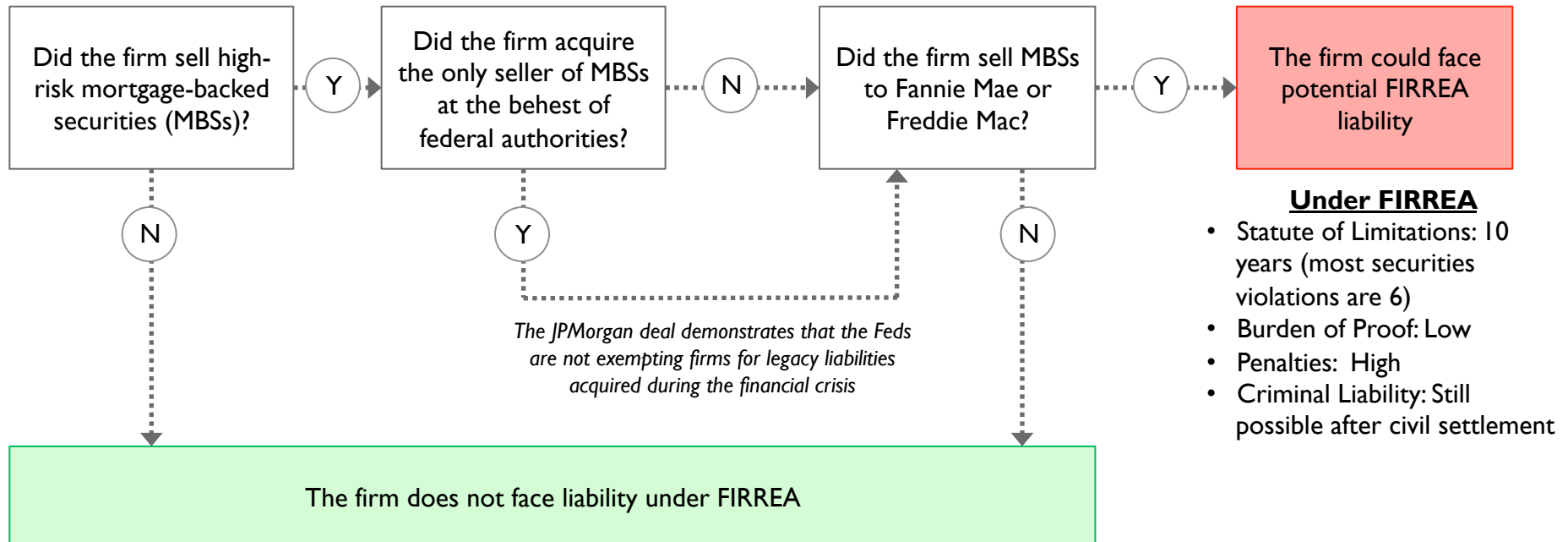


FIRREA May Present Unexpected Liabilities to Financial Firms

Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) Liability Flowchart



Under FIRREA

- Statute of Limitations: 10 years (most securities violations are 6)
- Burden of Proof: Low
- Penalties: High
- Criminal Liability: Still possible after civil settlement

Analysis

- Because the portfolios of Fannie Mae and Freddie Mac are now administered by the Federal Housing Finance Administration, the Department of Justice had legal basis to pursue JPMorgan under FIRREA, a rather obscure securities law
- JPMorgan settled for \$13 billion; the scope of the DOJ's legal action and the size of the settlement set a precedent for future legal proceedings against financial firms
- The DOJ's motives appear remunerative rather than punitive; a large portion of the JPMorgan settlement will go to reduce the balances of underwater mortgages, but no JPMorgan executive will be forced to relinquish his or her job