
- Plaintiffs have lost revenue because Defendants sent correspondence to borrowers of loans sold to the Schneider Entities misrepresenting that Defendants or the collection agency owned the loan at issue and/or was the authorized servicer for the loans at issue and that the borrowers should make payments to Defendants.
- Plaintiffs have lost revenue as a result of Defendants' wrongful retention of payments on loans that Defendants sold to the Schneider Entities.
- Defendants' acts of mail and wire fraud has harmed Plaintiffs' reputation and relationship with borrowers, resulting in the destruction of Plaintiffs' successful business model, which converted non-performing loans into sustainable payment plans that provided streams of income to the Schneider Entities while enabling many borrowers to keep their homes;
- Defendants' acts of mail and wire fraud has exposed Plaintiffs to legal liability for Defendants' failure to deter community blight, comply with consumer protection laws and otherwise fulfill their servicing obligations, the scope of which is not yet ascertainable.

q. List the damages sustained for which each defendant is liable.

Plaintiffs incorporate by reference the list of damages set forth in Section p above. Because Defendants are a unified corporate structure, all of the Defendants are liable for all of the damages that Plaintiffs have sustained. Further, because the employees carrying out Defendants' racketeering activities have been acting on behalf of both Chase Bank and JPMorgan, both of those entities are liable for all acts of their employees giving rise to liability. Further, to the extent that Chase Home Finance's acts are separable from those of other Defendants, because of Chase Home Finance's merger into Chase Bank in 2011, Chase Bank is liable for all acts of Chase Home Finance giving rise to liability.

r. List all other federal causes of action, if any, and provide the relevant statute numbers.

No other federal causes of action are alleged in the Amended Complaint.

s. List all pendent state claims, if any.

Plaintiffs also assert the following state claims against Defendants:

- Count 1: Breach of Contract
- Count 2: Breach of Good Faith and Fair Dealing
- Count 3: Conversion
- Count 4: Conspiracy
- Count 5: Unfair Competition
- Count 6: Unjust Enrichment
- Count 7: Tortious Interference with Contractual Relations
- Count 8: Tortious Interference with Prospective Economic Advantage
- Count 9: Fraud and Fraudulent Omission
- Count 10: Negligent Misrepresentation

- Count 11: Negligent Servicing
- Count 12: Defamation
- Count 13: Injurious Falsehood
- Count 14: Slander of Title
- Count 15: Prima Facie Tort
- Count 17: Consumer Fraud Act: N.J.S.A. § 56:8-1 et seq.
- Count 18: Successor Liability

t. Provide any additional information potentially helpful to the Court in adjudicating your RICO claim.

Plaintiffs respectfully refer the Court to footnote 2 in subsection b(vi)(E) above and incorporate it by reference.

Further, Plaintiffs believe that a significant amount of additional relevant evidence supporting its claims is in Defendants' possession and will be obtained through discovery. Accordingly, Plaintiffs reserve the right to amend this RICO Case Statement in order to provide the Court with additional information that will assist in the adjudication of Plaintiffs' RICO claim.

Dated: New York, New York.
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Respectfully submitted,

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