

**Testimony of David Lowman
JPMorgan Chase
Committee on Oversight and Government Reform
United States House of Representatives
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Chairman Towns, Ranking Member Issa and Members of the Committee, thank you for the opportunity to appear before you today. JPMorgan Chase shares your commitment to helping homeowners and stabilizing our nation's housing market.

My name is Dave Lowman, and I am the Chief Executive Officer for Home Lending at JPMorgan Chase. Chase is one of the largest residential mortgage originators and servicers in the United States, serving more than 9 million customers in every state of the country with mortgage and home equity loans totaling about \$1.32 trillion. We are proud to be part of one of this country's pre-eminent financial institutions with a heritage of over 200 years, but we do not rest on our record. We work very hard to help all of our customers during these challenging economic times, including those who joined us as a result of our acquisition of EMC, a subsidiary of Bear Stearns, and the mortgage and other assets of Washington Mutual from the FDIC.

We are here today to discuss with you how we can make foreclosure prevention solutions more effective for homeowners and specifically, to describe our implementation of the Administration's Home Affordable Modification Program (HAMP). Chase has consistently been among the leaders in implementing HAMP and other modification solutions for homeowners.

Chase is Committed to Keeping Families in Their Homes

At Chase we are working very hard to help families meet their mortgage obligations and keep them in their homes by making their home payments affordable. As a national leader in foreclosure prevention, we have continued to expand upon and improve our programs to keep families in their homes.

From the beginning of 2009 through the end of May 2010, Chase offered over 846,000 modifications to struggling homeowners and has completed over 172,000 permanent modifications under HAMP, Chase's own proprietary modification programs, and modification programs offered by the Government Sponsored Enterprises (GSEs) and the Federal Housing Administration (FHA)/Veterans Affairs (VA).

CHASE MODIFICATION VOLUMES, 2009-2010 YEAR TO DATE¹				
Key statistics	HAMP	Chase programs	Agency	Total
<i>Modifications Offered</i>	257,254	313,876	275,192	846,542
<i>Approved for Permanent modifications²</i>	65,426	105,375	53,241	224,042
<i>Permanent Modifications Completed</i>	47,467	87,791	37,692	172,950

¹ Year-to-date as of May 31, 2010.

² *“Approved for Permanent Modifications” includes both modifications made permanent as well as borrowers who are approved for a permanent modification but for whom the permanent modification has not yet been completed.*

To achieve these results, we have initiated extensive outreach and made significant investments in people, technology and our infrastructure. In particular, we have:

- Opened 51 Chase Homeownership Centers (CHOCs) in 15 states and the District of Columbia where struggling borrowers around the country can meet face to face with trained counselors
- Reengineered the modification process within Chase by assigning each customer a single point of contact within our company, who has the responsibility for working across the company on the customer’s behalf
- Assisted more than 88,000 borrowers through our counselors at the CHOCs since their launch in early 2009
- Mailed over two million letters to invite Chase customers to discuss their situation or help them complete their HAMP documents
- 16,000 people – nearly half of our total staff in Chase Home Lending – helping struggling homeowners, and over 7,600 of them are loan counselors who only deal with loan modifications for borrowers in financial difficulty
- Handled over 18 million inbound calls to our call centers from homeowners seeking foreclosure prevention assistance in 2009 and through May 2010, including 3.8 million calls to our dedicated customer hotline for modification inquiries
- Launched a program for discounted sales and donations of foreclosed properties, through which we have completed over 700 transactions with 182 non profit agencies in 30 states
- Hosted and participated in more than 711 homeowner events in 2009 and through May 2010 to educate and inform homeowners about the loan modification process and assist in the completion of required documents
- Instituted an independent foreclosure review process to avoid preventable foreclosure referrals and sales

Chase’s Progress in Implementation of HAMP

Chase applauds the Department of Treasury’s efforts to increase mortgage modifications industry-wide. These efforts to standardize modification criteria through HAMP and to publicize the program nationwide have benefited many struggling homeowners who would have otherwise faced foreclosure. The public response to the program was initially overwhelming, and we have made significant investments to ramp up our modification capacity as one of the first major servicers to launch the HAMP Program in April 2009.

