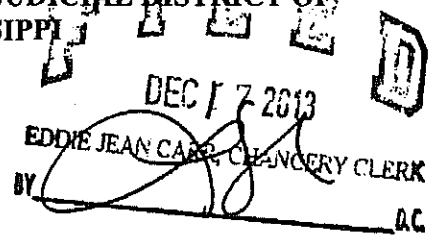
**IN THE CHANCERY COURT OF THE FIRST JUDICIAL DISTRICT OF HINDS COUNTY, MISSISSIPPI**




**STATE OF MISSISSIPPI *ex rel.* JIM HOOD, ATTORNEY GENERAL OF THE STATE OF MISSISSIPPI,**

**Plaintiff,**

**v.** **Civil Action No.:**

**JPMORGAN CHASE & COMPANY, CHASE BANK USA, N.A., and CHASE BANKCARD SERVICES, INC.,**

G-2013-1939 T1

**Defendants.**

**COMPLAINT**

**COMES NOW**, the State of Mississippi, by the Honorable Jim Hood, Attorney General for the State of Mississippi, and files this Complaint against Defendants JPMorgan Chase & Company, Chase Bank USA, N.A., and Chase Bankcard Services, Inc. (collectively, "Chase") and in support thereof, would show unto the Court as follows:

**INTRODUCTION**

1. While misconduct in debt collection practices has long plagued consumers, dramatic increases in consumer credit card lending and record high delinquencies brought about by the recession created new incentives for debt collectors – including Wall Street banks – to sidestep the law in their efforts to recoup alleged debt from their customers. Many of the problems that beset the foreclosure process and prompted a multibillion dollar settlement with the nation's largest banks – a lack of regard for accuracy and reliance on erroneous documents and incomplete records – also tainted Chase's consumer credit card collections practices. Ironically, the fact that the stakes are smaller seemed to encourage even worse conduct in the collection of consumer credit card debt: because the debts were smaller than with mortgages, it

made even less economic sense for banks to invest in the process to ensure accuracy and reliability.

2. As delinquencies exploded, Chase put significant pressure on its employees and outside vendors to increase the pace and volume of collections. Attention to process, detail, and accuracy took a backseat. Chase chose, in virtually every instance, the course that cut corners. As a result, Chase knowingly and willfully made false and misleading demands for debt, filed complaints in collections litigation that were unverified and lacked evidence, and sold debt for collection that was unreliable and undocumented.

3. Over the last 18 months, the Mississippi Attorney General has conducted a detailed investigation of Chase, reviewing hundreds of thousands of pages of documents from numerous sources; analyzing agreements through which Chase sold defaulted accounts to other debt collectors, files of consumers whose debts were arbitrated or litigated, and consumer disputes by Mississippi consumers; interviewing former Chase employees who worked in all different areas of collections, including front-line collections, collections litigation, media (which involved the collection of documents, such as account statements, to support collections efforts), and debt sales; and interviewing third parties, including consumer advocates, industry participants and experts, and Mississippi consumers. A clear and consistent picture has emerged of a collections process riddled with errors, misconduct, and misrepresentations at every stage – from initial telephone calls and demand letters to consumers, to arbitration and litigation, to the sale of debt to third parties for additional collection or litigation.

4. Chase's former employees who worked in credit card collections described a chaotic, highly disorganized work environment in which training was inadequate or completely lacking; collections quotas were unrealistic; turnover was high; policies were constantly

changing and/or inadequate; and systems were antiquated and contained conflicting data. Not surprisingly, breakdowns and errors were rampant. Chase documented – at one time – close to a hundred breakdowns in the collections process in a single department. Washington Mutual, Providian, Circuit City, and other acquired accounts proved particularly unreliable and were difficult to integrate into Chase's systems. These accounts were referred to as "toxic" and "nuclear," yet Chase still proceeded to collect on, litigate, and sell them.

5. Equally toxic were Chase's litigation and arbitration practices. In its collections litigation, Chase and its aptly dubbed "outhouse" law firm did not file any evidence, relying instead on "Requests for Admissions." The law firm was a debt mill – churning out lawsuits without even reviewing papers before they were filed in order to obtain default judgments, knowing that consumers were unlikely to show up to contest the alleged debt and dropping cases that were contested. On information and belief, Chase and its law firm would falsely declare under penalty of perjury that the consumer was not in the military service. Chase's arbitration firm, Mann Bracken – called "Mann Broken" by Chase employees – had significant problems, not the least of which was that it could not keep track of payments, which meant that Chase targeted customers for collections who had already paid. Chase's oversight of its outside firms was abysmal: [redacted]

6. The same reliance on robo-signed documents that plagued the mortgage foreclosure process was also rampant in Chase's credit card collections. Senior managers not only ordered the robo-signing – but participated in the robo-signing. In addition to using robo-signed documents in its own litigation in many parts of the country, Chase provided robo-signed

documents to its debt buyers for use in litigation against Chase customers whose accounts it had sold.

7. Chase sold accounts with substantial errors and without back-up documentation to confirm or prove them to debt buyers for pennies on the dollar.

8. Chase's misconduct has imposed real and lasting harm on Mississippi consumers. While Chase no doubt collected on and sold accounts that were valid and accurate, many Mississippi consumers have been targeted for debt that they had paid or settled, that they did not owe, or that was discharged in bankruptcy. As a result, consumers have paid debt they did not owe. Further, consumers' wages have been garnished and their credit has been damaged, along with their ability to refinance their home, qualify for a loan, or get a job. One Mississippi consumer, her elderly mother, and her ex-husband were harassed over an alleged debt that she had paid in full. She made numerous requests for, but never received, written verification of the debt. The alleged debt damaged her credit score and prevented her from refinancing her house.

