

**TESTIMONY OF MOLLY SHEEHAN
JPMORGAN CHASE**

**SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
September 9, 2009**

Chairwoman Waters, Ranking Member Capito and Members of the Subcommittee on Housing and Community Opportunity, we appreciate the opportunity to appear before you today on this most important topic of helping homeowners. We recognize that no one benefits in 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.

Continuing to Lend

As one of the largest residential mortgage originators in the country, we also continue to make mortgage credit available, even in these difficult times. We provide loans directly to consumers and we purchase loans from smaller lenders so they can lend to their customers. In 2009, through the end of August, Chase has made more than \$106.8 billion in residential mortgage loans even though mortgage applications have declined significantly.

Keeping families in their homes

At Chase we are not only continuing to lend; we are also doing everything we can 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 730,412 foreclosures. From April 6, when Chase began processing trial modifications through the Making Home Affordable (MHA) Program, through August 31st, 2009, Chase has approved 144,054 MHA trial mortgage modifications. Of these trial plans offered, 113,000 are currently active as of August 31st and borrowers are making their trial plan payments.

Together with 88,821 additional Chase loan modifications, 232,875 struggling Chase, WaMu and EMC customers have received approved trial modifications through August 31, 2009. Another 125,195 applications are currently being reviewed to see if they can be modified consistent with these program terms.

We are well under way to implementing the commitments we made in announcing our foreclosure prevention plan last October and in implementation of the Making Home Affordable Modification Program announced by President Obama this past March. In particular, we have:

- 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 six months, there have been more than 2.7 million visits to Chase's www.chase.com/myhome website
- Rolled out a dedicated customer hotline for modification inquiries that has handled almost 1.3 million calls as of August 31, 2009
- Improved our automated tool to pre-qualify borrowers for MHA which is being rolled out broadly to customer-facing staff
- Continued development of new automated tools to meet program underwriting parameters and deliver recommended solutions more efficiently to our loan counselors
- 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
- Added over 1,700 loan counselors in 2009, bringing the total number to 4,200
- Hired 3,700 additional mortgage operations employees to handle the unprecedented volume
- Opened 27 Chase Homeownership Centers in 11 states – three more than originally planned – where struggling borrowers around the country can meet face to face with trained counselors
- More than 42,000 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
- Hosted over 120 homeowner events to educate and inform homeowners about the loan modification process in just the past six months
- Engaged in strategic outsourcing arrangements to increase customer solicitations and expedite the fulfillment of trial modification packages – over 460,000 letters have been mailed
- Instituted an independent foreclosure review process to avoid preventable foreclosures
- 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 execution, ensure management focus, track progress against goals and compliance with MHA Program requirements

Our Progress in Implementation of the MHA Modification Program

We believe that Chase has made significant progress in ramping up our modification capacity since April 6 by hiring people, adding office space and investing in 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 who qualify for these programs.

We believe that the industry as a whole is making significant capacity investments like those made by Chase to provide assistance to as many families as possible. However, it is hard to predict specific numbers of completed trial plans and loan modifications, as much of the responsibility to complete the loan modification process rests with borrowers. After being granted relief through a trial modification, borrowers must document income, hardship, debts and other important information to enable underwriters to complete final loan modification offers that conform to MHA guidelines.

As of August 31, 2009, Chase estimates that it services approximately 417,000 loans potentially eligible under the MHA Modification Program guidelines. Estimates of the number of MHA Modification eligible borrowers will always be subject to fluctuation and change due to the influence of a variety of constantly evolving market factors affecting the housing market, including self-cure rates, seasonality, employment, local housing prices, and other economic variables.

On a weekly basis, Chase mails letters to borrowers with loans that become 50 days past due and meet basic MHA Modification eligibility criteria according to information on our servicing databases. These letters are designed to comply with investor servicing guidelines under applicable agreements, are sent using letterhead from the customer's known servicing entity and feature prominently the logo of the Making Home Affordable program.

Chase believes that servicers, investors and borrowers benefit whenever a preventable foreclosure can be avoided. Whenever the value of a loan modification (under the MHA Modification Program or the Chase Modification Program) or other foreclosure prevention technique exceeds the value of a foreclosure, it is in everyone's best interest (servicer, investor and borrower) to try to find and execute on the appropriate foreclosure prevention alternative that is consistent with applicable contractual servicing obligations.

Chase's policy is to stop foreclosure sales while reviewing a mortgage for loan modification and other foreclosure prevention steps. If a borrower does not qualify for

the MHA Modification Program or the Chase Modification Program, the loan is referred to the loss mitigation department, which will consider more traditional foreclosure prevention techniques, including short sales and deeds in lieu of foreclosure.

The cornerstone of loan modifications continues to be affordability and sustainability. No one benefits from a loan modification that is unsustainable and likely to re-default. Chase has created an independent review before a loan enters the foreclosure process. This review acts as a control to ensure that all appropriate actions have been taken to attempt to avoid foreclosure. An additional pre-sale review is conducted within the appropriate business unit.

Borrowers who do not qualify for the MHA Modification Program are next considered for the Chase Modification Program, or, in the case of FHA/VA and loans owned or in securities issued by Fannie Mae or Freddie Mac, for modification or other loss mitigation programs they offer.

Our Loan Modification Programs

Last October, we expanded the loan modification alternatives Chase already offered as part of our 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.

Chase-owned subprime hybrid Adjustable Rate Mortgages (ARMs) scheduled to reset for the first time will remain at the initial interest rate for life of the loan. Borrowers will 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 will happen automatically.

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.

Borrowers not eligible for any of the systematic modification programs described above are reviewed on case-by-case basis to determine the suitability of a modification or other foreclosure prevention approach. For example, borrowers who are only in early stage delinquency may qualify for the Early Workout Program offered by Fannie Mae.

Loan modifications under the Chase programs 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.

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.

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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