THE DAILY CALLER

JP Morgan settlement criticized as 'political attack'

Breanna Deutsch October 22, 2013

The Justice Department's $13 billion settlement with JP Morgan has drawn criticism from those who believe the government is deflecting blame for the financial crisis.

"This looks like a politicized attack coordinated by regulators," American Enterprise Institute resident fellow Alex J. Pollock told The Daily Caller News Foundation. "It is a way for the agencies of the government to show JP Morgan, 'Listen you better do whatever we tell you because look what we can do to punish you if you do not go along.'"

In 2008, when Bear Sterns and Washington Mutual were on the brink of bankruptcy, federal official desperately pleaded with JP Morgan to acquire the failing institutions. JP Morgan complied.

Pollock says that it is important to note that many of the alleged faulty loans Morgan is being accused of were made by Bear Stearns and Washington Mutual when they were separate entities. However, when an institution acquires another company, they take on all of the firm's legal liabilities.

Some banks behaved even more irresponsibly than Bear Sterns and Washington Mutual, says Pollock.

"The reason why the government chose JP Morgan is the same reason why David chose Goliath in the Old Testament. Once you knock down the giant then the others will readily submit," he told TheDCNF.

The DOJ's investigation has already cost Morgan, one of the nation's largest financial institutions, billions of dollars in litigation fees.

Going after JP Morgan signals to Wall Street that "if you do not stay on the right side of certain political entities you might end up in trouble regardless of how careful you were in the process of doing business," Louise C. Bennetts, associate director of financial regulation studies at the Cato Institute, told TheDCNF.

"If you are politically connected on the right side of the political establishment you are much more likely to get away with bad behavior," Bennetts continued.

“The size of this fine really underscores that this administration is not concerned about the systemic risks of banks or the financial health of banks,” she argued. “What they are concerned about is scoring political points because this sits very well to a certain portion of their base.”

“JPM is *not* paying penalties for mistakes made by Bear Stearns,” Felix Salmon countered at Reuters. “All that it’s doing is making good on obligations of WaMu and Bear related to securities they sold. And it’s inherent in buying a bank that you become responsible for its liabilities as well as its assets.”

The Wall Street Journal reported that at least some of the funds would be dispersed between Freddie Mae and Freddie Mac. Another $4 billion will go to “consumer relief,” which will be up to the feds to distribute. “There is a serious conflict of interest there,” Bennetts told TheDCNF.

“In the next crisis people will certainly be much more careful about cooperating with the government to take over failing firms,” Pollock suggested. “When you look back at it and say, ‘Boy how stupid was I?’”