9. Chase's misconduct in collections litigation also severely undermined the reliability and fairness of the legal system in Mississippi and the integrity of the Mississippi courts.

10. Chase's misconduct in collections violated public policy and was unethical and unscrupulous.

11. On information and belief, the unfair and deceptive practices identified herein with respect to Chase's consumer credit card services and collection practices also infected its auto lending and student lending services and collection practices.

12. This lawsuit seeks injunctive relief and civil penalties against Chase for knowingly and willfully using unfair methods of competition and unfair and deceptive trade

practices, methods, and acts in the collection of alleged consumer credit card, auto loan, and student loan debt in violation of the Mississippi Consumer Protection Act, Miss. Code Ann. §§ 75-24-1, *et seq.*

**PARTIES**

13. Plaintiff the State of Mississippi, acting through its Attorney General Jim Hood, brings this action in the public interest pursuant to the Attorney General's statutory and *parens patriae* authority to enforce the Mississippi Consumer Protection Act.

14. Defendant JPMorgan Chase & Company is a publicly-traded corporation that provides global banking and financial services. JPMorgan Chase & Company is incorporated in Delaware with its principal place of business in New York, New York.

15. Defendant Chase Bank USA, N.A. is one of JPMorgan Chase & Company's principal bank subsidiaries and its issuer of consumer credit cards. Chase Bank USA, N.A. is incorporated in Delaware with its principal place of business in Newark, Delaware.

16. Defendant Chase Bankcard Services, Inc. is a subsidiary of Chase Bank USA, N.A. and provides credit card services, including debt collection support, to JPMorgan Chase & Company and Chase Bank USA, N.A. Chase Bankcard Services is incorporated in Delaware with its principal place of business in Newark, Delaware.

17. Collectively, Defendants JPMorgan Chase & Company, Chase Bank USA, N.A., and Chase Bankcard Services, Inc. will be referred to herein as "Chase."

18. At all relevant times, Chase has been doing business, and continues to do business, in the State of Mississippi. Chase's services included, and continue to include, the extension of consumer credit card, student loan, and auto loan credit to Mississippi consumers and the associated administration and collection of the debt.

## JURISDICTION AND VENUE

19. Jurisdiction and venue are proper under Miss. Code Ann. §§ 75-24-9 and 11-11-3. Chase is subject to personal jurisdiction under Miss. Code Ann. § 13-3-57 because at all relevant times Defendants did business in Mississippi.

20. The State seeks injunctive relief and civil penalties. These claims cannot support subject matter jurisdiction under the Class Action Fairness Act of 2005, 28 U.S.C. § 1332(d)(11). *See Hood ex rel. Mississippi v. JP Morgan Chase & Co.*, Nos. 13–60686, 13–60687, 2013 WL 6230960, at *6 & n.8 (5th Cir. Dec. 2, 2013).

## FACTUAL ALLEGATIONS

21. Chase is one of the largest credit card lenders in the country, with approximately $128 billion worth of credit issued to consumers through more than 64 million cards in 2012. In 2000, Chase recouped $130 million from defaulted consumer debt. By 2009, Chase's credit card recoveries alone had increased tenfold and exceeded $1.2 billion. On information and belief, Chase has sought to collect on hundreds of thousands of alleged defaulted credit card accounts of Mississippi consumers from January 1, 2007 until the present.

***Chase's Records and Collections Process Were Rife with Problems and Inaccuracies***

22. From at least January 1, 2007, Chase failed to exercise appropriate care to ensure the accuracy and integrity of customer account information. Former employees who worked in consumer credit card collections described collections as "total disorganization," "a mess," and "in disarray." There were significant problems at a global level, which would have infected all accounts, and specific problems related to accounts acquired from other creditors, including lower-end creditors such as Washington Mutual.

23. During the height of the recession in 2009, collections employees were unable to keep up with the increase in defaulted accounts. More and more, they discovered mistakes on accounts, including, but not limited to, the failure to update records to reflect payments and errors in integrating acquired accounts into Chase's records system. Chase sued customers who agreed to payment plans.

*Unrealistic Collections Quotas:*

24. The problems and inaccuracies with customer account information were both caused and exacerbated by Chase's focus on speed and volume. Employees rushed to meet unrealistic collections quotas and were fired if they fell short. The unyielding pace produced a greater chance of making mistakes. The work environment was described as "sink or swim."

*Sub-standard Training:*

25. While Chase increased its speed, it failed to build its capacity to deliver accurate results. [redacted] A former employee who had previously worked in collections at now defunct Washington Mutual described Chase's training as far worse.

*Constantly Changing Staff and Policies and Procedures:*

26. There was also constant turnover and change. The rules and procedures related to collections changed weekly. There was a revolving door of not only front-line and lower-level

collections employees, but also managers. These changes created a level of chaos as collections staff struggled to keep up with new practices and expectations.

*Policies and Procedures Were Inadequate or Not Followed:*

27. Chase's policies and procedures (referred to as "PDKs" or "process documentation kits") were inadequate – or nonexistent – in some cases. For example, Chase internal documents show that there was "no existing PDK or process in place" directing the handling of borrower correspondence (such as a payment plan or bankruptcy notice) for accounts that were in litigation or "pre-litigation" (the last step in collections before Chase sued). As a result, that correspondence went unaddressed for 18 months (described below). In other cases, PDKs were not followed by employees, including at the instruction of managers who prioritized speed and volume over process, and hence, accuracy.

