

# CONSUMER RELIEF THROUGH SEPTEMBER 30, 2015

JOSEPH A. SMITH, JR., MONITOR

CHASE RMBS SETTLEMENT  
MAY 26, 2016

## Introduction

The following report is my eighth 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 \$3,887,777,119 in consumer relief to 165,191 borrowers through September 30, 2015. This report explains the work my team performed to credit that amount.

This report also details an additional \$113,398,902 in consumer relief to 2,613 borrowers through December 31, 2015, that Chase's Internal Review Group (HRG) asserted to me in February 2016<sup>1</sup> and an additional \$62,704,703 in consumer relief to 1,156 borrowers through March 31, 2016 that the HRG asserted to me on March 31, 2016. I have not yet credited this additional activity. I am in the process of confirming the additional amounts and will include the results of that process for both time periods in my next report.

Sincerely,



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

<sup>1</sup> Although the HRG reported in its February 16, 2016 HRG Assertion that the total amount of consumer relief credit earned by Chase exceeded the \$4 billion dollars required by the Settlement, it did not assert at that time that Chase had satisfied its credit obligation under the Settlement because Chase had not yet satisfied its obligation to provide \$2 billion in principal forgiveness and principal forbearance pursuant to Menu Item 1 of Annex 2

## 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>2</sup>**
2. **Rate Reduction/Refinancing<sup>3</sup>**
3. **Low- to Moderate-Income and Disaster Area Lending<sup>4</sup>**
4. **Anti-Blight<sup>5</sup>**

Additionally, Chase receives incentives for certain relief conducted in the first year, in hardest-hit areas<sup>6</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 \$3,681,534,599 in consumer relief credit from 161,802 loans submitted for credit through June 30, 2015. In November 2015, the HRG asserted to me that Chase had completed an additional \$206,242,520 of creditable relief through September 30, 2015.

After conducting the review described below, I can confirm this additional relief, bringing Chase's total credited consumer relief amount to \$3,887,777,119. In addition, Chase's HRG asserted to me in February 2016 an additional \$113,398,902 in consumer relief through December 31, 2015 and on March 31, 2016, asserted an additional \$62,704,703 in consumer relief through March 31, 2016, the crediting of which are in progress for both.

### Consumer Relief Reported Through March 31, 2016

	Through December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	Program to Date
<b>Modification-Forgiveness/Forbearance</b>	\$1,278,583,917	\$231,269,947	\$126,253,926	\$206,242,520	\$113,398,902	\$62,704,703	\$2,018,453,915
<b>Rate Reduction</b>	\$874,470,934	—	—	—	—	—	\$874,470,934
<b>Low- to Moderate-Income and Disaster Area Lending</b>	\$1,170,955,875	—	—	—	—	—	\$1,170,955,875
<b>Anti-Blight</b>	—	—	—	—	—	—	—
<b>Total Consumer Relief (HRG Assertion)</b>	<b>\$3,324,010,726</b>	<b>\$231,269,947</b>	<b>\$126,253,926</b>	<b>\$206,242,520</b>	<b>\$113,398,902</b>	<b>\$62,704,703</b>	<b>\$4,063,880,724</b>
<b>Total Credited Consumer Relief</b>	<b>\$3,324,010,726</b>	<b>\$231,269,947</b>	<b>\$126,253,926</b>	<b>\$206,242,520</b>	<b>Crediting in Progress</b>	<b>Crediting in Progress</b>	<b>\$3,887,777,119</b>

<sup>2</sup> Chase RMBS Settlement Annex 2 (Annex 2), Menu Item 1 <sup>3</sup> Annex 2, Menu Item 2 <sup>4</sup> Annex 2, Menu Item 3 <sup>5</sup> Annex 2, Menu Item 4 <sup>6</sup> As defined by the Department of Housing and Urban Development.

## Seventh Testing Period (September 30, 2015)

On November 13, 2015, the HRG asserted to me that Chase claimed approximately \$206.2 million in additional credit for the testing period ending September 30, 2015. All of Chase's claimed credit was delivered via modifications involving principal forgiveness. The table below represents the Consumer Relief Credit claimed by Chase for the third quarter of 2015, by type of relief:

Type of Relief	Loan Count	Claimed Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	<b>3,389</b>	<b>\$206,242,520</b>
First Lien - Principal Forgiveness	3,297	\$204,382,611
Second Lien - Principal Forgiveness (including extinguishments)	92	\$1,859,909

## 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 September 30, 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 table:

### 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
<b>Modification - Forgiveness/Forbearance</b>	3,389	\$206,242,520	302	\$17,523,184

<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.

