

**TESTIMONY OF MOLLY SHEEHAN
JPMORGAN CHASE**

**COMMITTEE ON FINANCIAL SERVICES
United States House of Representatives
December 8, 2009**

Chairman Frank, Ranking Member Bachus and Members of the Committee on Financial Services, we appreciate the opportunity to appear before you today on this most important topic of helping homeowners. We recognize that no one benefits from a foreclosure.

My name is Molly Sheehan and I work for the Home Lending Division of JPMorgan Chase as the Executive responsible for Housing Policy. Chase is one of the largest residential mortgage servicers in the United States, serving more than 10 million customers located in every state of the country with mortgage and home equity loans totaling about \$1.4 trillion. We are proud to be part of one of this country's pre-eminent financial institutions with a heritage of over 200 years.

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. On a national level, Chase has been a leader in foreclosure prevention. Since 2007, Chase has continued to expand its comprehensive plan to keep families in their homes, and we have helped prevent over 885,000 foreclosures.

Through November 30, 2009, Chase has offered over 560,000 modifications to struggling homeowners and approved or completed over 112,000 permanent modifications under the Home Affordable Modification Program (HAMP), Chase proprietary modification programs or modification programs offered by the Government Sponsored Enterprises (GSEs).

| KEY STATISTICS | HAMP | CHASE* | GSE/FHA/VA | TOTAL |
|--------------------------------------|-------------|---------------|-------------------|--------------|
| MODIFICATIONS OFFERED | 199,033 | 160,826 | 208,599 | 568,458 |
| APPROVED FOR PERMANENT MODIFICATIONS | 16,131 | 72,888 | 23,182 | 112,201 |
| PERMANENT MODIFICATION | 4,302 | 58,239 | 20,808 | 83,349 |

* Includes first and second mortgage liens

As reflected in the chart above, Chase uses not only HAMP but also Chase modification programs or other loan modification programs made available by the Government Sponsored Enterprises (GSEs), FHA/VA and private investors. To understand the full range of loan modification activity, these other initiatives need to be counted.

To achieve these results, we have initiated extensive outreach and made significant investments in people, technology and our infrastructure to execute on the commitments we made in announcing our foreclosure prevention plan in October of 2008 and in becoming one of the first participants in HAMP when it was announced by President Obama this past March. In particular, we have:

- Opened 30 Chase Homeownership Centers (CHOCs) in 13 states – 6 more than originally planned – where struggling borrowers around the country can meet face to face with trained counselors, with a planned addition of 21 more sites in the first quarter of 2010
- More than 60,000 borrowers have met with counselors at the centers and the CHOCs have mailed over 538,000 letters to invite Chase customers to discuss their situation with our trained counselors or to help them complete their HAMP documents
- Added over 2,550 loan modification counselors in 2009, bringing the total number to 5,200 loan modification counselors in 15 sites
- Hired 2,825 additional mortgage operations employees to handle the unprecedented volume, bringing the total base to nearly 14,000 Chase Home Lending employees dedicated to helping our customers who are experiencing difficulties with their mortgage
- Handled over 12.8 million inbound calls to our call centers from homeowners seeking foreclosure prevention assistance during the first nine months of 2009, an 84% increase from the third quarter of 2008, including 1.9 million calls to our dedicated customer hotline for modification inquiries through November 2009. Our outbound calls increased to 4 million in 2009, up from 400,000 a year earlier
- Created a dedicated website where borrowers and counselors can go for information about our programs and download the documents needed to apply for a modification. In the last nine months, there have been more than 3.6 million visits to Chase's www.chase.com/myhome website, and borrowers have downloaded 1.6 million modification packages
- Improved our automated tool to pre-qualify borrowers for HAMP which has been rolled out broadly to customer-facing staff, including staff in our Chase Homeownership Centers
- Rolled out MHA training for our staff, non profit counseling partners and borrowers attending HOPE Now outreach events – reaching hundreds of internal and external loan counselors and borrowers
- Increased staff and shifts in our call centers and improved call routing

