



Chase Independent Review

Second Report by the Independent Reviewer *JPMorgan Chase Bank, N.A., Bankruptcy Settlement*

Amy Walsh
Independent Reviewer
Partner, Morvillo LLP

August 12, 2016




Table of Contents

I.	Introduction.....	1
II.	Consumer Remediation Progress.....	2
	A. Chase’s Consumer Remediation Obligations.....	2
III.	Testing, Validation, and Compliance Reviews.....	4
	A. The Testing Process.....	5
	B. Comparative Testing Methods for the Testable Settlement Provisions.....	7
IV.	Current Reporting Period Test Results.....	9
	A. Population Identification, Sampling Methodology and Testing Process.....	10
	1. Ascertaining Substantially Accurate Populations.....	10
	2. The Population of PCNs Filed by Chase During the PCN Relevant Period.....	10
	B. Settlement Agreement Paragraph 40: Remediation for DSI Loans.....	12
	C. Settlement Agreement Paragraphs 76, 78-79: Escrow Remediation Population.....	14
	D. Additional BRG Test Results Currently Under Review by the Independent Reviewer.....	16
V.	Conclusion and Next Steps.....	17

I. INTRODUCTION

This is the second report by the Independent Reviewer pursuant to the March 3, 2015 Settlement Agreement between JPMorgan Chase Bank, N.A. (“Chase”) and the United States Trustee Program of the Department of Justice (“USTP”) (collectively, “the Parties”).¹ The Settlement Agreement requires Chase to perform three primary undertakings: (1) to make internal operational changes to the way it prepares and files PCNs and escrow analyses; (2) to provide approximately \$43 million in remediation to borrowers in Chapter 13 bankruptcy who were affected by Chase’s PCN and escrow-related practices; and (3) to donate \$7.5 million to the American Bankruptcy Institute’s endowment for financial education and support for the Credit Abuse Resistance Education Program. The Settlement Agreement appointed Amy Walsh as the Independent Reviewer to assess Chase’s compliance with these obligations and report the results on a semi-annual basis.

The Independent Reviewer issued her Initial Report on December 22, 2015. The Initial Report provided an overview of the Settlement Agreement, described the Independent Reviewer’s role and responsibilities, described the status of Chase’s borrower remediation and operational changes at that time, and explained the testing methodology and procedures used to assess Chase’s compliance with the terms of the Settlement Agreement. This is the Independent Reviewer’s Second Report, which addresses remediation updates and testing results from the current period, including:

- A status update on the consumer remediation progress Chase has made to date and any related testing that had been submitted to the Independent Reviewer;
- A review of the results of testing relating to Chase’s obligations under paragraphs 40, 76, 78 and 79 of the Settlement Agreement that Chase’s Bankruptcy Review Group (“BRG”)² has completed and submitted to the Independent Reviewer for assessment; and,
- An overview of upcoming test results and next steps.

* * *

¹ Terms, phrases and provisions of the Settlement Agreement defined in the Initial Report maintain their definitions throughout this and subsequent reports by the Independent Reviewer. *See, generally*, Initial Report dated December 22, 2015, *available at* www.chaseindependentreview.com; *see also* Settlement Agreement, Exhibit 1 to the Initial Report dated December 22, 2015.

² The BRG is an organization within Chase’s risk group that is and will remain independent from Chase’s mortgage servicing business and controls group.

II. CONSUMER REMEDIATION PROGRESS

A. Chase’s Consumer Remediation Obligations

The Settlement Agreement obligates Chase to provide monetary relief to borrowers in the form of refunds, credits, or checks in connection with certain conduct covered by the Settlement. The Independent Reviewer’s Initial Report described those obligations in detail in Section V, pages 13-14.

The Settlement Agreement requires the majority of Chase’s consumer remediation obligations to be completed by November 2015. In December 2015, however, Chase and the USTP entered into a letter agreement extending the completion date for certain consumer remediations through April 2016.³ Certain other remediation obligations are continuing in nature and thus not subject to deadlines.

Chase has represented to the Independent Reviewer that it has completed all of its consumer remediation obligations by the deadlines required under the Settlement Agreement and applicable letter agreement and is underway with testing its completion of those obligations. Chase also continues to remediate customers under the paragraphs requiring continuing remediation. Chase has submitted test results to the Independent Reviewer for certain of these remediation obligations as set forth in the table below and reported in detail in Section IV. The remaining obligations await testing and assessment by the Independent Reviewer.

The table below details the status of Chase’s consumer relief obligations and related testing:

SA ¶	CATEGORY AND DESCRIPTION OF RELIEF	RELIEF COMPLETION STATUS	BRG’S TESTING STATUS
¶ 40	Payments of \$20 to borrowers with DSI Loans without a fixed monthly payment amount and whose bankruptcy case was still pending as of October 31, 2013.	Remediation Completed as of July 2015	Oversight ¶ 92(d); BRG Testing Complete
¶ 42	Reimbursement of attorneys’ fees to borrowers in certain bankruptcy cases who successfully disputed a payment increase or any charges or costs associated with a Substantively Inaccurate or Untimely PCN.	Remediation Completed as of April 2016	Oversight ¶ 92(d); BRG Testing Complete
¶ 78	\$600.00 payments to borrowers in the Escrow Remediation Population whose loans were impacted by the technology-driven escrow overlay issue.	Remediation Completed as of April 2016	Oversight ¶ 92(h); BRG Testing Complete
¶ 38	Loan forgiveness or deficiency waivers for cases in which a Substantively Inaccurate PCN for a HELOC loan was filed during the PCN Relevant Period.	Remediation Completed as of November 2015	Oversight ¶ 92(d); BRG Testing Complete

³ The December 2, 2015 letter agreement attached as Exhibit 1 extends through April 30, 2016 the deadlines for remediation under paragraphs 42, 58, 78, 79 of the Settlement Agreement and correspondingly extends the Independent Reviewer’s time to assess Chase’s compliance with those paragraphs.

