

# CONSUMER RELIEF PROGRESS

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CHASE RMBS SETTLEMENT  
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## Introduction

The following report is my fifth on JP Morgan Chase's progress toward satisfying its consumer relief obligations under its settlement with the federal government and five states (Chase RMBS Settlement or Settlement). The Chase RMBS Settlement addresses claims that Chase, Bear Stearns and Washington Mutual packaged and sold bad residential mortgage-backed securities to investors before the financial crisis. This Settlement requires Chase to provide \$4 billion in relief to consumers by December 31, 2017.

As detailed in this report, I have credited Chase with \$3,324,010,726 in consumer relief to 151,436 borrowers through December 31, 2014. This report explains the work my team performed to credit that amount.

This report also details an additional \$231,269,947 in consumer relief to 6,671 borrowers through March 31, 2015 that Chase's Internal Review Group (HRG) asserted to me in May 2015. I have not yet credited this additional activity. I am in the process of confirming the additional amount and will include my results in my next report.

## Consumer Relief

The Chase RMBS Settlement requires Chase to distribute \$4 billion in credited relief by December 31, 2017. Relief may be distributed in four different types, which are each credited differently:

1. **Modification - Forgiveness/Forbearance<sup>1</sup>**
2. **Rate Reduction/Refinancing<sup>2</sup>**
3. **Low- to Moderate-Income and Disaster Area Lending<sup>3</sup>**
4. **Anti Blight<sup>4</sup>**

Additionally, Chase receives incentives for certain relief conducted in the first year, in hardest-hit areas<sup>5</sup> and on loans held for investment, as opposed to loans serviced for others.

For more information about these credit types and incentives, see my [Initial Report](#) or the [Settlement agreement](#).

In my last report, I confirmed that Chase had earned \$2,245,673,500 in consumer relief credit from 111,924 loans submitted for credit through September 30, 2014. In February 2015, the HRG asserted to me that Chase had completed an additional \$1,078,337,226 of creditable relief through December 31, 2014.

After conducting the review described below, I can confirm this additional relief brings Chase's total credited consumer relief amount to \$3,324,010,726.

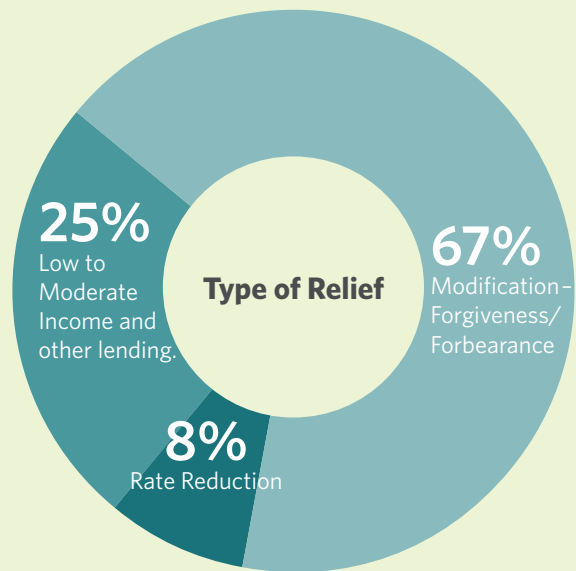
### Consumer Relief Reported Through March 31, 2015

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	Program to Date
Modification-Forgiveness/Forbearance	\$6,325,087	\$332,204,667	\$217,346,942	\$722,707,221	\$231,269,947	\$1,509,853,864
Rate Reduction	—	—	\$791,758,929	\$82,712,005	—	\$874,470,934
Low- to Moderate-Income and Disaster Area Lending	—	\$530,086,750	\$367,951,125	\$272,918,000	—	\$1,170,955,875
Anti-Blight	—	—	—	—	—	—
<b>Total Consumer Relief (HRG Assertion)</b>	<b>\$6,325,087</b>	<b>\$862,291,417</b>	<b>\$1,377,056,996</b>	<b>\$1,078,337,226</b>	<b>\$231,269,947</b>	<b>\$3,555,280,673</b>
<b>Total Credited Consumer Relief</b>	<b>\$6,325,087</b>	<b>\$862,291,417</b>	<b>\$1,377,056,996</b>	<b>\$1,078,337,226</b>	<b>Crediting in Progress</b>	<b>\$3,324,010,726</b>

