



# JPMorgan Chase and Company Lewisville, TX

Federal Housing Administration, Home Affordable  
Modification Program, Stand-Alone Partial Claims

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2017-AT-1012  
September 15, 2017**

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**To:** Gisele G. Roget, Deputy Assistant Secretary for Single Family Housing, HU  
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**From:** Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA  
**Subject:** JPMorgan Chase Complied with the Market Rate Requirement for FHA Home Affordable Modification Program Stand-Alone Partial Claims

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of JPMorgan Chase and Company's Federal Housing Administration (FHA), Home Affordable Modification Program stand-alone partial claims.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



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**JPMorgan Chase Complied with the Market Rate Requirement for FHA Home Affordable Modification Program Stand-Alone Partial Claims**

## Highlights

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### What We Audited and Why

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We audited JPMorgan Chase's (Chase) Federal Housing Administration Home Affordable Modification Program (FHA-HAMP) stand-alone partial claims. We selected Chase for review based on our analysis of risk factors of loan servicers that filed FHA-HAMP stand-alone partial claims and in accordance with our annual audit plan. Our audit objective was to determine whether Chase complied with the FHA-HAMP stand-alone partial claim market rate requirement set by the U.S. Department of Housing and Urban Development (HUD).

### What We Found

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Chase complied with the FHA-HAMP stand-alone partial claim market rate requirement set by HUD. Specifically, for all 14 FHA-HAMP stand-alone partial claim cases reviewed, Chase ensured that the borrower's mortgage interest rate was at or below the market mortgage interest rate as required.

### What We Recommend

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This report has no recommendations.

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# Background and Objective

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JPMorgan Chase and Company is a Federal Housing Administration (FHA) direct endorsement<sup>1</sup> lender authorized by HUD to originate and service FHA-insured single family loans. As of January 31, 2017, Chase serviced more than 460,000 FHA-insured loans with approximately 3,400 of their delinquent loans addressed under the FHA Home Affordable Modification Program (FHA-HAMP).

FHA-HAMP is one of the loss mitigation options designed to help FHA-insured borrowers who meet HAMP eligibility requirements to avoid foreclosure by permanently reducing their monthly mortgage payment through the use of a partial claim. FHA-HAMP allows HUD to bring eligible borrowers' payments down to an affordable level by (1) buying down the loan's unpaid principal balance up to 30 percent to bring it current, and (2) deferring the amount in a partial claim through an interest-free subordinate FHA mortgage that is not due until the first mortgage is paid off.

Under FHA-HAMP, there are three loss mitigation home retention options. These are FHA-HAMP (1) loan modification, (2) partial claim, and (3) combination of loan modification and partial claim. The option of using only the partial claim to bring the mortgage current is called the FHA HAMP stand-alone partial claim. One of the requirements for the stand-alone partial claim option is that the borrower's current interest rate is at or below the market rate as of the date a trial payment plan<sup>2</sup> is offered to the borrower.<sup>3</sup> Market rate is defined as a rate that is no more than 25 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate<sup>4</sup> for 30 year fixed-rate conforming mortgages (U.S. average), rounded to the nearest one-eighth of one percent, as of the date a trial payment plan is offered to a borrower.<sup>5</sup>

Our audit objective was to determine whether Chase complied with the FHA-HAMP stand-alone partial claim market rate requirement set by HUD.

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<sup>1</sup> Under the direct endorsement program, a lender is permitted to underwrite single family loans without FHA's prior review and submit them directly for FHA insurance endorsement.

<sup>2</sup> Per HUD Handbook 4000.1, effective March 14, 2016, a trial payment plan is a payment plan for a minimum period of three months, during which the borrower must make the agreed-upon consecutive monthly payments prior to final execution of FHA-HAMP option.

<sup>3</sup> Mortgagee Letter (ML) 2013-32, effective December 1, 2013.

<sup>4</sup> The Weekly PMMS rates are published on the Freddie Mac website, including historic rates.

<sup>5</sup> ML 2013-17, effective July 1, 2013.

# Results of Audit

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## **Finding: Chase Complied With the Market Rate Requirement for FHA-HAMP Stand-Alone Partial Claims**

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Chase complied with the FHA-HAMP stand-alone partial claim market rate requirement set by HUD. Specifically, HUD required that the borrower's interest rate be at or below the market rate at the time the trial payment plan is offered to the borrower.<sup>6</sup> For all 14 of the FHA-HAMP stand-alone partial claim cases reviewed, the borrower's mortgage interest rate was at or below the market mortgage interest rate.

### **FHA-HAMP Stand-Alone Partial Claim Market Rate Requirement Met**

From a universe of 2,551 FHA-HAMP stand-alone partial claims processed during the period October 1, 2014, through September 30, 2016, we statistically selected 82 and reviewed 14 cases.<sup>7</sup> We reviewed Chase's FHA-HAMP partial claim documents, mortgage and claim data from HUD's Neighborhood Watch,<sup>8</sup> and FHA Connection,<sup>9</sup> Freddie Mac's weekly market rates, to determine whether the borrower's interest rate as of the date the trial payment plan agreement was at or below the market rate as required by HUD.<sup>10</sup> For all 14 FHA-HAMP stand-alone partial claim cases, Chase provided documentation that adequately supported that the borrower's interest rate was below the market rate. Table 1 below lists the borrower's interest rate in comparison to the market rate for the 14 cases we reviewed.