¶ 39	Payments or credits in cases where customer with a HELOC loan with a Substantively Inaccurate PCN opts out of the loan forgiveness option or where the HELOC loan has been closed or has a zero (\$0) principal balance.	Remediation Completed as of November 2015	Oversight ¶ 92(d); BRG Testing Complete
¶ 41	Certain credits or refunds in cases with non-HELOC loans where a Substantively Inaccurate PCN misstated the monthly payment or stated an inaccurate effective date in connection with a change in monthly payment.	Remediation Completed as of November 2015	Oversight ¶ 92(d); BRG Testing Complete
¶ 53	Operational measures to ensure reliance on Chase’s updated system of record rather than on incorrect payment amounts stated in Substantively Inaccurate PCNs.	Remediation Completed as of November 2015	Oversight ¶ 92(g); BRG Not Yet Tested
¶ 54	Credits or refunds in bankruptcy cases still pending in which PCNs were not filed during the Moratorium for principal & interest changes under the terms of an ARM loan.	Remediation Completed as of April 2016	Oversight ¶ 92(f); BRG Not Yet Tested
¶ 55	Applicable credits or refunds for loans in the Moratorium Delayed Escrow Population.	Remediation Completed as of April 2016	Oversight ¶ 92(f); BRG Not Yet Tested
¶ 57	Written notice provided and a Superseding PCN filed in connection with any loan receiving a credit or refund under paragraphs 54 or 55.	Remediation Completed as of April 2016	Oversight ¶ 92(f); BRG Not Yet Tested
¶ 77	Applicable credits or refunds for loans in the Pre-Moratorium Delayed Escrow Population after the MSP Operational Implementation Date.	Remediation Completed as of April 2016	Oversight ¶ 92(f); BRG Not Yet Tested
¶ 47	Full account reconciliations of all post-petition payments and credits to borrowers’ accounts in bankruptcy cases where Chase did not file a PCN during the PCN Relevant Period.	Remediation Ongoing ⁴ per terms of SA	Oversight ¶ 92(g); BRG Testing In Progress
¶ 48	Full account reconciliations of all post-petition payments and giving borrowers’ accounts the benefit of un-noticed payment decreases for borrowers in bankruptcy cases where Chase did not file a PCN during the PCN Relevant Period.	Remediation Ongoing per terms of SA	Oversight ¶ 92(g); BRG Testing In Progress
¶ 49	Full account reconciliations of all post-petition payments and credits to borrowers’ accounts in bankruptcy cases where Chase filed an Untimely PCN during the PCN Relevant Period notifying borrowers of a payment increase.	Remediation Ongoing per terms of SA	Oversight ¶ 92(g); BRG Testing In Progress

⁴ Chase’s remediation efforts pursuant to paragraphs 47 through 52 are not subject to deadlines under the Settlement Agreement because of the nature of these remediations. The remediations mandated by these paragraphs relate to Chase’s reconciliation of customer accounts at the time the customer is discharged from or exits Chapter 13 Bankruptcy. In connection with a customer-filed Notice of Final Cure or a Motion for Relief from Stay filed by Chase, these paragraphs require Chase to conduct an account reconciliation process that will account for Missed or Untimely PCNs that Chase filed (or failed to file) during the PCN Relevant Period and provide applicable credits or refunds relating to those payment changes. Because some customers entitled to this relief may still have pending Bankruptcy Cases, the prior-referenced motions that trigger the remediation under these paragraphs have not yet been filed and will not be filed until these customers are ready to exit Chapter 13 Bankruptcy. Accordingly, Chase will continue to conduct account reconciliations for these customers as their cases become ripe for doing so. In light of the continuing nature of the customers’ Bankruptcy Cases that fall under the ambit of these paragraphs, Chase’s remediation efforts are ongoing and will continue until each of these customers has been remediated.

¶ 50	Full account reconciliations of all post-petition payments and applicable credits to borrowers' accounts in bankruptcy cases where Chase did not file a PCN for a payment increase during the PCN Relevant Period and the borrower filed a Notice of Final Cure.	Remediation Ongoing per terms of SA	Oversight ¶ 92(g); BRG Not Yet Tested
¶ 51	Full account reconciliations of all post-petition payments and giving the borrowers the benefit of the un-noticed payment decrease in responding to the Notice of Final Cure and any applicable credits in bankruptcy cases where Chase did not file a PCN for a payment decrease during the PCN Relevant Period and the borrower filed a Notice of Final Cure.	Remediation Ongoing per terms of SA	Oversight ¶ 92(g); BRG Not Yet Tested
¶ 52	Full account reconciliations of all post-petition payments received and credits to borrowers' accounts in bankruptcy cases where Chase filed an Untimely PCN for a payment increase during the PCN Relevant Period and the borrower filed a Notice of Final Cure.	Remediation Ongoing per terms of SA	Oversight ¶ 92(g); BRG Not Yet Tested

As the above table demonstrates, Chase reports that it has completed its consumer remediation obligations under the deadlines provided by the Settlement Agreement and letter amendment, and continue to remediate customers under its continuing obligations. The BRG's testing is complete with regard to the remediation obligations set forth in paragraphs 40, 76, 78 and 79, the results of which the Independent Reviewer reports below in Section IV. In addition, the BRG has completed its testing in connection with paragraphs 30, 60, 38, 39, 41, 42, 92(i) and 92(j). The Independent Reviewer's testing is in progress with respect to the BRG's test results for these paragraphs; pending the completion of that testing, the Independent Reviewer will disclose her conclusions regarding those paragraphs in her next report. Finally, BRG testing is currently in progress for a number of the other consumer relief provisions described above. The Independent Reviewer will report on these test results in future reports.

