

# UPDATED PROGRESS

**JOSEPH A. SMITH, JR., MONITOR**

CHASE RMBS SETTLEMENT  
April 2, 2015

## Introduction

**The following report is my fourth 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. As a result of this Settlement, Chase is required to provide \$4 billion in relief to consumers.**

As of this report, I have credited Chase with \$2,245,673,500 in consumer relief under the Settlement to 111,924 borrowers. This report details the work my team and I performed to credit that amount through September 30, 2014.

This report also details an additional \$1,078,337,226 in consumer relief to 39,512 borrowers through December 31, 2014 that Chase's Internal Review Group (HRG) asserted to me in February 2015. I have not yet credited this additional activity. I am in the process of confirming the additional amount and will report on 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 ways, 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 \$868,616,504 in consumer relief credit from 46,404 loans submitted for credit through June 30, 2014. In November 2014, the HRG submitted work to me that asserted that Chase had completed an additional \$1,377,056,996 through September 30, 2014.

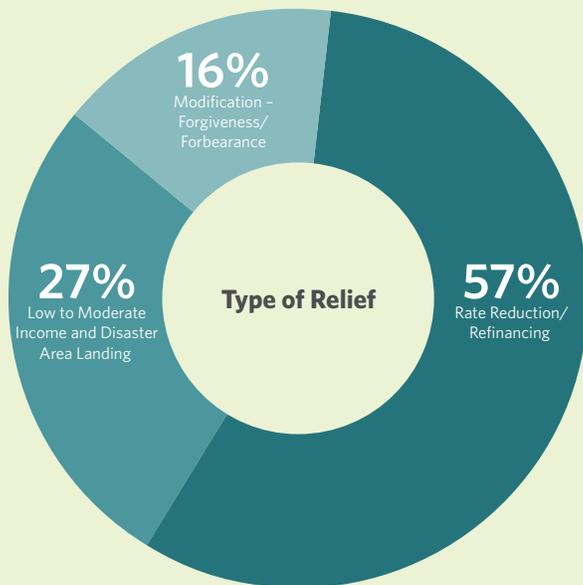
After conducting the review described below, I can confirm that Chase has correctly claimed this additional relief, bringing Chase's total credited consumer relief amount to \$2,245,673,500.

### Consumer Relief Reported Through December 31, 2014

	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	Program to Date
Modification-Forgiveness/Forbearance	\$6,325,087	\$332,204,667	\$217,346,942	\$722,707,221	\$1,278,583,917
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>\$3,324,010,726</b>
<b>Total Credited Consumer Relief</b>	<b>\$6,325,087</b>	<b>\$862,291,417</b>	<b>\$1,377,056,996</b>	<b>Crediting in Progress</b>	<b>\$2,245,673,500</b>

<sup>1</sup>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

## Third Testing Period (September 30, 2014)



On November 14, 2014, the HRG asserted to me that Chase claimed nearly \$1.4 billion in credit on top of previous assertions. Approximately 16 percent of Chase's claimed credit was delivered via modifications through forgiveness and forbearance, approximately 57 percent through rate reduction and approximately 27 percent through Chase's lending program for borrowers in hardest-hit areas and first-time, low-to-moderate-income buyers.

Type of Relief	Loan Count	Claimed Credit Amount
<b>Modification - Forgiveness/Forbearance</b>	<b>5,031</b>	<b>\$217,346,942</b>
First Lien - Principal Forgiveness	1,678	\$155,707,424
First Lien - Forbearance	2,658	\$41,007,055
Second Lien - Principal Forgiveness (including extinguishments)	695	20,632,463
<b>Rate Reduction</b>	<b>31,086</b>	<b>\$791,758,929</b>
<b>Low to Moderate Income and Other Lending</b>	<b>29,403</b>	<b>\$367,951,125</b>
Lending to borrowers in Hardest Hit Areas	10,371	\$149,083,125
Lending to first time LMI homebuyers	19,032	\$218,868,000
<b>Total Consumer Relief Programs</b>	<b>65,520</b>	<b>\$1,377,056,996</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 set forth in the Settlement.

With the assertion, the HRG submitted to me its workpapers reflecting its review and analysis.