As of May 10, 2010, the Department of Treasury estimates that Chase services approximately 242,000 loans that may be eligible for modification under the HAMP guidelines (about 33% of our total population of borrowers who are 60 days delinquent on their mortgage loans). On a weekly basis, Chase mails letters to borrowers with loans that become 50 days past due and meet basic HAMP eligibility criteria, based on our system of record. We are in the process of testing mailing earlier in the delinquency cycle to see if that will improve customer response rates.

We have made solid progress in offering HAMP trial plans to about 257,000 homeowners and have over 87,000 homeowners in active HAMP trial plans through May 2010. We are now working very hard to

convert homeowners to permanent HAMP modifications and have successfully converted about 48,000 homeowners, but – like other servicers – we have faced challenges in getting documentation required from borrowers to complete the modification.

We have added hundreds of employees in recent months who are dedicated to alerting customers and collecting the documents needed to complete modifications. These initiatives have collectively increased the pace of HAMP modification completions at Chase from less than 2,200 a month in the fourth quarter of 2009 to over 10,000 a month in the second quarter of 2010.

Chase Focuses on Making Payments Affordable

Despite some reports to the contrary, HAMP modification performance has been strong, helping hundreds of thousands of homeowners achieve affordable mortgage payments. At Chase, on average, homeowners receive a monthly payment reduction of approximately \$535 through their HAMP modification. That represents an average payment decrease of 28%. Based on Chase data, HAMP modifications appear to be performing noticeably better than modifications the industry has performed in the past. While it is still early in the program, 88% of permanent HAMP modifications to date are current after three months and just under 82% are current after six months.

Based on the actual re-performance of permanent modifications completed by Chase, payment reduction appears to be the primary driver of post modification re-performance. We observe this direct relationship between payment reduction and loan re-performance even in loans with loan to value ratios in excess of 120% (those most likely to have received principal forbearance) where the borrower has received meaningful payment relief, defined as a payment reduction of 20% or more. As noted above, the average payment reduction for permanent modifications is 28%. The fact that payment reduction is a meaningful driver of loan performance has broader implications for the HAMP program, and specifically, for the level of re-default assumptions that would be appropriate for Treasury's model for calculating the net present value (NPV) of a loan modification compared to foreclosure.

Chase is Implementing More Help for Homeowners Under the Making Home Affordable Program

Chase, along with the other major servicers, has continued to work with the Department of Treasury on a number of MHA initiatives that have been announced in recent months. Homeowners seeking loan modifications are first considered for HAMP and then considered for other modification programs available through Chase if they are ineligible for HAMP. Chase believes the process of creating standardized and consistent approaches among servicers through these programs is a major benefit for both homeowners and servicers.

2MP – Chase was one of the first major servicers to initiate the Treasury Department's Second Lien Modification Program (2MP), which we began in May 2010. 2MP is a systematic approach to modifying all second liens where the underlying first lien has been modified under HAMP. 2MP also provides for a lump sum payment to the second lien holder to partially write down or fully eliminate a second lien, if it is determined to be in the best interest of the investor. If a homeowner remains current on both their first and second mortgage loan, they will be able to qualify for success payments under 2MP. This will supplement our existing programs for modifying second lien mortgages.

Because the Department of Treasury's loan matching files will not be available until August 2010, our current efforts are limited to borrowers where Chase services both the first and second lien. On May

26, the first 2MP offers were sent to those borrowers who had a permanent HAMP modification with Chase and a Chase-owned second lien. Of the 1,251 accounts we identified, under the 2MP program rules, 807 borrowers were qualified without a trial period and were sent final modification documents. We have received 593 completed documents, for a response rate of 73%, and we estimate our 30 day response rate will be about 85%. The remaining 444 borrowers require a 3 month trial period to qualify. To date, we have set up 224 of these borrowers on a 3 month trial plan, or 50%. We estimate an overall success rate of 55-60%. We mailed 2MP offers to an additional 800 second lien customers on June 15th based on their completing a HAMP first lien mortgage modification in May.