III. TESTING, VALIDATION, and COMPLIANCE REVIEW

As described in the Independent Reviewer's Initial Report, the Independent Reviewer and Chase agreed to testing standards under which the BRG performs the initial test work necessary to assess Chase's compliance with the Settlement Agreement. The BRG performs its testing according to agreed-upon methodologies and procedures and reports its results to the Independent Reviewer with detailed workpapers documenting each step taken in the BRG's testing process and the evidence that supports its findings and conclusions. The Independent Reviewer then reviews and independently tests the BRG's submissions.

A. The Testing Process

The Initial Report describes the fifteen separate Validation Protocols agreed upon by the Independent Reviewer and Chase, which reiterate Chase’s obligations under the Settlement Agreement and set forth testing parameters and methodologies to assess Chase’s compliance with those obligations. The Validation Protocols establish the following parameters for each separate test:

- Population definition;
- Sampling approach, including statistical parameters;
- Error definitions and allowable error rates;
- Test questions corresponding to each testable requirement in the Settlement Agreement;
- Evidence used to substantiate the answer to each test question; and
- Criteria for passing or failing each test question.

In addition, the Independent Reviewer and Chase agreed on sets of detailed test procedures (“Test Procedures” or “Procedures”) that corresponded to each of these fifteen Validation Protocols. Each of these Test Procedures specifies a step-by-step approach to the testing to be conducted by the BRG for each Validation Protocol, including the steps that the BRG should undertake to determine the following:

- Relevant Chase systems of record and access thereto;
- Appropriate and substantially complete population for each test;
- Statistically relevant sample size, usually at the loan level, for representative testing (if applicable);
- Relevant documents and other information to review when testing;
- Proper review and testing of documents and other information to assess Chase’s compliance, including the use of waterfall steps, formula-based calculators, and other tools to aggregate and assess information; and
- Parameters for assessing whether each loan in the sample passes or fails the agreed-upon testing approach.

After the Independent Reviewer and her team had the opportunity to conduct an on-site review and numerous follow-up meetings regarding each of set of Test Procedures, the Test Procedures were finalized.⁵

⁵ Once finalized and agreed upon, the BRG Test Procedures are subject to change or may be amended once the BRG’s testing of the respective validation protocol begins. A record of any changes made to the Test Procedures are captured in a summary page at the end of each amended set of Test Procedures.

The following table provides a list of the Validation Protocols and their related Test Procedures corresponding to each of the paragraphs under the Settlement Agreement that require the Independent Reviewer’s oversight and testing:

	VALIDATION PROTOCOLS & RELATED TEST PROCEDURES	SETTLEMENT PROVISION
VP1	Population Validation (Test Questions 1; 2-7; 8)	SA ¶ 92(b)-(c); ¶ 30(a)-(g); ¶ 60
VP2	Forgiveness/Lien Release for Substantively Inaccurate PCNs	SA ¶ 92(d); ¶¶ 38, 39, 41
VP3	Payment for certain DSI Loans	SA ¶ 92(d); ¶ 40
VP4	Reimbursement of attorneys’ fees for identified trustee/debtor challenges to payment increases or related fees, charges, and costs	SA ¶ 92(d); ¶ 42
VP5	Policies and procedures governing late fees, certain other charges, and corrective action	SA ¶ 92(e); ¶¶ 44, 56
VP6	Credits or refunds for unfiled PCNs during the PCN Moratorium	SA ¶ 92(f); ¶¶ 54, 57
VP7	Loans with Moratorium-delayed escrow analyses	SA ¶ 92(f); ¶¶ 55, 57
VP8	Credits or refunds for Untimely, Unfiled, or Substantively Inaccurate PCNs where Chase sought relief from stay	SA ¶ 92 (g); ¶¶ 47-49, 53
VP9⁶	Credits or refunds for Untimely, Unfiled, or Substantively Inaccurate PCNs where Chase filed Notice of Final Cure	SA ¶ 92(g); ¶¶ 50-53
VP11	Credits or refunds for loans in Pre-Moratorium Delayed Escrow Population	SA ¶ 92(h); ¶¶ 76, 77, 79
VP12	Payment for loans in Escrow Remediation Population	SA ¶ 92(h); ¶ 76, 78, 79
VP13A	Accuracy of PCNs filed after Moratorium for loans housed in the Mortgage Servicing Platform (“MSP”)	SA ¶ 92(i)
VP13B	Accuracy of PCNs filed after Moratorium for loans housed in the Variable Loan System (“VLS”)	SA ¶ 92(j)
VP14	Review of escrow analyses filed after Moratorium	SA ¶ 92(k)
VP15	Historical review of whether PCNs were substantively reviewed	SA ¶ 92(a)

⁶ As noted in the Initial Report, Validation Protocol 10 was intentionally removed from this list because the testing parameters relating Chase’s performance of a full account reconciliation in cases where Chase filed a Substantively Inaccurate PCN (See SA ¶¶ 53, 92(g)) were subsumed within Validation Protocols 8 and 9.