*Outdated and Disconnected Record Keeping Systems:*

28. Chase also relied on antiquated systems and software. The term "green screens" was used to describe the out-of-date technology, harkening back to an older generation of computer equipment. Account balances were described as inaccurate as a result of problems with Chase's systems.

29. There was also disagreement among the different systems on which Chase relied for account information and status. Chase maintained current account information, including current balance, current amount due, and history of payments, on a system referred to as TSYS (which later became "C3") or the "System of Record." In Mississippi, when an account is in collections, but prior to charge-off (when the bank would write off the debt, usually 210 days after default), the customer account information is maintained only on TSYS/C3. Post charge-off, Chase also stores account information on a system referred to as "RMS." RMS and TSYS

are supposed to exchange data, and the account information and status on the two systems are supposed to match. Sometimes the different systems would show different account balances, and Chase did not always reconcile the systems (which required a manual process), resulting in errors in the amount Chase claimed consumers owed.

30. [redacted]

31. [redacted]

*Frequent and Substantial Breakdowns in Process:*

32. Chase also experienced multiple process breakdowns in collections. In just a single group within collections – "Collection Litigation Services" ("CLS"), the group that handled collections accounts when they were marked for litigation – there were almost a hundred "risks" or documented breakdowns in the collections process at one time. For example, for a period of 18 months, beginning in 2008, Chase failed to properly handle customer

correspondence connected to accounts that were at the litigation and pre-litigation stage. Chase did not enter bankruptcy notices, settlement offers, consumer disputes, powers of attorney, proofs of payment, or communications from settlement companies into customer's account records, resulting in errors and misrepresentations in collections and litigation. Although Mississippi accounts were not impacted, this example highlights not only the level – but surprising length – of Chase's sloppiness and inattention to process that compromised the accuracy of its collection efforts.

33. There are many other egregious examples of process breakdowns. [redacted] From at least 2005, late fees were routinely added when they should not have been – after Chase had closed the account. [redacted] There were also significant problems with IRS 1099-C forms, including failing to report canceled debt to the IRS [redacted]

*Greater Problems for Washington Mutual, Providian, and Other Acquired Accounts:*

34. Chase's problems with their records and collections processes were compounded for accounts acquired from other financial institutions, including Washington Mutual and credit-card issuer Providian Financial, or retailers, such as Circuit City. In 2002, Chase acquired an $8.2 billion credit card portfolio from Providian. In 2004, Bank One (later acquired by Chase) purchased a $1.8 billion credit card portfolio from Circuit City. In 2008, Chase acquired Washington Mutual, including $10.6 billion in receivable credit card debt. Washington Mutual

had purchased Providian in 2005, so Chase also acquired Washington Mutual's Providian accounts. On information and belief, approximately [redacted] of the Mississippi accounts on which Chase has sought to collect since 2007 were acquired from another financial institution or a retailer.

35. Acquired accounts had multiple layers of problems. First, they often lacked back-up documentation and data and, as a result, the account information could not be verified or proven in litigation. For example, about half the time, Chase could not locate documentation for Providian accounts that it had sold to debt buyers when the buyers requested such documentation. Chase also did not have documents for a large percentage of Circuit City accounts sold. Affidavits prepared for filing in collections litigation by a debt buyer who purchased Washington Mutual accounts from Chase indicated that Chase had no documentation for certain Washington Mutual accounts. Washington Mutual and Providian accounts were labeled "toxic" and "nuclear" by employees because they lacked documentation and were generally considered unreliable. [redacted] Chase nonetheless continued to collect on, litigate, and sell these accounts.

36. To the extent Chase could not verify the account information – including the default date – for Washington Mutual and Providian accounts, Chase may have pursued debt that had been extinguished under Mississippi law.

37. Second, Chase experienced significant difficulties attempting to integrate acquired accounts, which were maintained on the different systems used by the prior creditors. This created additional errors and inaccuracies and resulted in deceptive statements when Chase collected on these accounts. Multiple former employees described conversion problems with

Washington Mutual and Circuit City accounts. Further, Chase failed to devote the resources necessary to ensure that acquired accounts were properly integrated. At Washington Mutual, there had been a team of dedicated employees managing the integration of Providian accounts (which Washington Mutual had acquired in 2005), whom Chase terminated after the acquisition. The dramatic increase in defaulted accounts in 2008 and 2009, as Chase also was trying to integrate Washington Mutual accounts, compounded the problems by expanding demands on employees and Chase's systems. Chase documents from 2009 discuss a "significant increase" in credit bureau disputes from acquired accounts.

[redacted] *Misreporting to the Credit Bureaus:*

38. [redacted]

39. [redacted] Further, the multitude of serious errors in

accounts as described herein would have translated into errors and inaccuracies in reports to credit bureaus as well.

*Problems with Outside Collection Agencies:*

40. Chase's outside collection agencies – hired to collect on Chase's defaulted accounts – posed additional problems. Collection agencies generally used their own systems, not Chase's, which meant that Chase had to rely on its vendors to maintain and promptly report customer information, including, for example, payments, settlements, and disputes. On information and belief, collections vendors did not adequately maintain and report information, and there also were significant problems in the transmission of information between Chase and its vendors, all resulting in additional errors and inaccuracies in customer account information. Because they are paid a percentage of their collections, these firms also had their own incentives to cut corners to maximize their returns – misconduct that, on information and belief, went unchecked by Chase. A former Chase employee described the attitude at NCO Financial Systems, one of Chase's principal outside collections agencies, as "We will always take money whether they owe it or not." As a result of the failures by outside vendors in both handling and reporting collection, Chase went forward to collect on and sell accounts that had been paid or where consumers had raised questions regarding the accuracy of their data.