Temporary Assistance for Unemployed Borrowers – We actively utilize temporary forbearance agreements today for unemployed borrowers, similar to the program recently announced by the Treasury Department. Now that the details of the new government program are available, we expect to implement the program by no later than August 1, 2010 as mandated and possibly sooner.

FHA Loans – MHA has been expanded to include FHA refinances for current borrowers. We are pleased to see that FHA is expanding its product options to help struggling homeowners, and we expect to offer the program to our customers once FHA issues the program parameters. While we believe this will be a beneficial program, our experience suggests there may be limited acceptance by consumers. Similar to the program we currently have in use for our own portfolio loans that uses rate reductions and/or principal reduction, only current borrowers can qualify, and we have found that many current homeowners are reluctant to participate in a program that may harm their credit record due to the principal reduction feature.

Alternate Waterfall under HAMP for Earned Principal Reduction – The waterfall is a process under which the HAMP servicer modifies a mortgage of an eligible borrower. In general terms, the process first involves a reduction of the interest rate to as low as 2%, next an extension of the loan term up to 40 years, and last a forbearance of principal to reduce the monthly payment to an affordable level. The Administration has released a Supplemental Directive under which principal reduction can occur higher up in the waterfall before rate reduction and term extension to encourage more principal reductions and more positive outcomes. We are evaluating the guidelines just issued by the Treasury Department to determine how to implement this new feature. While principal reduction may be appropriate in certain limited circumstances, we have not seen sufficient compelling evidence to support the view that principal reduction, as a general matter, improves modification response rates by borrowers or long-term modification performance. A number of open issues remain, including how the NPV model will be re-calibrated, whether the re-default assumptions will be changed, and how the principal reduction amounts will be allocated among lien holders.

Until Version 4.0 of the NPV model is released by the Treasury Department and other open issues are resolved, it is difficult at this time to quantify how many more homeowners will become eligible under the alternate waterfall or how many more homeowners will have an improved NPV. Once these details are finalized, we will be able to better assess how effective the revised waterfall may be and Chase's participation in the alternate waterfall.

Appeals of HAMP Denials – Chase has established a program that allows those who were denied a loan modification to appeal the denial. The denial letter provides contact information for a dedicated Chase unit, and this allows the borrower to request reconsideration of the denial. For example, if the borrower has additional information that should be considered, the borrower can forward that information to the designated contact and Chase will make a further determination regarding the

borrower's eligibility for a HAMP modification. In addition, Chase does not resume any foreclosure activity until at least 30 days have elapsed since the denial.

Chase is also implementing its own as well as Treasury initiatives when a borrower does not qualify for any of the loan modification options.

List Assist – In April 2010, Chase began to implement a more proactive approach to short sales referred to as “List Assist” under which Chase affirmatively reaches out to borrowers who have already listed their homes and would be good candidates for short sales. When applicable, Chase will tell the homeowner how much the bank must receive for a home. If a buyer offers at least that much, Chase will automatically approve the sale. If not, Chase will consider a lower offer. With this program short sales are quickly approved, thereby avoiding the delays that have frustrated so many homeowners. Chase has seen a steady increase in short-sale volume this year, closing more than 5,500 in April, a 57% increase over the number closed in January 2010.

HABA – On April 5, 2010, we began offering the Home Affordable Foreclosure Alternatives Program (HABA) designed for non-retention foreclosure prevention solutions, including short sales and deeds in lieu. We offer the HABA program only when we determine that the borrower cannot qualify for HAMP or a Chase proprietary mortgage loan modification. To date, we have sent almost 6,000 request forms to borrowers to initiate the process and almost 1,400 were returned by the borrowers. Of the 1,400, 830 have passed the basic eligibility requirements and qualify for further review.

