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BEFORE THE COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

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Chairman Frank, Ranking Member Bachus and Members of the House Financial Services Committee, 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 a senior housing policy advisor. Chase is one of the largest residential mortgage servicers in the United States, serving over 6.4 million customers with mortgage and home equity loans of approximately $845 billion in every state of the country. We are proud to be part of one of this country's pre-eminent financial institutions with a heritage of over 200 years.

Chase services about $170 billion in mortgages and home-equity loans it originated and owns; that's $75 billion (9%) in first-lien mortgage loans and $95 billion in home equity (11%). It also services or sub-services more than $675 billion (80%) in first-lien mortgage loans owned by investors. In the combined $845 billion portfolio, there is $65 billion (8%) of subprime: approximately $15 billion owned by Chase and $50 billion owned by investors.

Chase understands that the current economy, the reduced availability of credit and the reality of flat and declining home prices are creating financial hardship for a growing number of homeowners. This can be especially painful for borrowers who have little savings to rely on when facing financial difficulties, including the risk of foreclosure.

That's why Chase has worked to supplement its existing programs and expand its outreach to millions of homeowners. Chase's simple goal is shared by homeowners and community groups alike: keep homeowners in their homes whenever possible. Through the experience of servicing $845 billion of home loans, Chase has created a toolkit to help homeowners through the special challenges of 2008 and 2009.

Since early 2007, Chase has had special programs in place to help homeowners. For example, Chase tells its ARM borrowers in advance how their interest rate and monthly mortgage payment likely will change at the reset date. Many customers lose track of their ARM reset date or simply don't understand how dramatically the interest-rate reset could increase their monthly payment. Through the process, Chase seeks to focus the customer on the impending financial impact and to make its specialists available to discuss the homeowner's options if the increased payment would not be affordable.

In evaluating modification and refinancing possibilities, we review information the customer has provided about their earnings, expenses and assets. That helps us determine what options may be viable. Sometimes, however, our analysis shows that a borrower simply does not have enough monthly income to support any reasonable modification of the mortgage. And neither the borrower nor the investor benefits from stretching out an unworkable situation. At that point, we consider alternatives that include a short sale (accepting the sale of a home for less than the mortgage balance), a deed in lieu of foreclosure, and following the process through foreclosure.

Chase has created a customized reporting system to track the results of its foreclosure prevention programs so it can continue to improve them. In total, Chase has assisted more than 110,000 customers from January 2007 through July of 2008 with loan modifications, repayments plans, reinstatements and forbearance and is working with an additional 30,000 customers. A loan modification was the solution in 35% of the cases overall – and in about 50% of the subprime situations. In total, Chase modified or refinanced $6.38 billion of subprime mortgages, primarily ARMs.

For example:

- Chase has modified $3.5 billion of loans through notification programs
- Chase proactively locked in the initial interest rate for the life of the mortgage on $345 million of subprime ARMs that it owns and $1.57 billion of subprime ARMs that it services for third parties
- Chase has refinanced $976 million of subprime ARMs
- Chase is in the process of modifying an additional $995 million of subprime mortgages
- For prime borrowers, Chase has modified more than $2.2 billion of loans, both ARMs and fixed-rate

Chase charges no modification fees when the Homeowner's Assistance Department modifies a loan to make it affordable. The performance of the modified loans is solid. After twelve months, five out of six customers are making their payments.

Chase knows that worried homeowners might be more comfortable seeking help from a trusted community group and might not respond to the company's outreach. So Chase created its Homeownership Preservation Office in 2004 to make it easier for those non-profit community groups to talk directly to Chase about customers at risk of losing their home. Chase then works with the community group to provide in-depth counseling to the homeowner in distress. The Homeownership Preservation Office has expanded its staff to meet the increasing needs of our borrowers. Its toll-free hotline staffed by full-time case managers received more than 7,600 calls from non-profits in 2007. Year to date through August of 2008, the case managers have received over 12,260 calls and opened up over 12,200 new cases. As the call volume has increased, so has the need to offer training to our non- profit partners. Through 35 foreclosure prevention workshops in 2007 alone, Chase trained 1,344 counselors and public officials. In 2008, Chase's Homeownership Preservation Office has participated in over 100 outreach events for distressed borrowers to date, where Chase representatives are available in person to assist Chase customers.

Chase's Homeownership Preservation Office has worked with targeted foreclosure prevention programs in Chicago, Cleveland, Colorado, Dallas, Detroit, Indiana and New York. The Homeownership Preservation Office also manages Chase's Gifting Program. This Program donates real estate that Chase acquires as a result of foreclosures to our non-profit partners. The Homeownership Preservation Office is also working internally and with external task forces to enhance Chase's REO disposition procedures and explore opportunities through new partnerships with community-based organizations.

In October, 2007, Chase and other industry leaders responded to calls from the U.S. Treasury and the Housing and Urban Development Departments to address the mortgage issue. Chase contributed both its expertise and an experienced executive to help create HOPE NOW, a national alliance of counselors, servicers, investors, and other mortgage market participants. Recognizing that a consistent approach applied across the industry is most effective, alliance members have achieved over 2 million workouts for families by July of 2008. As a member of HOPE NOW, Chase has mailed more than 222,400 outreach letters to delinquent borrowers under the HOPE NOW banner inviting those borrowers to seek counseling and foreclosure prevention assistance. About 14% of these borrowers responded either to a counselor or directly to Chase. Chase has also worked internally, as well as with its community partners, to develop innovative contact methods including multiple contacts by telephone and in person. In 45-50% of these cases, Chase reaches the borrower and is able to discuss his situation.