41. On information and belief, Chase did not properly supervise its outside collections vendors; indeed, in a recent letter to employees, Jamie Dimon, Chase's Chairman, President, and Chief Executive Officer, acknowledged Chase's historic shortcomings in the "oversight of outside vendors." *Jamie Dimon's Letter to J.P. Morgan Employees*, Wall St. J. (Sept. 17, 2013), *available at* http://blogs.wsj.com/moneybeat/2013/09/17/jamie-dimons-letter-to-j-p-morgan-employees/.

42. The above-described problems and inaccuracies tainted all aspects of Chase's credit card collections – including telephone calls, collection letters, arbitration, litigation, and debt sales. There were no separate checks and balances to verify the accuracy of customer account information at each stage of collections; thus, errors at one stage (for example, if a payment was not entered early on in collections) were carried through to subsequent stages of collections (for example, when that account was placed for litigation and/or sold).

***Chase Relied on "Outhouse" Law Firms in Collections Litigation and Arbitration***

43. In Mississippi, Chase relied on what have been appropriately called "outhouse" law firms to send thousands of demand letters threatening litigation and to file thousands of arbitration proceedings and lawsuits against Mississippi consumers on alleged defaulted credit card accounts. Jeff Horwitz, *OCC Probing JPMorgan Chase Credit Card Collections*, Am. Banker (Mar. 12, 2012), *available at* http://www.americanbanker.com/issues/177_49/chase-credit-cards-collections-occ-probe-linda-almonte-10474371.html.

44. The law firms' recovery-based pay and overwhelming reliance on default judgments created both the incentive and opportunity to cut corners. Not only did law firms maximize their profits by running high-speed, assembly-line collection operations, but the knowledge that consumers rarely would contest and, as a result, judges rarely would be required to review their filings meant that they operated without any real restraint. As one former Chase attorney stated, "They did not make meaningful review of what they had." *Id.*

45. "Efforts to collect a bank's own debt generally have been regarded by consumer advocates as more credible than those by collection agencies, which pursue secondhand claims." Jeff Horwitz, *JPM Chase Quietly Halts Suits Over Consumer Debts*, Am. Banker (Jan. 10, 2012), *available at* http://www.americanbanker.com/issues/177_7/jpmorgan-chase-consumer-

debt-collection-1045606-1.html. As one consumer advocate explained, "On documentation issues, it wouldn't occur to me that Chase wouldn't be able to prove up its own account." *Id.*

46. But in Mississippi, Chase's collections were the *least* "credible." Since 2009, Chase has placed thousands of alleged defaulted credit card accounts with Couch, Conville, & Blitt LLC ("Couch Conville"), a Louisiana debt collection mill with an office in Hattiesburg, Mississippi, for collections and collections litigation. [redacted] Chase and Couch Conville sent demand letters threatening litigation on those accounts and, in addition, filed between 400 and 500 lawsuits, [redacted] of which related to acquired accounts, which, as described above, had greater problems than Chase-originated accounts. [redacted] any errors in the account information on the System of Record as a result of the above-mentioned problems – human errors resulting from poorly trained, rushed, and overloaded frontline collections staff; failure to log payments and other borrower correspondence; failures by outside vendors; problems with incomplete records, documents, and other problems/errors of acquired banks and accounts; and problems with integration of acquired banks and accounts – translated into errors in law firm collections and collections litigation. This does not include errors or omissions in the transmission of data back and forth between Chase and its outside law firms, [redacted]

47. Chase and Couch Conville spent as little time and resources as possible on the lawsuits, even in comparison to "secondhand" collectors (described above) and other creditors. They churned out form complaints and form motions for default judgment. On information and belief, Couch Conville failed to conduct any meaningful review of the alleged debt or verify the customer information contained in the collections letters it sent and complaints it filed; indeed, it did not even review documents before they were filed in court: filings that required an attorney signature were not signed and attorney affidavits were neither signed nor notarized.

48. [redacted] Chase and Couch Conville did not file, *any* documentation (that is, no billing statements, card member agreements, or even, as described below, robo-signed affidavits) in support of collections litigation. Lawsuits filed by Couch Conville on behalf of other creditors in Mississippi contained more supporting documentation than Chase required. Submitting no evidence whatsoever, Chase and Couch Conville instead filed "Requests for Admissions," which sought to have the consumer admit that he or she owed the alleged debt. From its long experience, Chase and Couch Conville knew the "Requests for Admissions" would go unanswered – and thus the alleged debt would automatically be deemed admitted – in many cases. Thus, Chase and Couch Conville relied on the fact that many consumers would not have the time, knowledge, or capacity to respond to its allegations to convert unverified, unsubstantiated allegations into legal judgments.

49. Chase and Couch Conville filed complaints purely as a strategy to obtain default judgments. They had no intention of actually litigating cases they filed, and either dismissed or failed to prosecute cases in which a consumer filed an answer denying the allegations.

