

Senate Business and Commerce Testimony  
JPMorgan Chase  
October 25, 2010

Mr. Chairman, members of the Committee, thank you for giving Chase the opportunity to discuss mortgage servicing practices and address issues raised by Texas consumers. I am Larry Hartman, Vice President, Customer Experience for Chase Home Mortgage.

JPMorgan Chase and its predecessor companies have been a part of Texas since 1866. Currently, Chase has over 27,000 employees and over 7 million consumer customers in Texas. Chase extended over 1.2 million total new loans and lines of credit to Texas consumers and small businesses in 2009. Of the \$10.5 billion in mortgage loans made in Texas in 2009, 23% were made to low or moderate income borrowers or for homes in low or moderate income communities. We contributed more than \$7.3 million to Texas charities and paid more than \$52 million in state and local taxes in 2009.

Chase strives to provide a high level of customer service for all customers, including those seeking modifications or in default. Taking care of our customers is Chase's number one business priority. While not all customer interactions start on a positive note, even when we are confronted with a complaint or unsatisfied customer, these customers are treated with respect and openness. Our customer satisfaction scores continue to rise and we have new initiatives to help push these scores even higher.

Chase has over 25,000 people working to help customers stay in their homes, including 1,500 Relationship Managers who personally work with customers from the time that a customer is referred for a possible loan modification until there is resolution. Chase has regional Homeownership Centers in Houston and Dallas where homeowners can meet face-to-face with trained advisors to discuss their situation.

The following are Chase's responses to the specific questions and issues raised by Texas consumers.

**Escrow Accounts**

Texas consumers have raised a variety of issues relating to loan servicers' handling of escrow account, including allegations that:

- Escrow accounts were established even though the customer was not behind on tax payments; and,
- False claims that payments were not made were used to justify the imposition of an escrow account

Although the standard security instruments all provide for the establishment of an escrow account for the payment of real estate taxes, hazard and flood insurance, and private mortgage insurance, the escrow requirement has been waived for many customers. For loans without an escrow account, Chase will not require that the customer establish an escrow account as long as the customer is current in paying taxes and insurance. This is the case even when the customer's monthly payments are delinquent. When a customer fails to make a tax or insurance payment, a letter is sent to the customer advising of the delinquency and the need to make the tax or insurance payment. If the customer does not respond within 30 days, Chase will advance the delinquent amounts on the customer's behalf to protect its interest in the property. At this time, the account will be converted from a non-escrow to an escrow account and an escrow analysis will be performed to determine the amount that the customer must pay to repay the amounts paid by Chase and to pay for future anticipated tax or insurance payments. Generally, customers must repay any escrow shortage over a 12 month period. However, if a customer requests more time to repay this amount, Chase will allow the shortage to be spread over 24, 36, 48, or 60 months. Chase does not charge its customers interest for these escrow advances.

When a customer without an escrow account requests a loan modification, an escrow account is established as part of the modification process to assure that future tax and insurance payments will be made. This is consistent with the HAMP modification guidelines.

### **Payment Applications/Mishandling**

There were a number of complaints concerning the application and mishandling of loan payments, including allegations that loan servicers:

- Failed to credit consumers for payments made;
- Used false claims that consumers did not make payments to justify the imposition of late fees and/or an escrow account; and
- Lost mortgage payments.

Chase's policy is to credit payments on the day that the payment is received. If a payment is made through a channel other than the lockbox it will be applied as of the date of receipt even though it may not be actually cashed until after that time.

On very rare occasions, a loan payment may be misapplied. Once Chase obtains proof of the customer's payment, the payment is applied as intended and any late charges or other fees will be refunded or waived.

### **Loan Modification Payment Increases**

Some Texas consumers were concerned about loan modifications that increased the monthly payment amount. Except in very rare circumstances, Chase will not modify a loan if the modification would increase the principal and interest payment. In the rare instances where a

modification results in an increase in the principal and interest payment, this increase is limited to 5% of the payment amount.

Because an escrow account may be required for a modified loan, the total payment may increase since the customer is now paying for future tax and insurance payments as part of each payment on the loan. However, this does not represent an increase in the total amount to be paid as the customer was already responsible for making tax and insurance payments.

### **Forced Placed (Lender Placed) Insurance**

Concerns were raised about the unnecessary force placement of insurance when the consumer already had insurance covering the property. The loan documents signed by the customer require that the customer keep the property securing the loan insured against loss by fire, flood, windstorm, and other hazards. Customers are permitted and encouraged to obtain insurance from a company of their own choice since this allows customers to obtain insurance coverage that fits their needs and budget. To be sure that the property is adequately insured, Chase requires that the customer provide proof of insurance. If the customer does not provide evidence of insurance, Chase will place two calls to the insurance carrier to try to obtain proof of insurance. Once the hazard insurance policy expires, Chase sends a letter to the customer asking for proof of insurance and advising that a lender placed policy may be obtained if no proof is provided. Another letter is sent in 30 days if no proof is received. An insurance binder is obtained at this time. A final letter is sent 60 days after expiration and only then is lender placed insurance obtained if no proof of insurance is provided.

If the customer later provides evidence that the property was insured, Chase will refund all or part of the premium paid for lender placed insurance for any time that the customer's own insurance covered the property.

### **Tax Deferral**

Some Texas consumers who are over 65 years old request to defer their real estate taxes as is allowed under Texas law and are concerned that loan servicers do not permit this. Chase is unable to honor these requests because all deferred tax payments establish a lien that is prior to Chase's deed of trust. Under the terms of the loan documents signed by the customer, the customer agrees to pay all taxes and assessments that can attain priority over the deed of trust. Chase owes a duty to the investors on the loans to keep its lien in first position and to assure that all taxes due on the property are paid.

### **Customer Service/Multiple Contacts**

Another concern raised involved the allegation that a consumer had multiple contacts with mortgage servicer without speaking to the same person. Chase's Customer Care representatives are trained to handle a variety of issues. When a customer calls the Chase Customer Care

number, the customer is connected with the next available representative so that any issues can be accurately and efficiently addressed.

Chase is aware that customers engaged in the loan modification process have been frustrated because they have been unable to speak with the same person about their loan. To address this issue, Chase now uses a Relationship Manager as part of the loan modification process so that all customers have a single point of contact through the entire loan modification process.

### **Loss Mitigation/Payment Deferrals**

A temporarily disabled Texas consumer said that his servicer would not defer his payments. Chase offers a variety of repayment plans and other loss mitigation options to customers who fall behind on payments due to temporary disability or other situations where there is a temporary loss of income. The exact plan offered will depend on the individual customer circumstances, the type of loan, and the investor requirements.

I thank the Committee for its time and I would be happy to answer any questions.