

# CONSUMER RELIEF

## THROUGH MARCH 31, 2016

JOSEPH A. SMITH, JR., MONITOR

CHASE RMBS SETTLEMENT  
SEPTEMBER 22, 2016

### Introduction

**This is my ninth and final report 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 credited relief to consumers by December 31, 2017.**

As detailed in this report, I have credited Chase with \$4,063,880,724 in consumer relief to 168,960 borrowers through March 31, 2016. This report explains the work my team performed to credit that amount and my final certification that Chase has complied with all of its Consumer Relief obligations under the Settlement.

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 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>**

As described in my Initial Report, Chase has discretion as to the provision of the kinds of Consumer Relief described above to meet its overall obligations, subject to minimums and caps on certain types of relief. Of the \$4 billion of Consumer Relief credit, at least \$2 billion must be first or second lien principal forgiveness, principal forgiveness of forbearance, or principal forgiveness of first lien forbearance (payment forgiveness), and at least \$1.2 billion must be principal forgiveness of first liens or forbearance. That said, there is a \$300 million cap on credit for principal forgiveness of forbearance and an additional cap of \$300 million on credit for first lien forbearance (payment forgiveness). Finally, there is a cap of \$165 million on credit for lending in disaster areas.

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 \$3,887,777,119 in consumer relief credit from 165,191 loans submitted for credit through September 30, 2015. In February 2016, the HRG asserted to me that Chase had completed \$113,398,902 of creditable relief through December 31, 2015. Although the February 2016 HRG Assertion reported that the total amount of consumer relief credit earned by Chase exceeded the \$4 billion required by the Settlement, it did not assert at that time that Chase had satisfied its consumer relief 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. Shortly thereafter, in March 2016, the HRG asserted to me that Chase had completed an additional \$62,704,703 of creditable relief through March 31, 2016, and as a result had satisfied its consumer relief credit obligation under the Settlement.

<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.

After conducting the review described below, I can confirm this additional relief, bringing Chase's total credited consumer relief amount to \$4,063,880,724. The table below represents the Consumer Relief Credit claimed by Chase through March 31, 2016, by type of relief:

### Consumer Relief Reported Through March 31, 2016

Type of Relief	Loan Count	Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	44,521	\$2,018,453,915
First Lien - Principal Forgiveness	14,737	\$1,057,668,869
Principal Forgiveness of Forbearance	4,328	\$300,000,000
First Lien - Forbearance (Payment Forgiveness)	14,643	\$300,000,000
Second Lien - Principal Forgiveness <sup>6</sup>	10,813	\$360,785,046
<b>Rate Reduction</b>	34,695	\$874,470,934
<b>Low- to Moderate-Income and Disaster Area Lending</b>	89,744	\$1,170,955,875
Lending to borrowers in Hardest Hit Areas	48,313	\$694,499,375
Lending to first-time LMI homebuyers	41,431	\$476,456,500
<b>Total Consumer Relief Programs</b>	<b>168,960</b>	<b>\$4,063,880,724</b>

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

On February 16, 2016, the HRG asserted to me that Chase claimed approximately \$113.4 million in additional credit for the testing period ending December 31, 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 fourth quarter of 2015, by type of relief:

Type of Relief	Loan Count	Claimed Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	<b>2,613</b>	<b>\$113,398,902</b>
First Lien - Principal Forgiveness	1,411	\$79,607,679
Second Lien - Principal Forgiveness (including extinguishments)	1,202	\$33,791,223

<sup>6</sup>Includes extinguishments.

On March 31, 2016, the HRG asserted to me that Chase claimed approximately \$62.7 million in additional credit for the testing period ending March 31, 2016. As was the case with the credit claimed for the testing period ending December 31, 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 first quarter of 2016, by type of relief:

Type of Relief	Loan Count	Claimed Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	<b>1,156</b>	<b>\$62,704,703</b>
First Lien - Principal Forgiveness	1,083	\$61,401,289
Second Lien - Principal Forgiveness (including extinguishments)	73	\$1,303,414

## 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 both the testing population for the period ending December 31, 2015, and the testing population for the period ending March 31, 2016, 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 each of the testing populations. In selecting the samples, the HRG used a 99 percent confidence level (one-tailed),<sup>8</sup> 2.5 percent estimated error rate and 2 percent margin of error approach (99/2.5/2 approach). The total number of loans for each testing population and the number of loans tested in each sample by the HRG are shown in the tables below:

### HRG Testing Sample - December 31, 2015

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>	2,613	\$113,398,902	294	\$12,194,730

<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 - March 31, 2016

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>	1,156	\$62,704,703	258	\$13,511,742