Challenges in Implementing HAMP

The cornerstone of HAMP, as well as of other modification programs available through Chase, is to achieve an affordable monthly payment for homeowners who want to stay in their homes and can afford a reasonable monthly housing payment. There are many reasons borrowers face affordability issues. In our experience, the number one reason is a recession-driven decline in income, whether it is a spouse losing a job, fewer hours at work, underemployment, or finding a new job that pays less than the previous one. Data from the Federal Housing Finance Agency suggest that 75% of mortgage defaults nationwide are caused by issues of affordability: borrowers default when a life event (or cumulative life events) causes them not to be able to pay their mortgage with income and savings.

One of the challenges we have is that HAMP is designed to help a specific population of homeowners and not every borrower facing foreclosure. As illustrated by the Department of Treasury's most recent report, only one-third of the borrowers 60 days or more delinquent are estimated to be eligible for HAMP after all eligibility factors are considered and verified.³ Chase's experience is similar to what is reflected in the Treasury report.

Beyond the challenge of determining HAMP eligibility for one-third of the delinquent borrowers that are HAMP eligible, we have established a process to ensure we make every effort to work with our borrowers to convert trial modifications to permanent modifications.

As of April 16, 2010, Chase began initiating trial plans under HAMP only after the borrower has provided the required documentation to support eligibility for the Program and will no longer commence trial plans based on stated information. This should greatly assist in shortening the period from initiation to

³ MHA Program Servicer Performance Report through May 2010

permanent modification and increase our conversion rate, as borrowers should be motivated to provide the required documentation to receive the benefit of a reduced payment. As a result, failure to make timely payments should be the primary reason a borrower does not successfully convert from a trial plan to a permanent modification.

Fair Lending, Compliance and the Loan Modification Process

Chase is committed to full compliance with both the letter and the spirit of all applicable fair lending laws. We apply these fair lending principles to all aspects of our loan servicing and the loss mitigation processes. We seek to make available all our loss mitigation options, including both HAMP and our own proprietary modification programs, to all of our borrowers without regard to race, national origin, religion, age, gender, or any other prohibited basis. We have a robust set of policies and procedures that are designed to ensure that we offer loss mitigation options on a fair and lawful basis, and we continually assess our performance. Below is a brief description of our fair lending efforts that impact the loss mitigation process:

- We have appointed a Senior Fair Lending Compliance Officer for each of our Retail Financial Services lines of business, including Home Lending. Along with the Fair Lending Department, these officers are charged with responsibility for their respective business line's compliance with the fair lending laws.
- We monitor all fair lending complaints separately from all others. Any complaint alleging discrimination is immediately escalated to the appropriate Fair Lending Group, which reviews the applicable file and factual circumstances. If a loss mitigation request was denied, the loan is re-underwritten to make sure the correct decision has been made. We also analyze trends relating to the types of complaints we receive, in order to detect any patterns that might suggest a need to review or change a particular process or credit policy.
- We review all credit policy changes on both an annual and ongoing basis. That includes the Servicing and Default Management area, where we are particularly focused, to ensure that credit policy changes have no adverse impact on our fair lending performance.
- As previously mentioned, we opened 51 CHOCs to assist borrowers in need. These centers provide additional outreach to minority and low-and-moderate income borrowers and provided the personal attention and the availability of an experienced loan officer to explain the loss mitigation options and process. We also have a "language line" available to help borrowers communicate with us in their own language.
- We provide fair lending training to all new hires in Home Lending within 90 days of their start dates, and annually we provide fair lending communication or additional training for existing employees. Updates regarding policies that affect our fair lending performance are provided on a regular basis.
- The employees of the third parties that we hire to assist us in the Servicing and Default Management area are all required to undergo fair lending training. Moreover, we monitor the performance of these third parties periodically for compliance with fair lending requirements.