The HRG had access to loan-level information relevant to testing for loans in the 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) for those loans. 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 following 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
<b>Modification - Forgiveness/Forbearance</b>	302	\$17,523,184	\$17,524,244	(\$1,060)	(.01%)

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 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 work papers reflecting its review and analysis to me. 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 interact 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 December 2015 to March 2016. 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
<b>Modification - Forgiveness/Forbearance</b>	302	\$17,523,184	\$17,524,243	(\$1,059)	(.01%)

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 have reviewed BDO’s work papers, discussed with BDO any issues that arose throughout BDO’s testing process, 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, the 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.

## Eighth and Ninth Test Periods (December 31, 2015 and March 31, 2016)

On February 16, 2016, Chase reported to me the gross relief it provided through December 31, 2015, and the HRG reported to me the amount of credit Chase claimed and the HRG validated as of December 31, 2015. Further, on March 31, 2016, Chase reported to me the gross relief it provided through March 31, 2016 and the HRG reported to me the amount of credit Chase claimed and the HRG validated as of March 31, 2016.<sup>10</sup> The HRG has asserted to me that, with the consumer relief that was contained in its March 31, 2016 HRG Assertion, Chase will have satisfied its total consumer relief obligation under the terms of the Settlement.

### **Gross Relief**

On a gross dollar basis, Chase has asserted that it provided \$20.2 billion in principal forgiveness and forbearance, rate reduction and eligible lending to 168,960 borrowers as of March 31, 2016, including \$194.1 million in principal forgiveness to 2,613 borrowers in the fourth quarter of 2015 and \$89.9 million in principal forgiveness to 1,156 borrowers in the first quarter of 2016.

### **Gross Relief Table**

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.

<sup>10</sup> Chase requested I allow the HRG to submit its HRG Assertion for Chase's creditable consumer relief activity through March 31, 2016 earlier than the targeted May 16, 2016 submission date contemplated by the Work Plan. I agreed with this approach.

	Through December 31, 2014		March 31, 2015		June 30, 2015		September 30, 2015		December 31, 2015		March 31, 2016		Program to Date	
Relief Type	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	Number of Borrowers	Aggregate Amount
First Lien Principal Forgiveness	6,789	\$607,417,159	1,306	\$97,801,433	851	\$56,872,215	3,297	\$312,341,714	1,411	\$117,720,968	1,083	\$86,716,401	14,737	\$1,278,869,890
Principal Forgiveness of Forbearance	4,328	\$231,487,510	—	—	—	—	—	—	—	—	—	—	4,328	\$231,487,510
First Lien Forbearance	9,313	\$669,320,058	3,790	\$306,359,713	1,540	\$104,658,707	—	—	—	—	—	—	14,643	\$1,080,338,478
Second Lien Principal Forgiveness	6,567	\$448,413,484	1,575	\$95,511,863	1,304	\$109,095,616	92	\$4,581,883	1,202	\$76,404,357	73	\$3,140,660	10,813	\$737,147,863
Rate Reduction	34,695	\$1,115,656,744	—	—	—	—	—	—	—	—	—	—	34,695	\$1,115,656,744
Low- to Moderate-Income and Disaster Area Lending	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>\$499,673,009</b>	<b>3,695</b>	<b>\$270,626,538</b>	<b>3,389</b>	<b>\$316,923,597</b>	<b>2,613</b>	<b>\$194,125,325</b>	<b>1,156</b>	<b>\$89,857,061</b>	<b>168,960</b>	<b>\$20,214,882,397</b>

## HRG Assertion

On February 16, 2016, the HRG reported that Chase claimed \$113,398,902 in consumer relief credit during the fourth quarter of 2015, and, on March 31, 2016, the HRG reported that Chase claimed \$62,704,703 in consumer relief credit during the first quarter of 2016, bringing its asserted total to \$4,063,880,724. To arrive at these amounts, the HRG conducted Satisfaction Reviews on the gross consumer relief activity claimed by Chase during each of the quarters ended December 31, 2015 and March 31, 2016, applying the settlement's crediting formulas. I have not yet verified the HRG's assertion for the fourth quarter 2015 or for the first quarter 2016. 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 September 30, 2015, asserted by the HRG on November 13, 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 September 30, 2015.**

I will report the results of my validation work for the fourth quarter 2015 and first quarter 2016 and my assessment of Chase's satisfaction of its consumer relief obligation under the Settlement in my next report to the public.