<sup>1</sup>Chase RMBS Settlement Annex 2 (Annex 2), Menu Item 1 <sup>2</sup>Annex 2, Menu Item 2 <sup>3</sup>Annex 2, Menu Item 3 <sup>4</sup>Annex 2, Menu Item 4 <sup>5</sup>As defined by the Department of Housing and Urban Development

## Fourth Testing Period (December 31, 2014)

On February 17, 2015, the HRG asserted to me that Chase claimed nearly \$1.1 billion in additional credit benefiting 39,512 borrowers for the testing period ending December 31, 2014. Approximately 67 percent of Chase's claimed credit was delivered via modifications through forgiveness, forbearance and forgiveness of forbearance; approximately 25 percent through Chase's lending program for borrowers in hardest-hit areas and first-time, low- to moderate-income buyers; and approximately 8 percent through rate reduction. The table sets forth, the type of relief, claimed by Chase for the testing period ending December 31, 2014.



Type of Relief	Loan Count	Claimed Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	<b>15,007</b>	<b>\$722,707,221</b>
First Lien - Principal Forgiveness	2,478	\$168,456,908
Principal Forgiveness of Forbearance <sup>6</sup>	4,328	\$300,000,000
First Lien - Forbearance	3,126	\$64,562,607
Second Lien - Principal Forgiveness (including extinguishments)	5,075	\$189,687,706
<b>Rate Reduction</b>	<b>3,609</b>	<b>\$82,712,005</b>
<b>Low- to Moderate-Income and Other Lending</b>	<b>20,896</b>	<b>\$272,918,000</b>
Lending to borrowers in Hardest Hit Areas	11,344	\$163,070,000
Lending to first-time LMI homebuyers	9,552	\$109,848,000
<b>Total Consumer Relief Programs</b>	<b>39,512</b>	<b>\$1,078,337,226</b>

The HRG performed a Satisfaction review and, as a result, reported to me that:

- i. The consumer relief was based on completed transactions correctly reported.
- ii. Chase correctly calculated the relief based on the formulas set forth in the Settlement.
- iii. The relief correctly reflected the requirements, conditions and limitations.

The HRG also submitted to me work papers reflecting its review and analysis. I examined these work papers as part of my review.

<sup>6</sup> The Settlement specifies the credit Chase can claim for Principal Forgiveness of Forbearance is capped at \$300 million. Chase claimed \$300,647,000 in Principal Forgiveness of Forbearance Consumer Relief Credit, but the HRG asserted only \$300 million.

## HRG Satisfaction Review

According to the work plan,<sup>7</sup> the HRG must test a statistically valid sample from four different testing populations, which reflect the types of eligible consumer relief for which credit is sought in the testing period:

1. **Modification - Forgiveness/Forbearance**<sup>8</sup>
2. **Rate Reduction/Refinancing**<sup>9</sup>
3. **Low- to Moderate-Income and Disaster Area Lending**<sup>10</sup>
4. **Anti Blight**<sup>11</sup>

For the testing period ending December 31, 2014, Chase claimed credit in the first three consumer relief types. Chase did not seek credit during this period for anti-blight activities. Using an Excel-based sample size calculator and randomizing software, the HRG selected statistically valid samples from each of the three testing populations. In selecting the samples, the HRG used a 99 percent confidence level<sup>12</sup> (one-tailed), 2.5 percent estimated error rate and 2 percent margin of error approach (99/2.5/2 approach). The total number of loans in each testing population and the number of loans tested in the sample by the HRG are set forth in the table below.

