

# UPDATED CONSUMER RELIEF

JOSEPH A. SMITH, JR., MONITOR

CHASE RMBS SETTLEMENT  
October 1, 2015

## Introduction

The following report is my sixth 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 \$3,555,280,673 in consumer relief to 158,107 borrowers through March 31, 2015. This report explains the work my team performed to credit that amount.

This report also details an additional \$126,253,926 in consumer relief to 3,695 borrowers through June 30, 2015, that Chase's Internal Review Group (HRG) asserted to me in August 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.

Sincerely,



Joseph A. Smith, Jr.  
Monitor, Chase RMBS Settlement

## 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 \$3,324,010,726 in consumer relief credit from 151,436 loans submitted for credit through December 31, 2014. In May 2015, the HRG asserted to me that Chase had completed an additional \$231,269,947 of creditable relief through March 31, 2015.

After conducting the review described below, I can confirm this additional relief, bringing Chase's total credited consumer relief amount to \$3,555,280,673. In addition, Chase's HRG asserted to me in August 2015 an additional \$126,253,926 in consumer relief through June 30, 2015, the crediting of which is in progress.

### Consumer Relief Reported Through June 30, 2015

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015	Program to Date
<b>Modification-Forgiveness/Forbearance</b>	\$6,325,087	\$332,204,667	\$217,346,942	\$722,707,221	\$231,269,947	\$126,253,926	\$1,636,107,790
<b>Rate Reduction</b>	—	—	\$791,758,929	\$82,712,005	—	—	\$874,470,934
<b>Low- to Moderate-Income and Disaster Area Lending</b>	—	\$530,086,750	\$367,951,125	\$272,918,000	—	—	\$1,170,955,875
<b>Anti-Blight</b>	—	—	—	—	—	—	—
Total Consumer Relief (HRG Assertion)	\$6,325,087	\$862,291,417	\$1,377,056,996	\$1,078,337,226	\$231,269,947	\$126,253,926	\$3,681,534,599
Total Credited Consumer Relief	\$6,325,087	\$862,291,417	\$1,377,056,996	\$1,078,337,226	\$231,269,947	Crediting in Progress	\$3,555,280,673

<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

## Fifth Testing Period (March 31, 2015)

On May 15, 2015, the HRG asserted to me that Chase claimed approximately \$231.3 million in additional credit for the testing period ending March 31, 2015. All of Chase's claimed credit was delivered via modifications through principal forgiveness and forbearance. The table below represents the Consumer Relief Credit claimed by Chase for the first quarter of 2015, by type of relief.

Type of Relief	Loan Count	Claimed Credit Amount
Modification – Forgiveness/Forbearance <sup>6</sup>	6,671	\$231,269,947
First Lien – Principal Forgiveness	1,306	\$78,048,102
First Lien – Forbearance	3,790	\$106,722,783
Second Lien - Principal Forgiveness (including extinguishments)	1,575	\$46,499,062

## 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**
- 2. Rate Reduction/Refinancing**
- 3. Low- to Moderate-Income and Disaster Area Lending**
- 4. Anti-Blight**

For the testing period ending March 31, 2015, Chase claimed credit in only one of the four consumer relief types, Modification – Forgiveness/Forbearance. Using an Excel-based sample size calculator and a randomizing software, the HRG selected a statistically valid sample from that testing population. In selecting the sample, the HRG used a 99 percent confidence level<sup>8</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 the testing population and the number of loans tested in the sample by the HRG are shown in this chart:

<sup>6</sup>The May 15, 2015, HRG Assertion of 6,671 loans for \$231,269,947 did not include \$208,415 in credit that Chase had claimed on an additional five loans it submitted to the HRG. The HRG disallowed the credit for each of these five loans because it determined that a portion of the principal forgiveness or forbearance for which Chase was now seeking credit had been included in previously credited modifications. <sup>7</sup>For more information on the work plan, please see the Monitor's *Initial Report*. <sup>8</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.