B. Comparative Testing Methods for the Testable Settlement Provisions

The Settlement Agreement mandates certain testing methods for certain testable provisions but, for others, leaves the testing methodology open to the Independent Reviewer's discretion. Most notably, the testing methodology used to validate the population of total PCNs filed during the PCN relevant period (Settlement Agreement paragraph 30(a)) varies from the methodology employed for other testable provisions of the Settlement Agreement. The details regarding the different methodologies are set forth below.

Testing the Populations in Paragraphs 30 and 60. Paragraphs 30(a) through (g) and paragraph 60 of the Settlement Agreement contain Chase's representations concerning: (1) the total approximate number of PCNs filed during the PCN Relevant Period; (2) the approximate numbers of PCNs falling into the three defined categories of Inaccurate, Untimely, and Incorrectly Signed PCNs; and (3) the approximate number of loans within the Pre-Moratorium Delayed Escrow Population. The BRG will use one of three different testing approaches depending upon the specific population tested under paragraphs 30 and 60:

- **Paragraph 30(a):**⁷ To test the approximate number of PCNs filed by Chase during the PCN Relevant Period, the BRG will use as its test population all Chase loans in Chapter 13 Bankruptcy Cases during the PCN Relevant Period. From there, the BRG will randomly select a statistically valid sample of loans for which Chase filed at least one PCN. For each loan, the BRG will search Bankruptcy dockets and claims registers to identify all PCNs that Chase filed in connection with each loan and then determine whether those PCNs were included on a report from its vendor, 4S Technologies, that purportedly listed all the PCNs that 4S filed on Chase's behalf during the PCN Relevant Period (the "4S report"), and on which Chase relied for its representation in the Settlement Agreement regarding the total number of PCNs filed during the PCN relevant period. The BRG, and ultimately the Independent Reviewer, will determine whether Chase represented with substantial accuracy the total approximate number of PCNs in paragraph 30(a) based on an agreed-upon error rate assessing the percentage of PCNs filed by Chase that were not included in the 4S report.
- **Paragraphs 30(b) through (g):**⁸ Paragraphs 30(b) through (g) of the Settlement Agreement set forth the approximate numbers of Inaccurate, Untimely, and Incorrectly Signed PCNs and further break down the Incorrectly Signed PCNs into various sub-categories. To test the accuracy of these numbers, the BRG will randomly select a sample of PCNs from a test population consisting of all PCNs filed by Chase during the

⁷ The approach for testing the approximate number of PCNs filed by Chase during the PCN Relevant Period is set forth in Validation Protocol 1, test question (1).

⁸ Paragraphs 30(b) through (g) of the Settlement Agreement set forth the approximate numbers of Inaccurate, Untimely, and Incorrectly Signed PCNs, will be tested pursuant to Validation Protocol 1, test questions (2)-(7).

PCN Relevant Period, as validated by the testing of paragraph 30(a) described above. The BRG will review each PCN in the sample and categorize it as Inaccurate, Untimely, or Incorrectly Signed. The BRG will then extrapolate from those categorized samples the total number of PCNs in each category that can be expected to be found among all PCNs filed by Chase during the PCN Relevant Period. The BRG will then conclude whether Chase has represented with substantial accuracy the numbers in paragraphs 30(b) through (g) by comparing the BRG's findings to the numbers initially represented in these paragraphs of the Settlement Agreement, within the agreed-upon rate of error.

- **Paragraph 60:**⁹ Paragraph 60 of the Settlement Agreement sets forth the approximate number of Chase loans in Bankruptcy Cases that, as of November 19, 2013, had not had an escrow analysis run in more than 12 months. The BRG will not use statistical sampling here. The BRG will search Chase's applicable system of record using various queries to identify the number of its loans in Bankruptcy Cases that, as of November 19, 2013, had not had an escrow analysis run in more than 12 months. The BRG, and ultimately the Independent Reviewer, will assess whether Chase represented this number with substantial accuracy by comparing the BRG's findings to the number initially represented in paragraph 60, within the agreed-upon rate of error.

Testing Differences Among Other Testable Settlement Provisions.¹⁰ To assess the remaining testable provisions of the Settlement Agreement, the BRG will generally take a statistically significant sample from a test population and review each item in the sample to determine whether that item complies with the requirements of the Settlement Agreement. Reviewing items in the sample requires the BRG to access documents and information from Chase's relevant systems of record and other sources, such as the Public Access to Court Electronic Records system ("PACER"). The BRG must specify in its workpapers the information it uses as evidence for its conclusion.

After reviewing each item in the sample and determining whether each one is a "pass" or a "fail" under applicable Validation Protocol, the BRG will calculate the total number of fails in the sample. Chase's compliance with the testable provisions of the Settlement Agreement will be evaluated based on the total number of acceptable passes and fails within a sample. This method generally applies to all of the remaining testable provisions of the Settlement Agreement, though there is some variance among the error rates among tests.

Reporting to the Independent Reviewer. When the BRG completes its testing in relation to a particular provision of the Settlement Agreement, the BRG will report its findings to the Independent Reviewer and submit its workpapers for review and validation by the Independent Review team.

⁹ The population stated in paragraph 60 will be tested pursuant to Validation Protocol 1, test question (8).

¹⁰ The remaining testable paragraphs in the Settlement Agreement will be tested pursuant to Validation Protocols 2 through 15.