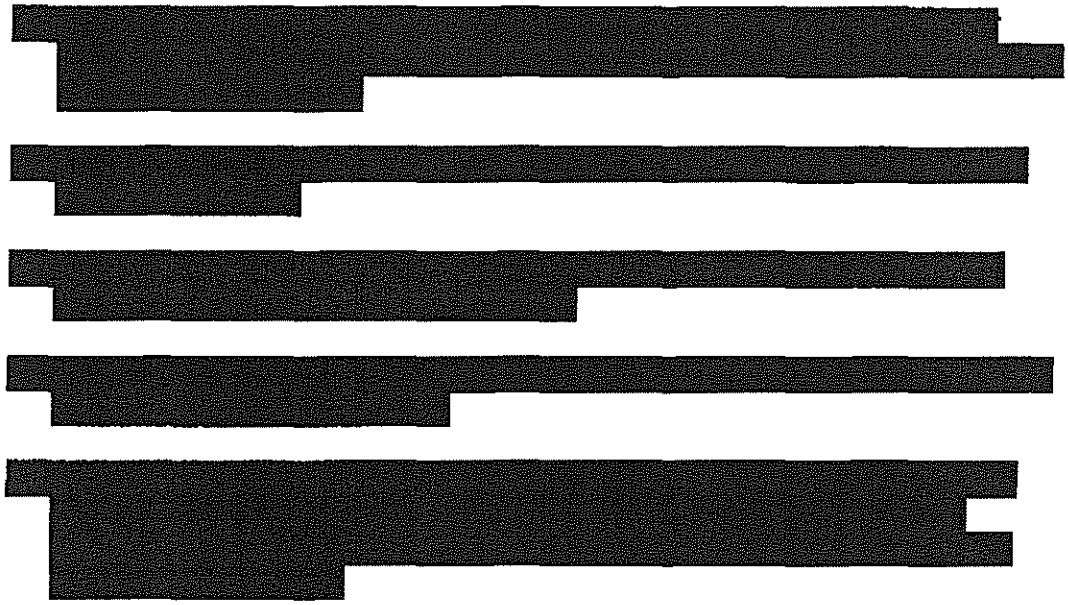
50. In requesting entry of default judgment, an attorney from Couch Conville would declare under penalty of perjury that the consumer was not in the military service. On

information and belief, Chase and Couch Conville made no inquiry and had no personal knowledge about whether the consumer was a servicemember and thus entitled to certain benefits under the Servicemembers Civil Relief Act, 50 U.S.C. App. §§ 501 *et seq.* ("SCRA"), such as a court-appointed attorney to represent it in collections litigation and a stay of proceedings in some circumstances.

51. Chase and Couch Conville also falsely claimed in motions for default judgment to seek post-judgment interest on "principal only" when in fact they were seeking post-judgment interest on principal as well as interest, late fees, and other charges.

52. Even though Chase and Couch Conville spent virtually no time or labor on the lawsuits and merely churned out form complaints and motions for default judgment unsupported by any documentation, they would seek exorbitant attorneys' fees – 25% of the total amount claimed, or, for example, $2,500 on a $10,000 claim.

53. Chase and its outside law firms engaged in significant additional misconduct in collections and collections litigation that compounded the errors on and problems with the accounts. [redacted]



54. Chase's arbitration of alleged defaulted credit card accounts was likewise rife with abuse. Chase relied on the national law firm Mann Bracken to handle the bulk of its arbitration until arbitration was phased out in mid-2009. It also used Couch Conville for some arbitration. In total, Chase initiated more than [redacted] arbitration proceedings against Mississippi consumers between 2007 and mid-2009.

55. Mann Bracken's problems were significant and many: among other things, it was known for poor recordkeeping; failed to notify Chase when accounts were settled or paid; may not have been issuing IRS 1099-C forms for settled accounts for years; and may have been inflating debt balances by tacking on improper filing fees. Mann Bracken also lacked controls and oversight over its sub-vendor (local) law firms, which meant that it was not ensuring that the local law firms representing Chase were accurately maintaining and reporting information (for example, if a customer made a payment). Former employees stated that when Chase pulled accounts back from Mann Bracken in 2009 and moved them to other firms or sought to collect on them internally, it received many complaints from consumers that they had paid the account

and could submit proof of payment. [redacted] A 2009 Chase document also discusses a "significant increase" in credit bureau disputes from arbitration accounts.

56. The significant problems with Mann Bracken were long and widely known at Chase. Employees referred to the firm as "Mann Broken." Chase documents demonstrate that Mann Bracken did not "meet" requirements, was "not sending payment terms, settlement terms" to Chase in mid-2009, and had even greater reporting problems prior to that. Chase documents also show that Mann Bracken's account data did not match Chase's data approximately 15% of the time in 2009. These figures do not even include the recordkeeping and reporting problems of Mann Bracken's sub-vendors.

57. But Chase did little to address the problems. A group of Chase employees in CLS tried to terminate the firm in 2008 because of its performance problems, but those efforts were halted by top executives at the company. Chase continued to use Mann Bracken until mid-2009, shortly before the firm shuttered its doors following a congressional investigation into the arbitration firm National Arbitration Forum – which had close ties to Mann Bracken – for favoring credit card companies in debt-collection arbitrations filed against consumers.

58. Chase engaged in very little oversight of the outside law firms with which it placed accounts for collections, arbitration, and litigation. In some states, Chase relied on "ATEX" (for "Attorney External") law firms, not "National Litigation" firms (like in Mississippi.) [redacted]

[redacted] The attorney liaisons were also the ones who, as described below, were responsible for robo-signing affidavits and other legal documents. Putting them in charge of supervising the work of outside law firms was the quintessential case of the fox guarding the hen house.

59. [redacted]

60. Despite these consistent failures in firms' performance, Chase knew that there was little that its employees could do about problems with outside law firms. [redacted]

61. The acknowledgement by Jamie Dimon, Chase's Chairman, President, and Chief Executive Officer, of its failures in overseeing outside vendors certainly extends to its failures to oversee the law firms that it relied on to handle arbitrations and litigation. But this was not a routine failure of vendor management. Chase engaged these firms to handle official legal

proceedings against its customers and let them engage in widespread deception, with no supervision and no repercussions.

