

**OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT
BANKRUPTCY FILINGS REVIEW FOR JPMORGAN CHASE¹
August 31, 2015**

The following report summarizes the scope and outcomes of efforts by the Office of Mortgage Settlement Oversight (“OMSO”) and the Executive Office for United States Trustees of the United States Department of Justice (“USTP”) to monitor and confirm compliance by JPMorgan Chase (“Chase” or “Servicer”) with various bankruptcy-related provisions of the National Mortgage Settlement (“NMS” or “Settlement”), including provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure (“Bankruptcy Rules”) and Official Bankruptcy Forms (“Bankruptcy Forms”) (collectively, “Bankruptcy Law”).

BACKGROUND

In 2013, I was notified by the USTP of a coordinated review effort it had initiated through multiple field offices to ascertain compliance by the Settling Servicers² with NMS bankruptcy-related servicing standards, including Bankruptcy Law provisions. The review focused on three specific Chapter 13 filings: the Proof of Claim (“POC”), the Notice of Payment Change (“NPC”), and the Notice of Post-Petition Mortgage Fees, Expenses and Charges (“NPFC”).

The USTP’s comprehensive review of the Settling Servicers included more than ten thousand filings from various jurisdictions around the country with filing dates predominantly during 2013. The USTP’s review documented a material number of facial deficiencies relating to bankruptcy-specific servicing standards and Bankruptcy Law in all three filing types by the Settling Servicers. The USTP deemed the nature and scope of these facial deficiencies as presenting a risk of harm to homeowners who had sought protection under the Bankruptcy Code. As a result, the USTP requested confirmation and further investigation of its findings by OMSO.

The USTP’s review identified issues that were covered by the NMS standards but not covered by the quarterly NMS metrics testing detailed in Exhibit E of the Settling Servicers’ individual Consent Judgments. The NMS bankruptcy-specific metrics test the accuracy of: (1) data in POCs against the applicable servicing system of record, (2) the post-petition default amount as stated on a Motion for Relief from Stay against the applicable servicing system of record and (3) fee or expense waivers as of the date of dismissal or discharge of a debtor’s Chapter 13 bankruptcy case. Results of the NMS metrics compliance testing for each Settling Servicer can be found on the OMSO website at the following link: <https://www.jasmithmonitoring.com/omso/reports/>.

¹ The Consent Judgment under the National Mortgage Settlement was entered with J.P. Morgan Chase & Company and J.P. Morgan Chase Bank, N.A. although other parties are encompassed in the settlement.

² Settling Servicers included Bank of America Corporation, Bank of America, N.A., and BAC Home Loans Servicing, LP; Citigroup Inc., Citibank, N.A., and CitiMortgage Inc.; J.P. Morgan Chase & Company and J.P. Morgan Chase Bank, N.A.; and Wells Fargo & Company and Wells Fargo Bank, N.A.

After the USTP shared its results with me, I authorized BDO Consulting (“BDO”) to design and perform confirmatory testing of the USTP’s adverse findings. Using statistical sampling parameters similar to those used for metrics testing under the NMS, BDO selected and tested a statistically significant sample of filings drawn from POCs, NPCs and NPFCs alleged to be deficient in the USTP’s review. Most of the filings reviewed by BDO had been filed during 2013. All filings selected for testing were independently downloaded by BDO directly from the website of federal court filings maintained by the Administrative Office of the U.S. Courts called “PACER”, or Public Access to Court Electronic Records, based on case information provided in the USTP review. BDO’s testing, completed in 2014, confirmed the number and type of facial deficiencies found by the USTP. I notified the Servicers of these results of the USTP review and OMSO’s confirmatory testing.

As a result of the USTP’s review and BDO’s subsequent confirmation of the USTP’s adverse findings, the USTP, my team and I had numerous individual in-person and telephonic meetings with each Servicer to discuss these findings and ensure that appropriate enhancements, process improvements, corrective action or remediation, as applicable, had been completed or were in the process of completion to achieve compliant servicing practices in the context of Chapter 13 bankruptcy proceedings as required under both Bankruptcy Law and the NMS.

These discussions with each Servicer and the USTP led to a follow-up review by BDO, on behalf of OMSO, of each Servicer’s evidence that such specific enhancements, process improvements, corrective actions or remediation, as applicable, had been implemented or were in the process of being implemented. BDO’s review of each Servicer’s internal evidence concluded in late spring of 2015.

In numerous areas described below, the Servicer had taken steps to strengthen its bankruptcy-related servicing practices, including those that were the subject of the facial deficiencies identified in the USTP’s review, prior to the conclusion of OMSO’s confirmatory testing due to ongoing dialogue between each Servicer and the USTP. The Servicers cooperated with OMSO during and after the review process as OMSO sought to review internal documents evidencing enhanced procedures, processes, training and internal quality testing of Chapter 13 filings.