Once the BRG has submitted its conclusions and workpapers to the Independent Reviewer, the Independent Review team will test and assess the BRG's conclusions and supporting evidence. Depending on the provision of the Settlement Agreement subject to testing, the Independent Reviewer's assessment may take a variety of forms; however, in most cases, the Independent Review team will validate the BRG's identification of the test population and its statistically significant sample, and then conduct its own testing of the evidence provided by the BRG. In connection with certain testable provisions of the Settlement Agreement, the Independent Reviewer intends to conduct interviews of Chase employees and review documentary evidence beyond the materials reviewed by the BRG during its testing.

The Independent Reviewer will report her conclusions with respect to each testable paragraph of the Settlement Agreement in her publicly filed reports.

IV. CURRENT REPORTING PERIOD TEST RESULTS

In the first and second quarters of 2016, the BRG completed its testing and submitted its findings and workpapers to the Independent Reviewer in connection with several of the testable paragraphs under the Settlement Agreement. The Independent Reviewer has completed her assessment of the BRG's results with respect to paragraph 40, and paragraphs 76, 78, and 79.¹¹ These paragraphs respectively relate to Chase's remediation for DSI Loans (¶ 40), and Chase's payments to the Escrow Remediation Population (¶¶ 76, 78-79). The Independent Reviewer and her team have independently tested the BRG's work. The principal focus of the Independent Reviewer's testing involved examining each loan in the entire sample of loans tested by the BRG in accordance with the processes and procedures set out in the applicable Validation Protocol and Test Procedures. The Independent Reviewer's assessment also included, among other due diligence: (i) follow-up meetings with the BRG; (ii) walk-throughs of the BRG's approach to Consumer Relief testing; and (iii) requests for additional evidence and inquiries concerning the BRG's testing methodologies and results.

As discussed in detail below, the Independent Reviewer has concluded that Chase has passed the agreed-upon testing Protocols and thus complied with paragraphs 40 and 76, 78, and 79 of the Settlement Agreement.

¹¹ Settlement Agreement paragraph 40 is tested pursuant to Validation Protocol 3; paragraphs 76, 78, and 79 are tested together pursuant to Validation Protocol 12. These paragraphs of the Settlement Agreement correspond to paragraphs 92(d) and 92(h) of the Independent Reviewer's assessment mandate. See SA ¶ 92(d), (h).

A. Population Identification, Sampling Methodology and Testing Process

1. Ascertaining Substantially Accurate Populations

Chase and the USTP entered into the Settlement based in part on Chase’s representations concerning the number of PCNs filed on behalf of Chase borrowers in Bankruptcy Cases that were affected by the conduct covered by the Settlement Agreement. See SA ¶ 30. These groups of customers or loans that were impacted by the covered conduct are referred to in general terms as the affected “populations.” See, e.g., Settlement Agreement ¶ 65 (defining the “Escrow Remediation Population”). The BRG’s testing and the Independent Reviewer’s assessments are aimed in part at assessing the accuracy of the populations represented in the Settlement Agreement.

When conducting its initial testing, the BRG is required to identify and collect the relevant test population for each paragraph of the Settlement Agreement requiring testing. The criteria the BRG uses to identify the proper test population was agreed to by the Independent Reviewer and set forth in the respective Validation Protocol and Test Procedures.¹² During the Independent Reviewer’s assessment of the BRG’s testing, the Independent Review team will review and evaluate documentation prepared by the BRG to validate that the BRG’s identified test population was substantially complete and consistent with Settlement Agreement.

2. The Population of PCNs Filed by Chase During the PCN Relevant Period¹³

In light of the importance of identifying substantially accurate populations, the Independent Reviewer has focused on the population definition and parameters for each testable paragraph under the Settlement Agreement. During the Independent Reviewer’s analysis of the manner in which Chase ascertained the population of the total approximate number of PCNs that Chase filed during the PCN Relevant Period (¶ 30(a)), Chase identified an issue that raised questions about the basis for this population.

Paragraph 26(a) of the Settlement Agreement indicates that Chase first identified the total approximate number of PCNs it filed during the PCN Relevant Period during its initial review of PCN issues that gave rise to the Settlement. In paragraph 30(a), Chase further represents that it filed

¹² For testing under some provisions of the Settlement Agreement, the test population will be PCNs identified by Chase during an investigation conducted by its outside counsel and quantified in paragraphs 30(b) through (g) of the Settlement Agreement. For other provisions, the data analytics team within the BRG will use queries it develops to extract from Chase’s applicable systems of record the population of loans or PCNs containing the relevant criteria.

¹³ The total population of PCNs filed during the PCN Relevant Period and each of the subsets of errant PCNs represented in SA ¶ 30 are tested under Validation Protocol 1(a-c).

approximately 53,000 PCNs during the PCN Relevant Period using its outside vendor, 4S Technologies. During discussions about this population of approximately 53,000, the Independent Reviewer learned that Chase did not maintain an internal list of all filed PCNs because Chase filed PCNs through 4S Technologies. Accordingly, when representing that it filed approximately 53,000 PCNs during the PCN Relevant Period, Chase relied on the 4S report. 4S provided Chase with a certification regarding the accuracy of its report.