62. Chase largely halted its collections litigation in April 2011, though not until its unlawful practices became public. *See, e.g.*, Abigail Field, *Chase Hit With SEC Whistleblower Complaint Over Credit Card Practices*, Daily Fin. (Dec. 19, 2010), *available at* http://www.dailyfinance.com/2010/12/17/chase-sec-whistleblower-complaint-credit-card/; Jessica Silver-*Greenberg*, *Lender Drops Pursuit of Debt*, Wall St. J. (June 24, 2011), *available at* http://online.wsj.com/news/articles/SB10001424052702304231204576404052290445530.

***Chase Gave Debt Buyers False Affidavits to Use in Litigation***

63. In many states, Chase relied on the rampant use of "robo-signed" affidavits and declarations – legal documents signed in mass quantities, often hundreds at a time, without any knowledge of the facts alleged in the document and without regard to the truth or accuracy of those facts, attesting to the validity and collectability of the alleged debt based on personal knowledge or a review of Chase's records – to support its collections litigation. The signers did not receive or review any underlying information – or even read the affidavit before signing. "We did not verify a single one," a former Chase employee has been quoted as saying. "We were told [by superiors] 'we're in a hurry. Go ahead and sign them.'" Horwitz, *OCC Probing*, *supra.* [redacted]

64. Affidavits were most commonly robo-signed by attorney liaisons – the employees also responsible for supervising the conduct of certain outside law firms – at regular risk management meetings in front of senior executives and on airplanes during business trips, among

other places. Employees who notarized the documents did not witness the signatures and, in some cases, were not even located in the same city as the robo-signers. The robo-signers used fictitious titles like "Assistant Treasurer" and "Assistant Vice-President."

65. The orders directing employees to robo-sign legal documents came from senior management and Chase's lawyers. Managers – including [redacted] Jason Lazinbat – also took part in the robo-signing.

66. In addition, Chase may have been providing false card member agreements, agreements that did not actually belong to the consumer and thus did not establish that the consumer had a contract with Chase or the consumer's actual terms and conditions, to debt buyers for use in litigation in Mississippi. Debt buyers routinely filed the same Chase card member agreement in litigation in Mississippi whether or not it was the consumers' actual agreement.

67. Although Chase and Couch Conville did not file any supporting documentation – not even robo-signed affidavits – in collections litigation in Mississippi, the handling of these sworn legal documents is emblematic of and confirms Chase's willingness to break the rules and cut corners in the interest of cutting costs and increasing speed.

68. In addition, Chase provided [redacted] such documents to its debt buyers for filing in third-party lawsuits against Mississippi consumers. In addition to robo-signed affidavits attesting that a particular consumer owed a particular amount of money on a defaulted credit card, Chase also provided to debt buyers "Affidavit[s] of Sale" stating that Chase sold "a pool of charged-off accounts (the Accounts) by a Purchase and Sale Agreement and a Bill of Sale." The Affidavit of Sale would falsely state that the affiant is "not aware of any errors in these accounts" even though Chase's Purchase and Sale Agreements ("PSAs") routinely disclaimed the accuracy

of the accounts it sold (described below) and, on information and belief, the affiant did not review or have any knowledge about the accounts.

***Chase Routinely Sold Inaccurate, Unreliable, and Undocumented Debt for Collection***

69. Chase routinely sold credit card accounts for collection that contained significant errors, without adequate regard for the accuracy and integrity of the information, and without providing debt buyers any documentation that would allow them to verify the account information themselves. Chase sold these accounts for pennies on the dollar, knowing that the buyer would collect what it could and sell them to the next purchaser, to begin the cycle again, and knowing that these buyers would be pursuing these consumers – Chase's customers – for debts that they may not owe and could not verify or prove.

70. Debt sales constituted a significant portion – 25 percent – of Chase's revenues in credit card debt recovery. In two years – from 2009 to 2011 – Chase charged off more than $20 billion in consumer credit card accounts. Horwitz, *OCC Probing, supra.* Thus, even at its cut rate, Chase was able to reap hundreds of millions of dollars from debt sales each year.

71. Chase sold charged-off accounts, or accounts that were approximately 210 days past due which Chase had tried to collect on itself but failed. Chase sold more than [redacted] charged-off accounts of Mississippi consumers between 2007 and 2012. Sales reached their peak [redacted]

72. Many of Chase's PSAs with debt buyers expressly recognized that the [redacted]

73. The accounts are sold in portfolios. As part of the sale, [redacted]

[redacted] and which would have contributed to errors in collections, including the buyer tracing the wrong person for collection.

74. The portfolio account data was transmitted through Microsoft Excel spreadsheets, which were prone to additional errors (for example, dropped account numbers or Social Security numbers cut off in truncated fields, mistakes in listing co-obligors on the account) when fields were converted. In 2009, Chase conducted a $600 million deal, which had such serious data degradation issues that Chase temporarily halted its debt sales.

75. [redacted] on information and belief, Chase did not verify the accounts before selling. The debt sales department was the last step in collections. Thus, any errors in the account information on the System of Record as a result of the above-mentioned problems would have translated into errors in the account information sold and used to collect on by Chase's debt buyers.

76. As a result of inadequate procedures and controls, Chase also often sold accounts that should not have been collected on and should have been excluded from sales. [redacted]

[redacted]

77. There are many other examples of circumstances in which Chase sold accounts for collection that should not have been sold. In at least one instance, Chase sold a portfolio of accounts where 90% of the accounts had been discharged in bankruptcy. [redacted]

78. Chase's PSAs [redacted]

[redacted] Chase's failure to properly verify accounts before selling even more egregious.