The following sections outline actions taken by Chase to improve its bankruptcy servicing practices subsequent to the 4th quarter of 2013, as communicated to OMSO during our confirmation of these improvements.

BANKRUPTCY FILING FACIAL DEFICIENCIES IDENTIFIED BY THE USTP AND CONFIRMED BY OMSO

The USTP categorized facial deficiencies found in its review of POCs and NPFCs³ as follows:

POC:

- Missing, incomplete or inaccurate information or data in POC or Attachment A;
- Missing, incomplete or inaccurate attachments to POC;
- Excessive, unreasonable or impermissible loan default fees and charges in POC;
- Loan document execution issues;
- Loan calculation errors; and
- Improperly disclosed personally identifiable information (“PII”).

NPFC:

- Notices filed untimely;
- Missing, incomplete, or inaccurate information or data; and
- Improperly disclosed PII.

BANKRUPTCY SERVICING IMPROVEMENTS AND ENHANCEMENTS

Actions taken by Chase to address its POC processes include the following:

- Creation of a Bankruptcy Liaison Team as a resource for Chase’s outside network of bankruptcy attorneys, with each team member assigned by court district and focusing on real-time performance management issues.
- Implementation of a 100% POC pre- and post-filing quality control (“QC”) validation processes for POCs prepared by outside attorneys (as of May 2014).
- Enhancement of procedures, including:
 - Implementation of 100% pre-referral, pre-filing QC of POCs to ensure that, where applicable, an escrow statement is attached that is dated as of the date of the bankruptcy filing and shows 12 months of escrow history;
 - Implementation of 100% QC to confirm that post-petition loan default fees and costs that are non-recoverable from the borrower are not included in the POC; and
 - Inclusion in attorney referral packages of all relevant filing data, including an escrow analysis run as of the date of the bankruptcy filing (where applicable), loan documents, assignment(s) where applicable, and loan modification agreements.
- Development and enhancement of additional training related to the following:
 - Identifying the documents that must be attached to a POC and locating the applicable loan documentation, including modification agreements, in the system of record;

³ The USTP separately investigated issues relating to the timeliness of Chase’s NPC and escrow filings. These issues were resolved in a national settlement approved March 9, 2015. *In re Belzak, Bankr.* E.D. Mich. Case No. 10-23963. As disclosed in that settlement, Chase is also reviewing issues relating to the accuracy of monthly account statements sent to borrowers in bankruptcy.

- Using and researching the system(s) of record to review pre- and post-petition fees for recoverability from the borrower, documenting loan default fees and charges, and waiving or reclassifying fees that are not recoverable from the borrower; and
- Proper completion of the POC official form.
- Adoption and implementation of a policy requiring that a 12-month escrow history be included with the POC for applicable loans, in addition to validation procedures to ensure that the escrow analysis is included with the POC package prior to filing with the court.
- Modification of the reporting of loan default fees and charges to require that any fees included in the POC reflect the date the fee was incurred.

Actions taken by Chase to address its NPFC processes include the following:

- Chase discontinued filing NPFCs and will permanently waive all post-petition fees and costs to the customer, including post-petition attorney fees and costs. Chase notified outside attorneys of this change in policy and implemented process and technology changes to ensure that NPFCs would not be generated or filed.

MONITOR REVIEW OF BANKRUPTCY SERVICING IMPROVEMENTS AND ENHANCEMENTS

OMSO has reviewed information that shows Chase has taken steps to implement the various actions and process improvements described above. OMSO has obtained and reviewed internal organizational and operations documentation, policies and procedures, quality control and quality assurance (“QA”) testing documents (with QA completed independently of Chase’s operations and lines of business) substantiating the implementation of the foregoing actions and process improvements and has reviewed these actions and improvements with Chase.

To substantiate the efficacy of the changes and improvements addressing the facial deficiencies, OMSO reviewed the results of Chase’s internal quality control reviews completed on 100% of Chapter 13 POCs filed during the months of February, March and April 2015. OMSO noted that the testing was conducted by reviewers within the line of business being tested, although monthly testing is conducted on a sample of filings by compliance reviewers independent of the line of business, and gained an understanding of the test attributes used in conducting reviews to determine whether those reviews are comprehensive. As a result of its efforts, OMSO has confirmed that Chase’s improvements and enhancements to its bankruptcy servicing practices, as represented by the bank, address the facial deficiencies highlighted herein. OMSO has reasonable assurance that Chase’s compliance efforts with the bankruptcy-specific servicing requirements of the NMS are ongoing.