## HRG Satisfaction Review

According to the work plan<sup>6</sup> the HRG must test a statistically valid sample from each of 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>7</sup>
2. **Rate Reduction/Refinancing**<sup>8</sup>
3. **Low to Moderate Income and Disaster Area Lending**<sup>9</sup>
4. **Anti-Blight**<sup>10</sup>

For the testing period ending September 30, 2014, Chase claimed credit in the first three consumer relief types. Chase did not seek credit through the Settlement for anti-blight activities. Using an Excel-based sample size calculator and randomizing software, the HRG selected statistically valid samples from each of the testing populations. In selecting the samples, the HRG used a 99 percent confidence level<sup>11</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 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>	5,031	\$217,346,942	311	\$14,452,318
<b>Rate Reduction</b>	31,086	\$791,758,929	328	\$9,033,068
<b>Low to Moderate Income and Other Lending</b>	29,403	\$367,951,125	328	\$4,125,625
<b>Total Consumer Relief Programs</b>	<b>65,520</b>	<b>\$1,377,056,996</b>	<b>967</b>	<b>\$27,611,011</b>

For loans in each sample, the HRG has access to loan-level information relevant to testing 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 plans allow for a 2 percent error threshold. The Reported Credit Amount was within the error threshold for each testing population in this Satisfaction Review. Therefore, the HRG asserted to me that the amount of credit claimed by Chase was accurate.

<sup>6</sup>For more information on work plans, please see the Monitor's Initial Report. <sup>7</sup>Annex 2, Menu Item 1 <sup>8</sup>Annex 2, Menu Item 2 <sup>9</sup>Annex 2, Menu Item 3 <sup>10</sup>Annex 2, Menu Item 4

<sup>11</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 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>	311	\$14,452,318	\$14,455,120	(\$2,802)	(.02%)
<b>Rate Reduction</b>	328	\$9,033,068	\$9,161,984	(\$128,916)	(1.41%)
<b>Low to Moderate Income and Other Lending</b>	328	\$4,125,625	\$4,125,625	\$ —	— %

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

If the Reported Credit Amount had been too low (more than 2 percent below the Actual Credit Amount), Chase could either take the lower credit amount it initially reported or correct underreporting and resubmit the entire population for testing.

## Monitor's Review

Before I began testing the HRG's work, I, along with some of 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 the 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. This review occurred from December 2014 through February 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 allow 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 amount reported by Chase.

Testing Population	Loans Reviewed by PPF	Servicer Reported Credit Amount	PPF Calculated Actual Credit Amount	Amount Overstated/ (Understated)	% Difference
<b>Modification - Forgiveness/ Forbearance</b>	311	\$14,452,318	\$14,455,060	(\$2,742)	(-.02%)
<b>Rate Reduction</b>	328	\$9,033,068	\$9,155,824	(\$122,756)	(1.34%)
<b>Low to Moderate Income and Other Lending</b>	328	\$4,125,625	\$4,111,250	\$14,375	.35%

BDO's credit calculations and the HRG's credit calculations were the same, other than BDO finding an isolated incident of a single loan in the Low-to-Moderate Income and Other Lending sample that was ineligible for credit because the property was not in a hardest hit area, and a credit calculation difference resulting from BDO determining that a loan in the Rate Reduction sample was not eligible for the additional hardest hit area credit.

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.

## Fourth Testing Period (December 31, 2014)

On February 17, 2015, the HRG reported to me the gross relief Chase had provided through December 31, 2014 and the amount of credit Chase claimed and the HRG validated as of December 31, 2014.

Chase has asserted that it provided \$18.8 billion in principal forgiveness, rate reduction, or eligible lending to 151,436 borrowers as of December 31, 2014, and \$5.1 billion to 39,512 borrowers in the fourth quarter of 2014.

These figures represent gross dollars and cannot be used to measure against Chase's \$4 billion requirement because they have not been subject to the Settlement's crediting formulas.

### **HRG Assertion**

On February 17, 2015, the HRG reported that Chase claimed \$1,078,337,226 in consumer relief credit during the fourth quarter of 2014, bringing their asserted total to \$3,324,010,726. I have not yet verified the HRG's assertion for the fourth quarter 2014. My team and I are in the process of conducting that verification, and I will report those results in my next report.

## Gross Relief<sup>12</sup>

Relief Type	March 31, 2014		June 30, 2014		September 30, 2014		December 31, 2014		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
First Lien Principal Forgiveness	50	\$5,588,855	2,583	\$234,183,641	1,678	\$146,226,918	2,478	\$221,417,747	6,789	\$607,417,160
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	9,313	\$669,320,058
Second Lien Principal Forgiveness	—	—	797	\$37,670,339	695	\$44,419,559	5,075	\$366,323,587	6,567	\$448,413,484
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>151,436</b>	<b>\$18,843,676,868</b>

## 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 November 14, 2014 is correct and accurate within the tolerances permitted under the work plan, and
- 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, 2014.

I will report the results of my validation work for the fourth quarter 2014 in my next report to the public midyear.

<sup>12</sup> Throughout this table, one dollar differences in totals are the result of rounding