When the Independent Reviewer and Chase discussed the methods for verifying the population of PCNs filed during the Relevant Period, the Independent Reviewer requested that Chase explore other means of assessing this population independent from the 4S report. In response, Chase retained a third-party vendor that uses proprietary software to conduct searches of bankruptcy dockets, claims registers, and filings across all 94 United States bankruptcy jurisdictions. Chase instructed the outside vendor to search a sample of approximately one-third of the Chase loans in Bankruptcy Cases during the PCN Relevant Period to test whether PCNs were filed by 4S on behalf of Chase in connection with those loans and, if so, whether those PCNs were listed on the 4S report.

In December 2015, Chase disclosed to the Independent Reviewer that its vendor's initial search identified a sufficient number of PCNs that were not included on the 4S report to cause Chase and the Independent Reviewer to question the completeness of the 4S report. Accordingly, the Independent Reviewer and Chase engaged in discussions aimed at validating through other means the population of approximately 53,000 PCNs as stated in Settlement Agreement ¶ 30(a).

The Settlement Agreement directs the Independent Reviewer to use a sampling methodology to determine the accuracy of the number of PCNs stated in paragraph 30(a), including the approximately 53,000 PCNs filed during the PCN Relevant Period. Based on this mandate, the Independent Reviewer directed Chase to use a sampling approach to test its entire population of loans in Bankruptcy Cases during the PCN Relevant Period. According to Chase's records, it serviced approximately 150,000 loans in Chapter 13 Bankruptcy Cases during this time.

To capture this new methodology, the Independent Reviewer and Chase agreed to a new subset of population-testing parameters for Validation Protocol 1, test question (1), which distinctly tests for the substantial accuracy of the approximately 53,000 loans stated in Settlement Agreement paragraph 30(a). This subset of testing parameters requires the BRG to identify a test population consisting of a statistically significant sample of loans from Chase's entire population of 150,000 loans in Chapter 13 Bankruptcy Cases during the PCN Relevant Period. The BRG will then test the sample to

determine whether PCNs were filed by Chase in connection with those loans during the Relevant Period. The BRG will compare its results against the 4S report to test its accuracy. After reviewing the BRG's results, the Independent Reviewer will independently test the BRG's work to determine whether, ultimately, Chase stated with substantial accuracy (within an agreed-upon error rate) the total population of 53,000 PCNs filed during the PCN Relevant Period.

Regardless of whether the Independent Reviewer determines that Chase represented with substantial accuracy the total number of PCNs filed during the PCN Relevant Period, Chase will remediate any customers eligible for remediation under the Settlement Agreement whose impacted loans are newly discovered through the evaluation of this population.

B. Settlement Agreement Paragraph 40: Remediation for DSI Loans

Overview of Paragraph 40. Paragraph 40 requires Chase to mail by July 31, 2015, a check in the amount of \$20 per loan to each borrower with a HELOC loan for which interest is calculated on a daily simple interest basis ("DSI Loans") without a fixed monthly payment amount and whose Bankruptcy Case was pending as of October 31, 2013, unless Chase already forgave the DSI Loan as of May 31, 2015. As detailed below, the Independent Reviewer has concluded that Chase has complied with its obligations under paragraph 40 of the Settlement Agreement.

Identification of the Testing Population for Paragraph 40. The test population for paragraph 40 included all DSI Loans with Bankruptcy Cases pending as of October 31, 2013, with no fixed monthly payment amount. To identify the loans to be included in this test population, the BRG searched Chase's system of record through the use of queries and extracted all of the loans that contain the relevant criteria. Through this process, the BRG identified and extracted a test population of 9,512 loans. A member of the Independent Reviewer's team from BDO Consulting¹⁴ with expertise reading and interpreting data queries determined that the queries were reasonably designed to identify and extract all of the Chase loans that should be included in the test population for paragraph 40.

BRG Testing of Paragraph 40. Once the BRG identified the appropriate test population for paragraph 40, the BRG randomly selected a statistically relevant sample of 311 loans from that population. The BRG tested each of the loans in the sample in a manner consistent with the requirements of the applicable testing parameters (Validation Protocol 3 and its corresponding Test Procedures). The following table sets forth the results of the BRG's testing:

¹⁴ BDO Consulting, a division of BDO USA, LLP ("BDO"), serves as compliance testing experts to assist the Independent Reviewer with the testing and verification of the assertions made in the Settlement Agreement.

Number of Loans in Sample	Number of Errors Found	Percentage of Errors in Total
311 ¹⁵	0	0%

Because the BRG did not identify any errors in the sample, it reported to the Independent Reviewer that Chase has satisfied the testable requirements for paragraph 40 and provided its workpapers for review by the Independent Reviewer and her team.

Independent Review Team’s Testing of Paragraph 40. The Independent Reviewer began reviewing the BRG’s testing of paragraph 40 by conducting a detailed re-testing of the 311 sample loans originally tested by the BRG. Throughout its testing process, the Independent Reviewer and her team interacted extensively with the BRG to resolve issues and questions that arose during the testing process.¹⁶

After completing the loan-level testing, the Independent Review team determined the number of errors found in the sample and compared its findings with those from the BRG. The following table sets forth the results of the Independent Reviewer’s loan-level testing, which is consistent with the BRG’s findings:

Number of Loans in Sample	Number of Errors Found	Percentage of Errors in Total
311	0	0%

Like the BRG, BDO determined that the sample of loans drawn from the paragraph 40 test population did not contain any errors. BDO documented its findings in workpapers and reported them to the Independent Reviewer, who reviewed them in detail with BDO and the Independent Review Team. Accordingly, the Independent Reviewer has concluded that Chase has complied with its

¹⁵ During its testing of the sample for paragraph 40, the BRG noted that one of the loans in the sample was not testable because the Bankruptcy case had been dismissed on October 8, 2013. As required by the testing parameters for paragraph 40, the BRG removed this loan from the sample and replaced it with another randomly selected loan. BDO reviewed these steps, which the BRG documented in its work papers, and concluded that the BRG’s actions were consistent with the requirements of the applicable testing parameters (Validation Protocol 3 and its Test Procedures). Additionally, BDO identified another loan that was not testable because its Bankruptcy Case was dismissed on October 31, 2013. The BRG followed the same procedure outlined with regard to the prior untestable loan. The results of BRG’s testing of the replacement loans are included in the BRG’s results reported in this table.

