

**TESTIMONY OF MARGUERITE SHEEHAN  
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY  
JPMORGAN CHASE**

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 Housing Policy executive. 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 2008, Chase made more than \$105 billion in mortgage loans even though mortgage applications 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. Even before the current housing crisis began, our foreclosure prevention efforts were designed to do just that. We believe that it is in the best interests of both the home owner and the mortgage holder to take corrective actions as early as possible – in some cases even before default occurs. We apply our foreclosure prevention initiatives to both the \$325 billion of loans that we own and service and the \$1.1 trillion of investor-owned loans that we service. We expect to help avert 650,000 foreclosures – or a total of \$110 billion of loans – by the end of 2010. We have already helped prevent more than 330,000 foreclosures, including modifying loan terms to achieve what we expect should be long-term, sustainable mortgage payments.

We are well under way to implementing the commitments we made in announcing this foreclosure prevention plan last October. In particular, we have:

- Commenced mailing proactive modification offers to borrowers of Chase-owned Option ARM loans at imminent risk of default.
- Selected sites for 24 Chase Homeownership Centers in areas with high mortgage delinquencies where counselors can work face-to-face with struggling homeowners. We will have 13 of these centers –in California and Florida – open and serving borrowers by the end of this week. The other 11 around the country will be open by the end of next month.
- Added 300 new loan counselors to provide better help to troubled borrowers, bringing the total number of counselors to more than 2,500.
- Initiated an independent review process to ensure each borrower was contacted properly and, if and as appropriate, offered modification prior to foreclosure.
- Developed a robust financial modeling tool to analyze and compare the net present value of a home in foreclosure to the net present value of a proposed loan modification; this tool allows Chase to modify loans as proactively as it can while still meeting its contractual obligations to act in the best interests of investors when making loan modifications.
- Worked to help establish a non-profit clearinghouse to join Chase and other lenders who want to donate or discount their owned real estate to non-profit and government agencies that can use these properties.
- Worked with Fannie Mae and Freddie Mac to implement their new Streamlined Modification Program for borrowers at least 90 days delinquent; we have mailed more than 28,000 letters in the past several weeks.

### **Our Loan Modification Programs**

We have expanded the loan modification alternatives that 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 is working to finalize the offers and strategy for both delinquent and current borrowers, but the offers are likely to include those described further below.

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 whose interest rate 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 will 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. For owned Option ARM loans facing large increases in payments as a result of a recast and high loan to value ratios, Chase has begun to mail pre-approved modification offers. These offers allow borrowers to keep making their current, low payments for at least 3 more years before gradually moving towards a market rate. All the borrowers need to do is simply sign and return the modification agreement.

Chase will offer a pre-approved modification for borrowers whose loans are either owned or securitized by the GSEs and that meet the GSE's Streamlined Modification Program guidelines. Much like is done in the Chase program, term extensions, rate reductions and principal forbearance will be used to achieve an affordable monthly payment.

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 are using the lowest percentages 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 the Net Present Value analysis to each option to determine whether the value of the modification exceeds the value expected through foreclosure. We will recommend as the modification the option that produces both an affordable payment and a positive Net Present Value to the loan.

Chase's modification hierarchy is currently being implemented for delinquent borrowers. Chase will be proactively reaching out to those borrowers to develop an appropriate offer. Components of any modification proposal may include the following:

- Eliminating negative amortization for pay option ARMs.
- Establishing a new loan term as long as 40 years.
- Reducing the interest rate to as low as 3%. This rate will be frozen for three years and then increase at a maximum of 1% per year until it reaches the prevailing market rate at the time of the modification.
- Reducing the principal on which payments are calculated to as low as 90% to 95% of the home's current value. The difference between that amount and the outstanding principal does not accrue interest but is due upon maturity or prepayment of the loan.
- Introducing a 10-year, interest- only period on the loan.
- Other rate reductions and principal forbearance as necessary to meet affordability standards as long as it is net present value positive.

The modification hierarchies will be the basis for a loan-by-loan review of our portfolio to develop an offer that can be proactively presented to the borrower. It is then the borrower's responsibility to contact us, discuss their financial situation and furnish the appropriate documentation so that we can verify their income. Our experience has clearly shown that modifications resulting from income verification result in the most sustainable loans with the best performance.

### **Other Foreclosure Prevention Options**

Loan modifications are not the only tactic that Chase is pursuing. Chase believes that for a number of distressed homeowners, a refinance into a fully-amortizing FHA- or GSE-insured loan with lower payments may be a better alternative. So we will offer refinances for borrowers we believe are at risk of default or are already delinquent, as well as provide the 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 believe that programs like ours are the right approach for the consumer – all consumers -- and for the stability of our financial system as a whole. We support the Administration's proposal to adopt a uniform national standard for such programs and to encourage all sensible modification efforts short of bankruptcy as much as possible. We are very pleased with the steps taken by the Administration to address this need.

### **We support the President's Plan**

In particular, as our CEO, Jamie Dimon commented, "we believe that the Homeowner Affordability and Stability Plan announced last week by President Obama is good and strong, comprehensive and thoughtful. We think it will be successful in modifying mortgages in a way that's good for homeowners".

We applaud:

- The focus on making monthly payments affordable for borrowers
- The creation of uniform national standards for mortgage modification to provide consistent and fair treatment of customers across the industry. That standard will include the common-sense application of full income and debt verification
- The partnership with government to reduce interest rates – and payments -- for borrowers
- The expanded ability of borrowers to take advantage of today's lower rates through refinancing
- The inclusion of financially distressed borrowers even before they are delinquent
- The use of counseling for borrowers with the highest debt ratios

We look forward to working with the Administration, Congress, the agencies and other interested parties in implementing these initiatives to help families – and the U.S. economy.

As we advised Chairman Frank and the members of the House Financial Services Committee on February 12th, we have stopped adding loans owned by Chase into the foreclosure process where the properties are occupied by homeowners. We committed to this freeze through March 6<sup>th</sup> to afford the President and the Administration time to develop and communicate the details of the new Plan. This replicates our commitment on Oct. 31 to refrain from initiating new foreclosure actions so that Chase could review those mortgages for possible modification. That commitment delayed foreclosure commencement on over \$22 billion of Chase-owned mortgages held by more than 80,000 homeowners.

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

Respectfully submitted,  
Marguerite Sheehan  
February 23, 2009