## HRG Testing Sample

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
Modification – Forgiveness/Forbearance	6,671	\$231,269,947	316	\$11,428,438

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. The Reported Credit Amount was within the error threshold for the testing population in this Satisfaction Review. Therefore, the HRG asserted to me that the amount of credit Chase claimed was accurate. The table summarizes these findings:

### HRG Satisfaction Review Results

Testing Population	Loans Sampled	Servicer Reported Credit Amount	HRG Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
Modification – Forgiveness/Forbearance	316	\$11,428,438	\$11,468,591	(\$40,153)	(.35%)

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.

As a result of this Satisfaction Review, the HRG reported to me the following:

- 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 set forth in the Settlement.**

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

## 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 informed my work thus far, and my professionals continue to meet with the HRG and Chase, as necessary.

At my direction, BDO USA, LLP (BDO)<sup>9</sup> conducted an extensive review of the HRG's testing from June to August 2015. BDO tested the entire sample of loans in the testing population. 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 BDO's testing:

Testing Population	Loans Sampled	Servicer Reported Credit Amount	BDO Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
Modification – Forgiveness/Forbearance	316	\$11,428,438	\$11,467,846	(\$39,408)	(.34%)

For the sample tested, BDO's credit calculations and the HRG's credit calculations were substantially 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.

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.

<sup>9</sup>BDO USA, LLP is an accounting, tax and consulting firm that I have hired to assist me in reviewing Chase's compliance with the terms of the Settlement.

## Sixth Testing Period (June 30, 2015)

On August 14, 2015, the HRG reported to me the gross relief Chase provided through June 30, 2015, and the amount of credit Chase claimed and the HRG validated as of June 30, 2015.

### Gross Relief

On a gross dollar basis, Chase has asserted that it provided \$19.6 billion in principal forgiveness, rate reduction or eligible lending to 161,802 borrowers as of June 30, 2015, including \$270.6 million in principal forgiveness and forbearance to 3,695 borrowers in the second quarter of 2015.

These gross dollar figures cannot be used to measure performance against Chase's \$4 billion requirement for its consumer relief obligation because they have not been subject to the Settlement's crediting formulas.

### Gross Relief Table

Relief Type	Through December 31, 2014		March 31, 2015		June 30, 2015		Program to Date	
	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount	Number of Borrowers	Aggregate Amount
<b>First Lien Principal Forgiveness</b>	6,789	\$607,417,159	1,306	\$97,801,432	851	\$56,872,215	8,946	\$762,090,806
<b>Principal Forgiveness of Forbearance</b>	4,328	\$231,487,510	—	—	—	—	4,328	\$231,487,510
<b>First Lien Forbearance</b>	9,313	\$669,320,058	3,790	\$306,359,713	1,540	\$104,658,707	14,643	\$1,080,338,478
<b>Second Lien Principal Forgiveness</b>	6,567	\$448,413,484	1,575	\$95,511,863	1,304	\$109,095,616	9,446	\$653,020,963
<b>Rate Reduction</b>	34,695	\$1,115,656,744	—	—	—	—	34,695	\$1,115,656,744
<b>Low- to Moderate- Income and Disaster Area Lending</b>	89,744	\$15,771,381,912	—	—	—	—	89,744	\$15,771,381,912
<b>Total</b>	<b>151,436</b>	<b>\$18,843,676,867</b>	<b>6,671</b>	<b>\$499,673,008</b>	<b>3,695</b>	<b>\$270,626,538</b>	<b>161,802</b>	<b>\$19,613,976,413</b>

## HRG Assertion

On August 14, 2015, the HRG reported that Chase claimed \$126,253,926 in consumer relief credit during the second quarter of 2015, bringing its asserted total to \$3,681,534,599. To arrive at this amount, the HRG conducted a Satisfaction Review on the gross consumer relief activity claimed by Chase, applying the settlement's crediting formulas. I have not yet verified the HRG's assertion for the second 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 through March 31, 2015, asserted by the HRG on May 15, 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 March 31, 2015.**

I will report the results of my validation work for the second quarter 2015 in my next report to the public.