### HRG Testing Samples

Testing Population	Number of Loans in Credit Population	Total Reported Credit Amount	Number of Loans in HRG Sample	Total Reported Credit Amount in HRG Sample
<b>Modification - Forgiveness/Forbearance</b>	15,007	\$722,707,221	324	\$15,487,306
<b>Rate Reduction</b>	3,609	\$82,712,005	304	\$6,366,539
<b>Low- to Moderate-Income and Other Lending</b>	20,896	\$272,918,000	326	\$4,229,125
<b>Total Consumer Relief Programs</b>	<b>39,512</b>	<b>\$1,078,337,226</b>	<b>954</b>	<b>\$26,082,970</b>

The HRG had access to loan-level information relevant to testing for loans in each sample through Chase's system of record.

After verifying eligibility and recalculating credit for all loans in the sample, the HRG compared its results (Actual Credit Amount) to the amount Chase reported (Reported Credit Amount). The Settlement work plan allows for a 2 percent error threshold.

<sup>7</sup>For more information on the work plan, please see the Monitor's **Initial Report**. <sup>8</sup> Annex 2, Menu Item 1 <sup>9</sup> Annex 2, Menu Item 2 <sup>10</sup> Annex 2, Menu Item 3 <sup>11</sup> Annex 2, Menu Item 4 <sup>12</sup> Confidence level is a measure of the reliability of the outcome of a sample. A confidence level of 99 percent in performing a test on a sample means there is a probability of at least 99 percent that the outcome from the testing of the sample is representative of the outcome that would be obtained if the testing had been performed on the entire population.

Had the Reported Credit Amount been too high (more than 2 percent above the Actual Credit Amount) for any testing population, Chase would have had to analyze all loans in the testing population and submit an updated report. The HRG then would have tested a new sample in the applicable testing population using the same process.

Because the Reported Credit Amount for the Rate Reduction testing population was too low (more than 2 percent below the Actual Credit Amount), Chase could either have taken the lower credit amount it initially reported or corrected the underreporting and resubmitted the entire population for testing. Chase elected to take the lower credit amount.

Additionally, the Reported Credit Amount was within the error threshold for the modification—forgiveness/ forbearance and low- to moderate-income or other lending testing populations. Therefore, the HRG asserted to me that the amount of credit Chase claimed was accurate.

## Monitor’s Review

Before I began testing the HRG’s work, I, along with the professionals working with me, met with Chase’s representatives to better understand its mortgage banking operations, systems of record and its HRG program. We also reviewed the HRG’s proposed approach for consumer relief testing. These initial meetings have informed my work thus far, and my professionals continue to meet with the HRG and Chase as necessary.

At my direction, BDO, conducted an extensive review of the HRG’s testing from March to May 2015. BDO tested the entire sample of loans in each of the three testing populations. BDO’s testing procedures and access to information for each testing period allowed for loan-level testing of each loan in the sample.

After completing this loan-level testing, BDO determined that the HRG correctly validated the consumer relief credit Chase reported. The following table sets forth the results of the testing conducted by the HRG and BDO.

HRG				BDO		
Modification Forgiveness/ Forbearance	Rate Reduction	Low- to Moderate-Income and Other Lending		Modification Forgiveness/ Forbearance	Rate Reduction	Low- to Moderate-Income and Other Lending
324	304	326	<b>Loans Sampled</b>	324	304	326
\$15,487,306	\$6,366,539	\$4,229,125	<b>Servicer Reported Credit Amount</b>	\$15,487,306	\$6,366,539	\$4,229,125
\$15,570,126	\$6,598,046	\$4,229,125	<b>Calculated Actual Credit Amount</b>	\$15,570,126	\$6,598,046	\$4,229,125
(\$82,820)	(\$231,507)	\$ —	<b>Amount Overstated (or Understated)</b>	(\$82,820)	(\$231,507)	\$ —
(.53%)	(3.51%)	— %	<b>% Difference</b>	(.53%)	(3.51%)	— %

For each of the samples tested, BDO's credit calculations and the HRG's credit calculations were the same. BDO determined that the Reported Credit Amount did not exceed the Actual Credit Amount by more than the 2 percent error threshold in the work plan. As discussed above, Chase elected to claim the Reported Credit Amount for Rate Reduction even though it was lower than the Actual Credit Amount, rather than to resubmit.

BDO documented its findings in its work papers and reported them to me. I then undertook an in-depth review of the HRG's work papers with BDO, as well as BDO's work papers, and agreed with these determinations.