In December 2007, Chase joined with government and industry leaders in supporting a new federal initiative designed to keep more homeowners in their homes. The five-year, interest-rate freeze for qualifying borrowers helped Chase further streamline its process to review and approve loan modifications for qualified homeowners.

In February 2008, Chase joined with other major servicers in announcing Project Lifeline, which can stop the clock on the foreclosure process for 30 days for homeowners who are 90 days or more behind on their mortgage payments. As with other efforts, the goal is to get homeowners in contact with Chase to determine if a modification or refinance can be worked out. The lifeline is being offered to people with any residential mortgage for their primary home—not just subprime borrowers.

Chase is piloting a program to offer new FHA products to borrowers on the mortgage loans we own. A key part of this program is to offer the recently enhanced FHASecure product. The expansion of FHASecure was adopted by HUD to make more loans available for consumers with adjustable- rate mortgages that have a need to refinance but may have some delinquencies on their mortgage payment for the prior year. Just as we responded to the changes in FHASecure, we will further expand our offer to include borrowers eligible for the HOPE for HOMEOWNERS (HFH) Program, once the final parameters become available. We are pleased to have yet another refinance option available to assist our borrowers.

In preparation to launch the HFH Program, we have reviewed our servicing portfolio and conducted a preliminary analysis of loans that might be eligible, based on general criteria. For example, we eliminated loans with ineligible property types, such as investor properties or second homes. We will refine this analysis once important parameters of the Program become available, such as maximum debt to income ratios. We expect this to occur over the coming weeks.

For this preliminary population of loans targeted for HFH, we are currently in the process of calculating all the possibilities to find the best financial choice for the loan's owner and the borrower, so that the borrower receives an affordable payment: FHA refinance, FHASecure, or a loan modification through a rate reduction, term extension, principal forbearance, or some combination. To the extent these solutions are not viable, this Program can be a solution if the borrowing household has shown they want to maintain their home and an affordable payment can be structured through reducing principal.

We are also convening a project team to define the strategy and procedures we would need to develop and execute on the HFH Program as soon as the final program parameters become available. This will include extensive training for default, sales and underwriting personnel, preparing consumer outreach efforts, updating underwriting systems, programming new documents, developing scripts for call centers and loan specialists, determining pricing and secondary marketing execution.

Our initial emphasis has been on the portfolio of mortgage loans we own, as securitized loans serviced for the benefit of investors present special challenges since investors prefer to avoid principal write downs. Going forward, Chase will recommend the Program to its investors to avoid unnecessary foreclosures.

Chase is pleased to have the HFH Program as an additional tool to help homeowners. Looking at our total owned and serviced book, including both prime and subprime – based on a very rough preliminary estimate – we believe about $2.5 billion in loans may qualify (about 14,000 households). Of course the actual amount may be much higher or lower depending on the additional qualifying criteria still under consideration by HUD and the Oversight Board. As a result, some of our assumptions may have been overly conservative. But we do believe, based on our experience of the last year and a half, that the numbers of borrowers who ultimately take advantage of the Program could be lower than the number that preliminarily qualify, as there may be several crucial barriers to the Program's widespread use.

On the borrower side:

The challenges of contact: Despite multiple efforts, including home visits and partnering with counselors to knock on doors, we successfully contact our borrowers only 35-50% of the time, on average.

The challenges of follow through: Even in loan modifications that require only straightforward income verification and simple documentation, we typically have to make multiple follow-up calls. This Program will present a higher hurdle, requiring significant effort from borrowers who will face novel features. For example, the borrowers will need to certify that they did not intentionally default on their current loan and be free of fraud convictions for the last ten years. They will also need to grapple with information on the shared equity and shared appreciation features of their new loan- especially the impact when they sell their home.

On the lender/investor side:

No share in appreciation: Under the Program, the loans' owners will take a loss when the principal balance is written down to the maximum allowable LTV of 90%, but will have no opportunity to share in any future appreciation to recoup that loss. For many investors, the Program may not be viewed as an attractive option, especially when our experience shows we can achieve relatively low rates of re-default when we modify a loan through a rate reduction that lowers the borrower's monthly payment to an affordable level. As mentioned earlier, our experience shows that five out of six borrowers are current 12 months after modification. And we believe we use appropriate underwriting criteria, even though it is more liberal than what we understand is being contemplated by the HFH Program.

Second becomes first: It seems counterintuitive that the second lien holder moves into a favored position in sharing future appreciation. While we understand the intent is to encourage second lien holders to extinguish their liens, we believe it would enhance the success of the Program were a similar incentive provided to the first lien holders.

As mentioned earlier, Chase is actively seeking to use the Program for its own portfolio as yet another solution for homeowners seeking to maintain their homes. In the case of securitized loans, Chase will utilize the Program where a principal write-down is best for both the borrower and the investor. In general, however, we believe that investors will prefer principal forbearance options that bring the monthly payment down to an affordable level while retaining the opportunity to share in future appreciation, similar to the program recently announced by the FDIC for IndyMac Bank.

Chase is proud of the programs it has developed over time, especially in the last year, to address the needs of customers who encounter financial difficulties. We continually re-examine our practices to respond to changing market conditions and their impact on our customers. We believe our programs are helping our customers through this challenging environment.