¹⁶ Most of the inquiries made by the Independent Reviewer in relation to Settlement Paragraph 40 related to the process by which the test population was identified and extracted. The BRG was able to satisfy the Independent Reviewer’s inquiries.

obligations set forth in paragraph 40 of the Settlement Agreement to mail checks in the amount of \$20 by July 31, 2015 to customers with DSI loans falling within the population defined by paragraph 40.

C. Settlement Agreement Paragraphs 76, 78-79: Escrow Remediation Population

Overview of Paragraphs 76, 78-79. Paragraphs 76, 78, and 79 of the Settlement Agreement, taken together, require Chase to provide a one-time payment of \$600 by April 30, 2016¹⁷ for each loan in the Escrow Remediation Population—borrowers whose loans were impacted by the technological error that caused the Escrow Overlay Issue. As detailed below, the Independent Reviewer has concluded that Chase has complied with its obligations under these paragraphs of the Settlement Agreement.

Identification of the Testing Population for Paragraphs 76, 78-79. To identify loans belonging in the test population for the Escrow Remediation Population under these paragraphs, the BRG used data queries to extract from Chase’s system of record all of the loans containing the relevant criteria under the Settlement Agreement and applicable testing parameters (Validation Protocol 12 and its Test Procedures). The BRG identified and extracted a test population of 10,257 loans.¹⁸ A member of the Independent Review team from BDO with expertise reading and interpreting data queries reviewed the BRG’s query used to identify the test population for the Escrow Remediation Population and determined that the query was reasonably designed to identify all of the eligible Chase loans.

BRG Testing of Paragraphs 76, 78-79. After identifying and extracting the test population for the Escrow Remediation Population under these paragraphs, the BRG randomly selected a statistically significant sample of 312 loans. The BRG tested each of the loans in the sample per the agreed-upon testing parameters. The following table sets forth the results of the BRG’s testing:

¹⁷ Paragraph 79 of Settlement Agreement requires that Chase make payments in connection with the Escrow Remediation Population by May 31, 2015; however, per the Letter Agreement between the Parties dated December 2, 2015 (see Exhibit 1), Chase and the USTP agreed to amend Paragraph 79 (among other paragraphs) to require that Chase complete this remediation by April 30, 2016.

¹⁸ Paragraph 65 of the Settlement Agreement states that there were 8,165 borrowers in the Escrow Remediation Population; however, Chase subsequently identified an additional 2,092 loans that come within this population. In response to an inquiry from the Independent Review team, the BRG stated that the additional of 2,092 loans in the test population were identified in a thorough loan-by-loan review conducted by Chase subsequent to the Settlement Agreement.

Number of Loans in Sample	Number of Errors Found	Percentage of Errors in Total
312 ¹⁹	0	0%

Because the BRG did not identify any errors in the sample, it reported to the Independent Reviewer that Chase has satisfied the testable requirements for the paragraphs 76, 78-79 and provided its workpapers for review and testing by the Independent Reviewer and her team.

Independent Reviewer’s Testing of Paragraphs 76, 78-79. The Independent Review team’s assessment of the testing for these paragraphs involved conducting a detailed re-testing of the 312 loans originally tested by the BRG. Throughout its testing process, the Independent Reviewer and her team interacted extensively with the BRG to resolve issues that arose during the testing process.²⁰

After completing the loan-level testing, the Independent Review team determined the number of errors in the test population and compared its findings with those from the BRG. The following table sets forth the results of the Independent Reviewer’s loan-level testing, which is consistent with the BRG’s findings:

Number of Loans in Sample	Number of Errors Found	Percentage of Errors in Total
312	0	0%

Like the BRG, the Independent Review team determined that the sample of loans drawn from the test population did not contain any errors. BDO documented its findings in workpapers and reported them to the Independent Reviewer. The Independent Reviewer has undergone an in-depth review of both the BRG’s and BDO’s workpapers and has concluded that Chase has satisfied the testable requirements and therefore complied with Paragraphs 76, 78, and 79 of the Settlement Agreement.

¹⁹ During its testing of the sample for paragraphs 76, 78-79, the BRG noted that one of the loans in the sample was not testable because the borrower was not part of the Escrow Remediation Population. The loan had been mistakenly included in the testing population because a Chase customer service representative, when taking the call from the borrower who was entitled to a different type of escrow-related refund, mistakenly used the code for the Escrow Overlay Remediation to identify the reason for the customer’s call. The use of this code caused this loan to be included in the test population. The BRG removed this loan from the sample and replaced it with another randomly selected loan. BDO reviewed these steps as documented in the BRG’s work papers and concluded that the BRG’s actions were consistent with the requirements of the agreed-upon testing parameters. The result of BRG’s testing of the replacement loan is included in the BRG’s results reported in this table.