- We undergo a comprehensive fair lending exam each year by our federal regulator, the Office of the Comptroller of the Currency (OCC). This year's OCC Examination, which is currently ongoing, has a particular emphasis on fair lending in the Servicing and Default Management area. EMC is a state licensed entity that is examined for fair lending compliance by the various states where it is licensed to do business.

Chase has devoted significant resources to implement HAMP consistent with our contractual obligations to the Department of Treasury under our Servicer Participation Agreement and the guidance contained in the Supplemental Directives. We have established dedicated program resources, quality control and anti-fraud procedures and an independent foreclosure review process to prevent inappropriate foreclosure referrals or sales. We routinely work with the Department of Treasury and its MHA Compliance (MHA-C) office to obtain clarity where needed and to promptly address observations they may make in the course of compliance and file reviews. We have appointed a senior executive as a single point of contact for the Treasury Department and MHA-C and have created a new position of Director of MHA Compliance at Chase. We believe we have established the appropriate resources, policies and procedures to comply fully with the requirements of HAMP.

Looking Ahead

Many new tools have been developed in recent months to help address lessons we have learned through the HAMP roll out as to where gaps existed in helping more homeowners. As with the basic HAMP Program, which has now gathered significant momentum, it will take some time to get the new initiatives up and running smoothly, but Chase believes these are the right steps to be taking now and will benefit many homeowners.

As described in this testimony, Chase believes there is an opportunity to re-evaluate the assumptions used in the current NPV model to take into account the actual re-performance of permanent modifications under HAMP, which were not available at the time the current NPV version was developed. It is particularly timely as the Department of Treasury re-calibrates the NPV model in connection with the development of the alternate waterfall. Revising the model assumptions to temper the re-default assumptions will make more borrowers NPV positive and result in more HAMP modifications.

Chase continues to believe there are opportunities to refinance some borrowers into more sustainable FHA mortgages through the Hope for Homeowners program and potentially the recently announced FHA initiatives. These programs require an individual review of each borrower's situation to make sure the new mortgage is affordable and sustainable and any principal reduction is justified by the benefits of the transaction.

There are still some borrower segments that will require more customized solutions, such as the unemployed, borrowers with very low initial payments or borrowers with affordable mortgage payments that are highly leveraged with other debt. Chase continues to work to find solutions for all of its borrowers who can show reasonable ability and willingness to sustain a mortgage loan.

We are pleased to have this opportunity to share our progress with you. We look forward to continuing to work with the members of Congress, the Administration, our federal banking regulators and our community partners in implementing these initiatives to help families and to stabilize neighborhoods and the U.S. economy.

APPENDIX: Chase Loan Modification Programs

In October 2008, we expanded the loan modification alternatives Chase already offered as part of our proprietary Foreclosure Prevention program. The enhanced modification tools allow for more flexibility based on the borrower's current loan type and the borrower's specific financial situation.

Proactive Outreach for ARM borrowers

Chase-owned subprime hybrid Adjustable Rate Mortgages (ARMs) scheduled to reset for the first time are being modified to remain at the initial interest rate for the life of the loan. Borrowers qualify for this program if they have a clean payment history on a hybrid ARM with an interest rate that adjusts after the first two or three years. Borrowers do not need to contact Chase to benefit from this program – the rate lock is implemented automatically – and borrowers are so advised.

We use the American Securitization Forum's Fast Track program to reduce payment shock for subprime hybrid ARM's serviced but not owned by Chase and scheduled to reset for the first time. Qualifying borrowers will have their initial ARM rate frozen for five years.

Chase did not originate or purchase Pay Option ARM loans itself but does own and service a portfolio of Pay Option ARM loans as a result of the 2008 acquisitions of the mortgage assets of Washington Mutual from the FDIC and EMC, a subsidiary of Bear Stearns.