- Hosted and participated in over 365 homeowner events to educate and inform homeowners about the loan modification process in just the past nine months
- Engaged in strategic outsourcing arrangements to increase customer solicitations and expedite the fulfillment of trial modification packages – over 636,000 letters have been mailed
- Instituted an independent foreclosure review process to avoid preventable foreclosure referrals and sales
- Continued improving customer communication through status letters and dedicated call center staff to respond to status requests
- Established a Program Management Office with dedicated teams to improve our processes, increase management focus, track progress against goals and ensure compliance with MHA Program requirements

Our Progress in Implementation of the MHA Modification Program

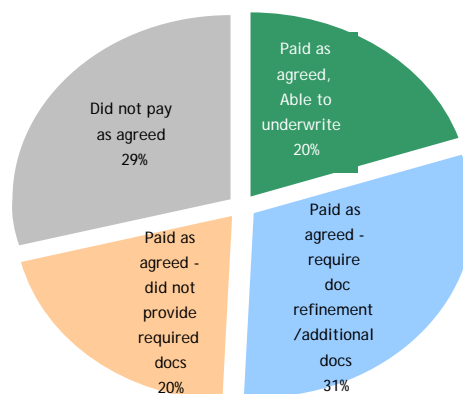
Chase has made significant investments to ramp up our modification capacity since our launch of the HAMP Program on April 6 of this year by hiring people, adding office space and enhancing our technology. We also clearly understand that many more families are anxious about the mortgage on their home and need to hear from us as quickly as possible. Chase is committed to do whatever we can to help homeowners qualify for these programs.

As of November 30, 2009, Chase estimates that it services approximately 479,000 loans potentially eligible under the HAMP guidelines. On a weekly basis, Chase mails letters to borrowers with loans that become 50 days past due and meet basic HAMP eligibility criteria according to information on our servicing databases.

We have made solid progress in offering HAMP trial plans and currently have over 140,000 homeowners in active trial plans through November 2009, and we are now working very hard to convert homeowners to permanent HAMP modifications, but we are facing challenges with borrowers completing documentation or making trial plan payments as agreed.

| 2009 Year to Date | MHA |
|-------------------------|---------|
| Mods offered | 199,033 |
| 1+ Pays (Active Trials) | 140,988 |
| 3+ Pays | 113,464 |
| Approved for Perm Mod | 16,131 |
| Perm Mod completed | 4,302 |

Apr - Sep HAMP Trials Offered



Represents mod vintages where all payments should have been received

As shown by the charts, for every 100 HAMP trial plans initiated from April through September, 2009

- 29 borrowers did not make all required payments under their trial plan, making them ineligible for a permanent modification under HAMP
- 71 borrowers made all three payments under their trial plan. Of those 71,
 - 20 borrowers did not submit all documents required for underwriting
 - 31 customers submitted all required documents but the documents do not meet HAMP underwriting standards which could be due to missing signatures or documents that are not current under the HAMP rules
 - 20 borrowers completed all required documents and are eligible for underwriting.

Based on current underwriting results for the 20 borrowers who gave us all the payments and all the documents correctly,

- 4 borrowers have been or likely will be denied a permanent HAMP loan modification, but may be qualified for other modification programs through Chase or the GSEs
- 16 borrowers are or likely will be approved for a HAMP modification
- Of those 16, 15 have or will likely receive a payment reduction

The focus of our immediate attention is finding ways to assist the 51 borrowers out of 100 that are missing some or all of the documentation required under HAMP or where the documents are incomplete, not current enough or otherwise not acceptable under the HAMP rules. In partnership with the Department of Treasury's Homeownership Preservation Office, Chase is implementing an aggressive series of initiatives to help these homeowners successfully convert into permanent modifications, including:

- Launching a coordinated program to call a customer 36 times, reach out by mail 15 times and make at least two home visits, if necessary, to get the appropriate documents
- Ordering key documents – including property values, tax transcripts, and credit reports -- earlier in the process to expedite underwriting
- Completing the roll-out and training of loan modification counselors on Supplemental Directive 09-07 recently issued by the Department of Treasury that streamlines documentation and underwriting requirements
- Centralizing the review of borrower documentation for accuracy and completeness, easing requirements on loan modification counselors
- Engaging two independent firms to collect missing documentation and official modification agreements from borrowers through in-person visits to their homes
- Deploying outreach efforts specifically for borrowers who live near Chase Home Ownership Centers, so they can come in for in-person support