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

After verifying eligibility and recalculating credit for all loans in each of the samples, 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. For both the December 31, 2015, testing population and the March 31, 2016, testing population, the Reported Credit Amount was within the error threshold for the testing population in each respective Satisfaction Review. Therefore, the HRG asserted to me that the amount of credit Chase claimed for the eighth testing period and for the ninth testing period was accurate. The following tables summarize these findings:

### HRG Satisfaction Review Results - December 31, 2015

Testing Population	Loans Sampled	Servicer Reported Credit Amount	HRG Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
<b>Modification - Forgiveness/Forbearance</b>	294	\$12,194,730	\$12,141,914	\$52,816	.43%

### HRG Satisfaction Review Results - March 31, 2016

Testing Population	Loans Sampled	Servicer Reported Credit Amount	HRG Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
<b>Modification - Forgiveness/Forbearance</b>	258	\$13,511,742	\$13,587,619	(\$75,877)	(.56%)

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 these Satisfaction Reviews, the HRG reported to me the following for the testing periods ending December 31, 2015, and March 31, 2016:

- 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, its 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 April 2016 to July 2016. BDO tested the entire sample of loans in each testing population for the periods ending December 31, 2015, and March 31, 2016. BDO's testing procedures and access to information for each testing population 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 tables set forth the results of BDO's testing:

### Monitor's Review Results - December 31, 2015

Testing Population	Loans Sampled	Servicer Reported Credit Amount	BDO Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
<b>Modification - Forgiveness/Forbearance</b>	294	\$12,194,730	\$12,037,304	\$157,426	1.31%

For the sample tested, BDO's credit calculations and the HRG's credit calculations were substantially the same other than BDO finding an isolated incident of a loan that was ineligible for credit because there was evidence that the borrower had attempted to opt out of the second lien extinguishment before it was provided. Nevertheless, as did the HRG, 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.

<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.

## Monitor's Review Results - March 31, 2016

Testing Population	Loans Sampled	Servicer Reported Credit Amount	BDO Calculated Actual Credit Amount	Amount Overstated / (Understated)	% Difference
Modification - Forgiveness/Forbearance	258	\$13,511,742	\$13,587,619	(\$75,877)	(.56%)

For the sample 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.

For each testing population, 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 part of the final review of Chase's consumer relief activities, I undertook an inquiry, similar to the one described in my [third public report](#), into whether Chase complied with certain policy-based, non-creditable requirements (Non-Creditable Requirements) of the Settlement. Specifically, under Annex 2 to the Settlement, Chase agreed that consumer relief would not (a) "be implemented through any policy that violates the Fair Housing Act or Equal Credit Opportunity Act"<sup>10</sup> and (b) "be conditioned on a waiver or release by a borrower, provided that waivers and releases shall be permitted in the case of a contested claim where the borrower would not otherwise have received as favorable terms or consideration."<sup>11</sup>

In order to assess Chase's compliance with the Non-Creditable Requirements, BDO and I interviewed JPMorgan Chase's Executive Vice President and DOJ Executive Sponsor and the Co-General Counsel, Mortgage Banking. The focus of this interview process was an inquiry into the processes and procedures that Chase utilized to (i) select the borrowers to whom it provided the consumer relief for which it sought credit pursuant to the Judgment and (ii) ensure that it complied with the Non-Creditable Requirements. Based upon the interview of the foregoing persons, in conjunction with the above-described loan-level testing undertaken by BDO, I have no reason to believe that, in providing relief pursuant to the Settlement, Chase has:

- i. Implemented consumer relief through any policy that violates the Fair Housing Act or Equal Credit Opportunity Act.
- ii. Conditioned 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.

<sup>10</sup>Annex 2, Introduction  
<sup>11</sup>Annex 2, Introduction

## Gross Relief

On a gross dollar basis,<sup>12</sup> 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 in principal forgiveness to 1,156 borrowers in the first quarter of 2016.

Relief Type	Through December 31, 2014		March 31, 2015		June 30, 2015		September 30, 2015		December 31, 2015		March 31, 2016		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	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>

<sup>12</sup>"Gross dollar basis" represents the actual dollar amount of the consumer relief activity before the crediting formulas of the RMBS Settlement are applied to determine the amount of credited relief.

## 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, 2016, asserted by the HRG, 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, 2016.**

Based upon my findings in subparagraphs (i) and (ii) above and my findings in my prior reports, I conclude that Chase has substantially complied with the material terms of the Settlement and has satisfied the minimum requirements and obligations, including the Non-Creditable Requirements, imposed upon it under Annex 2 of the Settlement.