To help borrowers with Pay Option ARM's, Chase makes available loan modifications through HAMP and its own proprietary modification programs. In 2009 and 2010, we also offered a proactive program for Chase-owned loans, developed specifically to assist current Option ARM borrowers who may be at higher risk of default due to a scheduled recast in the next 12 months that could significantly increase their monthly payment. To minimize any potential payment shock, we made the borrower a pre-approved offer to modify their loan to a lower fixed rate loan that keeps their payment at its current amount, which they have already demonstrated the ability to pay. If this payment amount results in a lower-than-market interest rate, the rate can step up to market over time, subject to certain limits to avoid payment shock. High risk borrowers due to recast in 2009 were mailed proactive outreach offers starting in the first quarter of 2009, to which over 85% responded. In the last quarter of 2009, we began mailing pre-approved modification offers to about 5,000 additional borrowers whose loans were due to recast this year. In total, we have completed nearly 5,000 modifications for Option ARM borrowers under this program since 2009.

Under our various programs, Chase has completed modifications of over \$7.6 billion of Pay Option ARM's (over 17,500 units) since 2008 through rate reduction, term extension or proactive outreach. In addition to completed modifications, there are customers active in trial modifications under HAMP and Chase modification programs (to the extent they are ineligible under HAMP) that are not yet included in the completed modification figure.

Chase Custom Modifications

Borrowers not eligible for HAMP or any of the systematic Chase modification programs described above are reviewed on a case-by-case basis to determine the suitability of a custom modification or other foreclosure prevention approach.

Chase custom loan modifications for first liens are evaluated by developing an estimated target affordable payment of 31% to 40% of the borrower's gross income. We use the lowest percentage for borrowers with the lowest incomes. Once the target payment is calculated for the borrower, we will test each modification option to see if it will get the borrower to an affordable payment. Concurrently, we apply a NPV analysis to each option to determine whether the value of the modification exceeds the value expected through foreclosure. We recommend the modification option that produces both an affordable payment and a positive NPV result. In addition, Chase custom loan modifications offer broader eligibility and payment flexibility compared to HAMP.

Other Foreclosure Prevention Options

In addition, Chase offers other foreclosure prevention options, such as:

- Payment plans (where a borrower agrees to pay back arrearages over time),
- Deferments (where a borrower agrees to make late payments in the future),
- Borrower stipulations (where a borrower agrees to make a set of payments, often as a prelude to a modification), and
- Short-sales / settlements (a form of principal forgiveness where Chase agrees to accept less than the amount of the mortgage in exchange for the underlying property or the proceeds of the sale of the underlying property).

Although borrowers do not keep their homes in short sales and settlements, these may be appropriate solutions when the borrower has no interest in remaining in the home or simply cannot afford the home over the long term, even if payments are reduced by a modification. These solutions also relieve the borrower from the burden of paying any deficiency on the loan.

Our Community Stabilization Initiatives

Not every foreclosure can be prevented, so it is vital to our communities to look beyond foreclosure prevention to deal with the impact of foreclosed properties on neighborhoods. In 2008, Chase established a dedicated unit under its Homeownership Preservation Office to develop strategies to deal with foreclosed properties, working with our partners in the community and our banking regulators.

As part of our announcement in 2008, Chase committed to donations or discounted sales of 500 foreclosed properties over the next 2-3 years. In just a little over one year, we met our goal of 500 completed transactions. Through May 2010, we have donated or sold at a discount over 700 properties to 182 non-profit organizations.

We know that the HAMP program has been difficult for servicers to implement and that has affected our customers' experience. We know that we are accountable to help our borrowers and to work to make HAMP a success, but we should also remember that a significant amount of progress has been made in a very short period of time. Right now, among all HAMP participants, nearly 1.2 million homeowners are benefiting from more affordable monthly mortgage payments by entering into HAMP trial plans – and the number continues to grow. We are working very hard to convert trial plans to permanent modifications. At Chase alone, more than 172,000 homeowners have been approved for or entered into permanent modifications under HAMP or other loan modification alternatives.