- Assigned specific pools of accounts to loan modification counselors to provide continuity and end-to-end processing
- Employed additional incentive programs and motivational campaigns to increase productivity across loan modification counselors
- Enhanced document collection and tracking capabilities to increase process efficiency

To help us achieve these goals, we have added hundreds of employees in the last three months that are dedicated to alerting customers and then collecting the documents needed to complete modifications.

We are also focused on how we can accelerate and improve the underwriting process for the 20 out of 100 borrowers who have completed payments and submitted all the required documents but are not getting a permanent modification because of program rules. Some common examples include:

- A borrower includes income from a person or household not on the mortgage note and we are unable to verify the additional income
- The IRS 4506-T Request for Tax Transcript is returned, but the customer did not sign it
- A borrower has difficulty providing supporting documents, such as divorce decrees, death certificates, overtime or bonus information
- A borrower's stated income when the trial modification is begun varies from their documented income at approval time by more than is permitted under the HAMP rules so re-underwriting is required
- A borrower's income obtained from the 2008 tax return cannot be fully reconciled to current documented income as required by the HAMP rules

Recommendations to Improve HAMP Eligibility and Conversion Rates

To further support servicers in transitioning trial plans to permanent modifications, last week the Department of Treasury announced its own series of initiatives, including on site visits with major servicers to address barriers to completion in a real time setting. We applaud the Treasury for this effort. There is no substitute for being in the field and seeing the real challenges facing our employees and our borrowers. Working together this past week and jointly observing the obstacles to success, we can continue to make improvements to the program to enhance its effectiveness, particularly in streamlining documentation. We have included below some recommendations we believe would both increase the population eligible for HAMP as well as improve the ratio of trial modifications that convert to permanent modifications

Re-visit the re-default assumptions in the HAMP NPV Model – Chase believes that the current re-default assumptions are based on historical modification programs that do not have the same rigor as HAMP. As a result, we believe the potential risk of re-default

in the current HAMP model is overstated, negatively impacting the NPV in any given case and resulting in denials that could be avoided. Not only are HAMP modifications based on full underwriting but even more importantly, our data demonstrates that borrowers who are successful in making three payments have significantly better re-performance rates. As a result, we believe that re-default rates will be about 30% to 40% lower than what is implied in the current NPV model. This is crucial because the NPV model can determine whether a modification becomes permanent or gets turned down. So, we recommend that the NPV model be re-evaluated based on the positive impact of key HAMP features such as income verification and trial plan performance. This could improve the number of approved HAMP modifications by up to 25%.

Reduce the Complexity of Income Verification for Salaried Borrowers – HAMP presently requires that servicers obtain an executed IRS form 4506-T from every HAMP applicant and send it to the IRS to receive the most recent tax return for the borrower. Under HAMP rules, we are required to reconcile any differences to the income documentation we have received from the borrower. This requirement has presented several challenges for borrowers and servicers and the 4506-T is the document that is most frequently either not submitted (30% of the time) or not submitted properly completed. While real efforts have been made to improve the process, it is still not clear that the benefits outweigh the additional cost in all cases. We work very hard with our borrowers to reconcile the information on their previous year's tax return to the fully documented current financial information we have obtained, but last year's income is often dated and not comparable to the borrowers current financial situation. If the borrower cannot fully explain the differences, under HAMP, we are forced to decline these borrowers. Chase recommends that for salaried borrowers where W2s and pay stubs are readily available to verify income, servicers should have the option to execute with the IRS form 4506-T only when deemed appropriate. This would significantly reduce the effort involved in reconciling income differences. The 4506-T would still be required to be executed with the IRS in all cases for self employed borrowers where W2s, pay stubs or other forms of income verification are not readily available.