## Monitor's Review of Non-Creditable Requirements

As described in my third public report, I inquired into whether Chase complied with certain policy-based, non-creditable requirements of the Settlement. Specifically, I wanted to confirm that Chase did not implement consumer relief through any policy that violates the Fair Housing Act or Equal Credit Opportunity Act or condition consumer relief on a waiver or release by a borrower, other than in the case of a contested claim where the borrower would not otherwise have received as favorable terms or consideration.

As part of this inquiry, I interviewed certain members of Chase's management who know the processes and procedures Chase used to select borrowers who received consumer relief under the Settlement and determined that Chase has complied with the non-creditable requirements. Based on those interviews, as well as the testing procedures described above, I have no reason to believe that Chase has not continued to comply with those requirements.

## Fifth Testing Period (March 31, 2015)

On May 15, 2015, the HRG reported to me the gross relief Chase provided through March 31, 2015, and the amount of credit Chase claimed and the HRG validated as of March 31, 2015.

### **Gross Relief**

On a gross dollar basis, Chase has asserted that it provided \$19.3 billion in principal forgiveness, rate reduction or eligible lending to 158,107 borrowers as of March 31, 2015, and \$499.7 million to 6,671 borrowers in the first quarter of 2015.

As discussed above, these gross dollar figures cannot be used to measure performance against Chase's \$4 billion requirement with consumer relief obligation because they have not been subject to the Settlement's crediting formulas.

## Gross Relief Table<sup>13</sup>

Relief Type	March 31, 2014		June 30, 2014		September 30, 2014		December 31, 2014		March 31, 2015		Program to Date	
	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount
First Lien Principal Forgiveness	50	\$5,588,855	2,583	\$234,183,641	1,678	\$146,226,918	2,478	\$221,417,747	1,306	\$97,801,432	8,095	\$705,218,592
Principal Forgiveness of Forbearance	—	—	—	—	—	—	4,328	\$231,487,510	—	—	4,328	\$231,487,510
First Lien Forbearance	50	\$4,824,866	3,479	\$234,343,346	2,658	\$152,059,489	3,126	\$278,092,356	3,790	\$306,359,713	13,103	\$975,679,771
Second Lien Principal Forgiveness	—	—	797	\$37,670,339	695	\$44,419,559	5,075	\$366,323,587	1,575	\$95,511,863	8,142	\$543,925,347
Rate Reduction	—	—	—	—	31,086	\$1,013,605,729	3,609	\$102,051,015	—	—	34,695	\$1,115,656,744
Low- to Moderate-Income and Disaster Area Lending	—	—	39,445	\$7,108,808,513	29,403	\$4,810,858,148	20,896	\$3,851,715,251	—	—	89,744	\$15,771,381,912
<b>Totals</b>	<b>100</b>	<b>\$10,413,721</b>	<b>46,304</b>	<b>\$7,615,005,839</b>	<b>65,520</b>	<b>\$6,167,169,843</b>	<b>39,512</b>	<b>\$5,051,087,466</b>	<b>6,671</b>	<b>\$499,673,008</b>	<b>158,107</b>	<b>\$19,343,349,876</b>

## HRG Assertion

On May 15, 2015, the HRG reported that Chase claimed \$231,269,947 in consumer relief credit during the first quarter of 2015, bringing its asserted total to \$3,555,280,673. I have not yet verified the HRG's assertion for the first quarter 2015. My team and I are in the process of conducting that verification, and I will report on the results in my next report.

## Conclusion

After reviewing the information submitted to me and completing the work described in this report, I have determined the following:

- i. The amount of consumer relief asserted by the HRG on February 17, 2015, is correct and accurate within the tolerances permitted under the work plan.**
- ii. I have no reason to believe that Chase has failed to comply with any of the requirements of the Settlement from October 1, 2013, through December 31, 2014.**

The HRG submitted also to me work papers reflecting its review and analysis. I will report the results of my validation work for the first quarter 2015 in my next report to the public.

<sup>13</sup> Throughout this table, one dollar differences in totals are the result of rounding