79. Chase knew or should have known that many of the accounts it was selling suffered from significant problems. [redacted]

80. Chase often did not provide account documentation, such as card member agreements and account statements, as part of the sale. [redacted] In addition, Chase knew that some debt buyers would file lawsuits, just as Chase did, to collect on alleged disputed debt, but that the buyers, without access to documentation, would lack proper evidence to prove the accuracy and validity of the debt.

81. [redacted]

[redacted]

82. Chase not only often sold accounts without providing any documentation [redacted] but knowing that it did not have – and thus could not even provide to the debt buyer if requested – documentation to verify the alleged debt. For example, Chase sold Providian accounts even though half lacked back-up documentation. Chase even sold debt labeled by Chase employees as "toxic" and "nuclear" because it lacked documentation and was generally considered unreliable.

83. [redacted] In one agreement, for example, Chase stated that documentation to verify the alleged debt might be unavailable for close to half the accounts: "Seller represents and warrants that documentation is available for no less than 50% of the Charged-off Accounts." [redacted]

84. Chase has acknowledged that some of its PSAs contain strong disclaimers regarding the accuracy and validity of the account information sold. In 2010, a former Chase employee who worked in CLS brought a lawsuit against Chase alleging that she was wrongfully terminated for failing to agree to participate in the sale of a portfolio of accounts that she claimed suffered from significant problems, including incorrect account balances and missing account documentation. In moving to dismiss the lawsuit, Chase argued that there was no fraud committed *on the debt buyer* because the parties agreed that the accounts were being sold "as is"

and "with all faults" and that Chase made "express representations" that it would only provide documentation "if available."

85. But this is precisely the problem: Chase is selling its customers' debt for the purpose of collection for which it is not vouching for the accuracy or validity, is expressly stating is "as is" and "with all faults," knows may be disputed, and for which it is not providing back-up documentation. Chase knows full well that the buyer will not, in turn, convey disclaimers about the accuracy or validity of the debt to consumers or the courts but will instead represent the debt as valid and owing, and institute litigation without proper evidence to support the claims and with reason to doubt their validity.

86. This problem is of Chase's own making: Chase cannot claim that it was the debt buyer's responsibility to verify the account information before collection where, among other things, Chase provided limited account information to the buyer, imposed contractual limits on the buyer's access to documentation, and, in many instances, had no documentation at all to support the alleged debt. Nor can Chase claim that debt buyers could reasonably rely on its records given the multitude of serious errors in accounts, of which Chase was well aware.

87. Of course, Chase engaged in exactly the same conduct as debt buyers except, unlike the buyers, Chase had direct and clear knowledge of the failings in its own systems, processes, and records. Chase only sold a portion of its charged-off accounts: it continued to collect on the remainder. In addition, Chase sought to collect on the accounts it sold prior to their sale.

***Chase's Unfair and Deceptive Debt Collections Practices Injured the State and its Residents***

88. While Chase reaped record-high recoveries from its unfair and deceptive debt collection practices, the State and its residents suffered real and substantial harm. As described

above, Mississippi consumers have faced collection for alleged debt that they had paid or settled, that they did not owe, or that was discharged in bankruptcy. For example, one consumer paid her Circuit City account in full before Circuit City went out of business. After Chase acquired the account, she was pursued for an unpaid debt nonetheless. Her elderly mother and her ex-husband were harassed by collectors and her credit was damaged, preventing her from refinancing her house. The Attorney General heard and reviewed many other concerns, including many claims of inaccurate information, from consumers about Chase's unfair and deceptive collection practices during the course of its investigation, including, but not limited to:

- Chase tried to collect debt a consumer didn't owe by calling repeatedly, would not explain how they calculated the debt;
- A consumer paid debt they didn't believe they owed to Chase just to get it over with;
- Chase reported a consumer's debt to a credit bureau as paid, but then turned around and sold the debt to another company for collection;
- A consumer sent Chase materials proving bankruptcy; the consumer was told collection activity would stop but it never did;
- A consumer reported identity theft to Chase; Chase said it would forgive the debt, but collected anyway;
- Chase called to collect six to seven times per day on a paid account; the consumer paid online and was never late;
- The consumer never owned a Chase credit card, but was collected on.

89. Internal documents show that CLS alone received hundreds of credit bureau disputes every month. Fifteen percent of those disputes were deleted *altogether* because, after conducting an investigation, Chase could not prove the account information. Many more were adjusted for incorrect balances.

90. As a result of Chase's unfair and deceptive practices, consumers have paid debt they did not owe. Further, consumers' wages have been garnished and their credit has been damaged, along with their ability to refinance their home, qualify for a loan, or get a job.

91. Chase's misconduct in collections litigation – including proceeding without any evidence and with no intention to prosecute the case if a consumer answered disputing the debt – also cast doubt on the reliability and fairness of the legal system in Mississippi and undermined the integrity of the Mississippi courts.

92. Chase's misconduct in collections violated public policy and was unethical and unscrupulous.

## CLAIMS FOR RELIEF

### FIRST CLAIM FOR RELIEF
### Violation of the Mississippi Consumer Protection Act, Miss. Code Ann. § 75-24-5

93. Plaintiff realleges and incorporates herein by reference the preceding allegations of this Complaint.

94. Plaintiff, the State of Mississippi, brings this action by Jim Hood, Attorney General of the State of Mississippi, whose office is located at 550 High Street, Suite 1200, Jackson, Mississippi 39201. Defendant JPMorgan Chase & Company is a Delaware corporation with its principal place of business at 270 Park Avenue, New York, New York 10017. Defendant Chase Bank USA, N.A. is a Delaware corporation with its principal place of business at 200 White Clay Center Drive, Newark, Delaware 19711. Defendant Chase Bankcard Services, Inc. is a Delaware corporation with its principal place of business at 200 White Clay Center Drive, Newark, Delaware 19711.

