The deal ends several investigations and suits targeting soured mortgage bonds issued before the financial crisis. Agence France-Presse/Getty Images

J.P. Morgan Chase & Co. and the Justice Department Monday agreed to a landmark $13 billion settlement that resolves a number of legal headaches for the largest U.S. bank, clearing the way for a public announcement as soon as Tuesday, according to people familiar with the talks.

They added that the final piece holding up the deal—terms of $4 billion worth of aid to distressed homeowners—was completed Monday.

The historic settlement ends several investigations and lawsuits targeting soured mortgage bonds issued before the financial crisis and amounts to the biggest combination of fines and damages extracted by the U.S. government in a civil settlement with any single company.

The consumer-relief component was the most complex part of the pact, and the Justice Department asked the Department of Housing and Urban Development for assistance in the final negotiations, according to the people familiar with the talks.

They added that over the weekend, Attorney General Eric Holder and the Justice Department's lead negotiator, Associate Attorney General Tony West, held lengthy
discussions with HUD Secretary Shaun Donovan as they put the finishing touches on the terms.

J.P. Morgan agreed to pay at least $1.5 billion, and as much as $1.7 billion, to write down the principal amounts of J.P. Morgan-held loans in which the borrower owes more than the property is worth.

In addition, at least $300 million and as much as $500 million would go toward what the mortgage industry calls forbearance—restructuring some mortgages to reduce the monthly payments, the people said.

The other $2 billion in consumer relief will be directed toward a number of different measures, including new mortgage originations for low- and moderate-income borrowers, or absorbing the remaining principal owed on properties that have been vacated but not yet foreclosed upon, the people said.

In a first for such a settlement, J.P. Morgan could use part of that money to pay for so-called antiblend work in distressed neighborhoods, such as demolition of rundown, abandoned homes.

The agreement, which includes a previously announced $4 billion deal struck with the Federal Housing Finance Agency, eclipses the $4.5 billion from BP PLC for its Deepwater Horizon disaster in the Gulf of Mexico and $3 billion paid by drug maker GlaxoSmithKline PLC after it pleaded guilty to criminal charges of illegally marketing drugs and withholding safety data from U.S. regulators. The pact also marks the toughest action taken yet on the financial crisis by the Obama administration, which has been criticized by Democrats and some Republicans for not pursuing more aggressively criminal charges against bank executives for conduct leading up to the crisis.

A separate criminal probe of the bank over mortgages will continue. Some Justice Department officials said there is strong evidence against a small number of individuals who worked at the bank, while bank officials insist the government hasn't found evidence of criminal wrongdoing, according to people familiar with the discussions.

At issue in the J.P. Morgan settlement are billions of dollars in residential mortgage-backed securities—bond offerings that government prosecutors say were based on mortgages that were weaker than advertised.

For J.P. Morgan, the agreement represents significant progress in its effort to put as many legal woes behind it as possible. The scope of penalties and damages reinforces the turnaround for an institution that went from being favorably viewed as a rescuer of troubled lenders to a bank grappling with a tainted reputation and fractured relationships in Washington.

J.P. Morgan also has agreed in recent months to pay more than $1 billion to end an array of federal and overseas investigations into a series of bad bets made by a trader known as the "London whale." Those trades, which resulted in losses of more than $6 billion for J.P. Morgan, raised questions about the bank's governance. Federal prosecutors still are conducting investigations into the 2012 trading fiasco, J.P. Morgan's overseas hiring practices, whether it provided adequate warnings about the behavior of convicted Ponzi scheme operator Bernard Madoff and its alleged manipulation of U.S. energy markets.

The bank has disclosed these probes and said it is cooperating with authorities.
An independent monitor would oversee the $4 billion in consumer relief to ensure it is completed by the end of 2016, people familiar with the matter said.

Monday’s agreement on terms of the homeowner-aid portion of the deal comes after the two sides agreed last week on a separate outstanding issue, according to these people.

J.P. Morgan has told the Justice Department it was willing to give up its ability to pursue a Federal Deposit Insurance Corp. receivership for certain settlement costs that can be tied back to soured mortgage bonds issued by Washington Mutual Inc. WMIH -9.32% during the housing boom, the people said.

J.P. Morgan purchased the banking operations of Washington Mutual in 2008, and it had previously said a FDIC receivership that liquidated the thrift should absorb any claims.

The question of who bears responsibility for Washington Mutual's legal liabilities had turned into a major snag in discussions with the Justice Department, said people close to the talks. Mr. Holder wanted to avoid a situation in which a government penalty of a bank is essentially extracted from another government agency, according to these people.

J.P. Morgan also has agreed not to pursue the FDIC receiver for any portion of the $13 billion deal, said one person close to the talks. That would include the $4 billion settlement with the Federal Housing Finance Agency, the regulator of mortgage-finance companies Fannie Mae and Freddie Mac.

The FHFA settlement, announced last month, doesn't contain any language preventing J.P. Morgan from seeking repayment from the FDIC receivership even though Justice Department lawyers had urged the FHFA to bar J.P. Morgan from going after the FDIC. It is possible J.P. Morgan would preserve the ability to go after the FDIC receivership for claims falling outside the Justice Department settlement.

One example is a private suit by Deutsche Bank National Trust Co. seeking as much as $10 billion on behalf of more than 100 trusts holding poor-performing bonds issued by Washington Mutual. J.P. Morgan and the FDIC are defendants in the case, and each has tried to pin liability on the other.

Write to Devlin Barrett at devlin.barrett@wsj.com and Dan Fitzpatrick at dan.fitzpatrick@wsj.com