Work with Servicers to Establish a Responsive and Scalable Exception Process – We understand that every borrowers' personal and financial circumstances are highly individual and do not fit neatly into program rules that can appear to be very prescriptive. At the same time, servicers are understandably reluctant to approve exceptions that might appear reasonable but outside the strict parameters of the program rules. Chase recommends that the Department of Treasury support servicer flexibility and discretion by providing a well-staffed help line, as well as continue on site support, to address and approve underwriting exceptions.

Modify Re-trial Requirements when the Borrowers' Income Changes – For delinquent borrowers, Chase approves trial plans based on stated income and then advises the borrower of the documents required to complete the verification process. While the

borrower is making trial payments and providing income verification information, we commonly find that the borrower's income increases or decreases by more than permitted by the HAMP rules. In those cases, we are required to re-evaluate and re-start a new trial period for that borrower based upon the new information, even if the borrower already has successfully completed three trial plan payments. Chase recommends that the number of re-trial payments be reduced to one so borrowers can be provided permanent relief sooner.

Work with Servicers to Allow More Short-Term Modifications and Other Appropriate Flexibility - Chase believes there are opportunities to further enhance HAMP to help borrowers that are not eligible for HAMP under the current Program rules or where their HAMP eligibility has expired and alternative foreclosure prevention solutions can be tailored to address those situations. Chase encourages the Department of Treasury to continue working with servicers and community partners to develop a broad range of solutions for distressed borrowers under the HAMP umbrella. Specifically, Chase recommends that there are three categories of borrower for which new programs should be developed. These include borrowers who have significant other debt obligations, who make trial payments but have not completed the documentation process and who are experiencing shorter term income disruption due to unemployment or unanticipated expenses beyond their control. For these situations, we believe a modification that is similar to HAMP, but is shorter in duration may be the most appropriate approach. Specifically, we recommend a modification that is fixed for two years for those who do not submit the required documentation and fixed for one year when the borrower has other debts that are causing the difficulty in making the mortgage payment.

Our 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 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 ASF Fast Track program to reduce payment shock for subprime hybrid ARMs 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 ARMs, Chase makes available loan modifications through HAMP and its own proprietary modification programs, as well as through an additional proactive program for Chase owned loans, developed specifically to assist these borrowers. The program is designed to identify in advance and proactively reach out to borrowers with good payment histories that may be at higher risk of default due to a scheduled recast in the next twelve months that could significantly increase their monthly payment. To minimize any potential payment shock, we make 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 late 2008 through early 2009 to which over 85% responded. Recently, Chase began mailing pre-approved modification offers to about 1000 borrowers due to recast next year and plans to offer pre-approved modifications to an additional 4000 borrowers by year end.

Under its various programs, Chase has completed modifications of over \$6 billion of Pay Option ARMs (14,000 units) 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 modification or other foreclosure prevention approach.

Chase custom loan modifications 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 net present value (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

Loan modifications are not the only foreclosure prevention technique used by Chase. Chase believes that a refinance into a fully-amortizing FHA- or GSE- insured loan with lower payments may be a better alternative for a number of distressed homeowners. So we offer refinance options for borrowers we believe are at risk of default or may be already delinquent, as well as provide economic incentives (such as principal forgiveness, principal forbearance or rate subsidization) required to refinance these borrowers.

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.

Our Community Stabilization Initiatives

Not every foreclosure can be prevented, so it's vital to our communities to look beyond foreclosure prevention in designing strategies 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 are more than halfway to our goal. Through November of 2009, we have donated over 69 properties to non profit organizations in 15 states and conducted discounted sales to non profit organizations of over 214 properties in 19 states.

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 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 the HAMP participants, over 650,000 borrowers are already benefiting from more affordable monthly mortgage payments through entering into HAMP trial plans and the number continues to grow. We are working very hard to convert trial plans to

permanent modifications and help make HAMP a success. At Chase alone, over 112,000 borrowers have been approved for permanent modifications under HAMP or the other loan modification alternatives we make available to homeowners.

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, stabilize neighborhoods – and the U.S. economy.

Thank you for your attention and I would be happy to answer any questions you may have.

Respectfully submitted,

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