95. Defendants JPMorgan Chase & Company, Chase Bank USA, N.A., and Chase Bankcard Services, Inc. are "persons" within the meaning of, and subject to, the provisions of the Mississippi Consumer Protection Act.

96. At all relevant times, Chase's services included, and continue to include, the extension of consumer credit card, student loan, and auto loan credit to Mississippi consumers and the associated administration and collection of the debt.

97. Since at least as early as January 1, 2007, Chase has knowingly and willfully engaged in unfair methods of competition and unfair and deceptive trade practices in or affecting commerce, and misrepresented, among other things, the approval, characteristics, quantities, standard, and/or quality of Mississippi consumers' credit card, auto loan, and student loan accounts and account information in violation of the Mississippi Consumer Protection Act, Miss. Code Ann. § 74-24-5(1) and § 75-24-5(2), by engaging in the acts and practices alleged herein, including, but not limited to, repeatedly, and directly or indirectly:

a. representing to consumers for the purpose of collection that the alleged debt is accurate, valid, and/or owing where the balance is inaccurate; the account was paid or settled; the account is subject to dispute; the account was discharged in bankruptcy; the account belongs to someone else; and the debt was extinguished;

b. representing to consumers for the purpose of collection that the alleged debt is accurate, valid, and/or owing where Chase knew or should have known that the underlying account data and records were unreliable and failed to verify the accuracy and validity of the debt;

c. representing to consumers for the purpose of collection that the alleged debt is accurate, valid, and/or owing and that it would obtain verification of the debt where Chase did not have or would not obtain documentation to verify the debt;

d. failing to accurately [redacted] report and/or update consumer information to credit bureaus;

e. [redacted]

f. sending law firm collection letters without adequate review of the alleged debt or verification of the information;

g. filing collections arbitration and litigation without adequate review of the alleged debt or verification of the information;

h. filing collections litigation without submitting any actual evidence of the alleged debt and without intention to prosecute the case if the consumer answers disputing the debt, and with the intent to secure a default judgment;

i. representing in lawsuits that the consumer was not in the military service without knowledge whether the consumer was a servicemember;

j. representing in lawsuits that it is seeking post-judgment interest on "principal only" where it is seeking interest on principal as well as interest, late fees, and other charges;

k. seeking exorbitant and unreasonable attorneys' fees in collections litigation;

l. engaging in widespread misconduct in collections arbitration that resulted in inflated account balances, errors and inaccuracies in customer account information, and consumers being pursued for debt they had already paid;

m. failing to oversee its collections vendors and law firms in their collection and collections litigation;

n. providing affidavits to debt buyers in support of judgments against Mississippi consumers that contained false and misleading representations;

o. providing false and inapplicable card member agreements to debt buyers in support of judgment against Mississippi consumers;

p. selling accounts to debt buyers for the purpose of collection [redacted] where Chase knew or should have known:

i. that the accounts were not accurate, valid and/or owing – including, among other categories, [redacted]

ii. that the underlying account data and records were unreliable and contained errors and failed to verify the accuracy and validity of the debt and/or correct the errors;

iii. [redacted]

q. selling accounts to debt buyers for the purpose of collection knowing that the buyer would represent to the consumer that the alleged debt is accurate, valid, and/or owing

and that it would obtain verification of the debt where Chase did not have, and therefore could not provide to the buyers, or would not provide to the buyer, documentation to verify the debt;

r. selling accounts to debt buyers for the purpose of collection where Chase disclaimed the accuracy and validity of the account information knowing that its disclaimers would not be conveyed to the consumer but the alleged debt would instead be represented as accurate, valid, and/or owing.

**PRAYER FOR RELIEF**

**WHEREFORE**, the State respectfully requests that the Court:

98. Enter a judgment in favor of the State and against Chase;

99. Determine that Chase has engaged in unfair methods of competition and unfair and deceptive trade practices and misrepresentations in violation of the Mississippi Consumer Protection Act, Miss. Code Ann. §§ 75-24-5(1) and 75-24-5(2);

100. Permanently enjoin Chase, its affiliates, successors, transferees, assignees, and the offices, directors, partners, agents, and employees thereof under the Mississippi Consumer Protection Act, Miss. Code Ann. § 75-24-9, from engaging in any acts or practices that violate the Mississippi Consumer Protection Act, Miss. Code § 75-24-5, including, but not limited to, the unfair methods of competition and the unfair and deceptive trade practices and misrepresentations alleged herein;

101. Order Chase to pay a civil penalty not to exceed ten thousand dollars ($10,000.00) under the Mississippi Consumer Protection Act, Miss. Code Ann. § 75-24-19 for each and every violation of the Mississippi Consumer Protection Act, Miss. Code Ann. § 75-24-5; and

102. Order Chase to pay the State's attorneys' fees and costs under the Mississippi Consumer Protection Act, Miss. Code Ann. § 75-24-19.

DATED this 17th day of December, 2013.

**PLAINTIFF, STATE OF MISSISSIPPI *ex rel.* JIM HOOD, ATTORNEY GENERAL OF THE STATE OF MISSISSIPPI**

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