**Table 1**

No.	FHA case number	Partial claim processed date	Trial payment plan date	Borrower's interest rate	Market rate	Interest rate at or below market rate?
1	352-6332995	12/09/14	07/31/14	4.00%	4.38%	Yes
2	156-1562189	01/27/15	07/07/14	3.25%	4.38%	Yes
3	495-9756835	03/26/15	11/07/14	3.75%	4.25%	Yes
4	571-0839214	05/11/15	11/06/14	4.00%	4.25%	Yes
5	095-2326711	05/18/15	10/22/14	4.00%	4.25%	Yes
6	514-0052143	09/03/15	03/27/15	3.63%	4.00%	Yes
7	022-1926113	10/13/15	05/18/15	3.50%	4.13%	Yes
8	105-4421808	11/30/15	06/30/15	4.00%	4.25%	Yes

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<sup>6</sup> Mortgagee Letter (ML) 2013-32, effective December 1, 2013.

<sup>7</sup> Our methodology for the sample selection is explained in the Scope and Methodology section of this audit report.

<sup>8</sup> Neighborhood Watch is designed with capabilities to track the performance of loans originated, underwritten, and serviced by FHA-approved lenders.

<sup>9</sup> In FHA Connection, lenders can file a claim for FHA single family insurance benefits or report changes to the FHA-insured loan terms.

<sup>10</sup> See footnote 6.

No.	FHA case number	Partial claim processed date	Trial payment plan date	Borrower's interest rate	Market rate	Interest rate at or below market rate?
9	048-5449632	12/31/15	07/24/15	3.50%	4.25%	Yes
10	483-4688858	03/28/16	11/09/15	3.50%	4.13%	Yes
11	491-9082711	07/21/16	01/09/16	3.50%	4.25%	Yes
12	261-9661792	08/05/16	01/14/16	4.00%	4.13%	Yes
13	381-8659512	08/15/16	02/09/16	3.50%	4.00%	Yes
14	461-3909727	09/07/16	04/09/16	3.50%	3.88%	Yes

**Other Minor Deficiencies Noted**

During our audit, we noted three minor deficiencies concerning the (1) reporting of the non-incentivized loan modifications, (2) recording and delivery of the partial claim documents, and (3) executed subordinate mortgage amount and the partial claim amount. We issued a separate memorandum to tell HUD of these minor deficiencies.

# Scope and Methodology

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We performed our audit work between February and July 2017 at our offices in Jacksonville and Miami, FL. Our review covered the period October 1, 2014, through September 30, 2016.

To accomplish our objective, we

- Reviewed applicable HUD handbook, regulations, and mortgagee letters on FHA-HAMP.
- Reviewed data from HUD's Single Family Data Warehouse,<sup>11</sup> Neighborhood Watch, and FHA Connection.
- Reviewed Freddie Mac's weekly primary mortgage market survey rates.
- Reviewed Chase's electronic copies of FHA-HAMP partial claim documents, FHA-HAMP servicing policies and procedures, and organizational charts.
- Interviewed Chase's officials.

We were unable to pull records from HUD's systems to list only the FHA-HAMP stand-alone partial claims because of technicalities of data maintenance. We obtained a listing of FHA-HAMP stand-alone partial claims processed during October 1, 2014, through September 30, 2016, from Chase and statistically selected a sample of 82 cases that totaled more than \$1.6 million in claims from an audit universe of 2,551<sup>12</sup> FHA-HAMP stand-alone partial claims totaling more than \$34 million. Of the 82 cases, we reviewed 14 cases with claims totaling more than \$265,000. We found the results were sufficient to accomplish our objective and did not warrant reviewing the remaining 68 cases. Therefore, the review results are attributable only to the specific cases reviewed and are not projected to the universe of FHA-HAMP stand-alone partial claim cases.

The results of the 14 sample FHA-HAMP stand-alone partial claims were based on our review of electronic copies of original FHA-HAMP partial claim source documents from Chase. We used computer-processed data for informational and sampling purposes only and verified the data by reviewing electronic copies of FHA-HAMP partial claim documents and comparing data from HUD's systems. We found the data to be adequate to meet our objective.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

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<sup>11</sup> Single Family Data Warehouse has read-only data extracted from multiple Single Family Housing systems such as FHA Connection.

<sup>12</sup> Chase provided a list of 2,552 FHA-HAMP stand-alone partial claims. We removed 1 record from the list because the claim processed date for that case was outside of our scope period.



objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of Chase's internal controls.

# Appendix

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## Appendix A

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### Auditee Comments