²⁰ The majority of the inquiries made by the Independent Reviewer and her team related to instances where the address to which the payment was sent did not match the borrower’s current address in Chase’s system of record. In response to these inquiries, Chase provided additional evidence to demonstrate changes of address or similar circumstances within Chase’s applicable system of record.

D. Additional BRG Test Results Currently Under Review by the Independent Reviewer

In addition to the Independent Reviewer's conclusions with regard to the test results reported above, during the current testing period the BRG completed its testing and submitted its findings and workpapers in connection with the following paragraphs:

- **Paragraphs 30 and 60:** Validation of the number of Untimely, Incorrectly Signed, and Substantively Inaccurate PCNs as stated in paragraph 30, and the number of loans in the Pre-Moratorium Delayed Escrow Population as stated in paragraph 60;
- **Paragraph 38, 39, 41:** Loan forgiveness or deficiency waivers for cases in which a Substantively Inaccurate PCN for a HELOC loan was filed during the PCN Relevant Period under paragraph 38; Payments or credits in cases where a HELOC loan with a Substantively Inaccurate PCN opts out of the loan forgiveness option or where the HELOC loan has been closed or has a zero (\$0) principal balance under paragraph 39; and certain credits or refunds in cases with non-HELOC loans where a Substantively Inaccurate PCN misstated the monthly payment or stated an inaccurate effective date in connection with a change in monthly payment under paragraph 41;
- **Paragraph 42:** Reimbursement of attorneys' fees in connection with successful payment change challenges for applicable customers; and,
- **Paragraphs 92(i) and 92** PCNs and further break down the Incorrectly Signed PCNs into various sub-categories **Bankruptcy (j):** Whether MSP and VLS PCNs filed in Bankruptcy Cases subsequent to the Moratorium have been verified and reviewed by a PCN Signer, are accurate and complete, and otherwise comply with the requirements of the Federal Rules of Bankruptcy Procedure as required under paragraphs 92(i) and (j).

The Independent Reviewer's testing of the BRG's results is currently in progress with respect to the above paragraphs. Like the test results for which the Independent Reviewer has reported her conclusions in this report, the Independent Reviewer is currently working closely with Chase and the BRG to understand its testing and resolve issues that may impact her testing and assessment of Chase's compliance with these Settlement Agreement paragraphs. Pending the resolution of any issues, the Independent Reviewer's conclusions will be disclosed in her next report.

* * *

V. CONCLUSION AND NEXT STEPS

As detailed above, the BRG has delivered to the Independent Reviewer its test results for, among others, paragraphs 40, 76, 78 and 79 of the Settlement Agreement. After independently verifying the BRG's test results, the Independent Reviewer concluded that Chase has complied with its obligations under these paragraphs. As noted above, the BRG also delivered its test results with respect to paragraphs 30, 60, 38, 39, 41, 42, 92(i) and 92(j). The Independent Reviewer will report her testing of these provisions in her next report.

The BRG is currently conducting testing concerning Chase's compliance with several additional paragraphs of the Settlement Agreement. Depending on the nature of these test results and the time these results are delivered to the Independent Review Team, the Independent Reviewer will report her conclusions with respect to some or all of these paragraphs in her next report, which will be issued in late 2016.



Exhibit 1

JPMORGAN CHASE & CO.

Joy E. Palazzo
Executive Director
Assistant General Counsel - Mortgage Banking

December 2, 2015

Diarmuid Gorham
U.S. Department of Justice
Executive Office for United States Trustees
441 G Street, NW, Suite 6150
Washington, D.C. 20530

Re: *In re Belzak*: letter agreement modifying terms

Dear Diarmuid:

This letter confirms our agreement to modify the settlement agreement set forth in that certain Order Approving Settlement Between the United States Trustee Program (“USTP”) and JPMorgan Chase Bank, N.A. (“Chase” and together with USTP, the “Parties”), which was entered by the Court on March 9, 2015 (Doc. 143) (the “Agreement”), in the *In re Belzak* matter pending in the United States Bankruptcy Court for the Eastern District of Michigan. Modification of the Agreement by a writing signed by the Parties is provided for by paragraph 108 of the Agreement, and this letter is executed by the Parties pursuant to paragraph 108.

The Parties have agreed to modify the Agreement with respect to the following paragraphs:

Paragraphs 58 and 79: The deadlines set forth in paragraphs 58 and 79, including the PCN Moratorium Corrective Action Date, the Delayed Escrow Corrective Action Date, and the deadline for mailing checks required under paragraph 78 shall be extended through and including April 30, 2016.

Paragraph 97(d) is modified to read: With respect to sub-paragraph 92(f), the Independent Reviewer shall have the later of 180 days from April 30, 2016 or 210 days from execution of the Retention Agreement.

Paragraph 97(f) is modified to read: With respect to sub-paragraph 92(h), the Independent Reviewer shall have the later of 180 days from April 30, 2016 or 210 days from execution of the Retention Agreement.

Paragraph 117: The last sentence of paragraph 117 is modified to read “Upon request, Chase shall reissue a check that the payee failed to timely negotiate provided that such request is in writing and received prior to August 31, 2016.”

Except as stated, the terms of the Agreement remain unchanged.

If this letter comports with your understanding of our agreement to modify the Agreement's terms, please so indicate by signing in the space provided below and returning to my attention.

Sincerely,



Joy E. Palazzo
Executive Director and
Assistant General Counsel Mortgage Banking

Agreed to in substance and form on this 3rd day of December,
2015:



By: Diarmuid Gorham
United States Department of Justice
United States Trustee Program