New Lending Opportunities in the Changed Mortgage Market

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Eric Schupenhauer
SVP Originations & Production
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QM Implementation

- QM and Ability to Pay consistent with expectations
- Important steps to ensure sustainable homeownership
- Chase was supportive of rules and worked with CFPB
- Developed policies and procedures
- Enhanced technology systems and controls
- Trained employees on guidelines
- Overwhelming majority of loans met standards on 1/10/14
- Chase will offer non-QM loans to high-credit-quality borrowers with ample evidence to repay
QRM Final Rule Expected 1H14

- Aligns definition of residential mortgages exempt from risk retention with CFPB’s definition of mortgages deemed to comply with new ability-to-repay rules
- Simplifies regulatory landscape considerably; potentially favorable to re-start private securitization market for residential mortgages
Monitoring Regulatory Roadmap

- We continue to implement quality controls
- We expect the regulatory landscape to evolve in 2014
  - QRM
  - RESPA/TILA
- Challenges exist surrounding compressed implementation timing
- Potential for conflicting changes in guidelines could impact customer experience
  - Timelines for modifications and foreclosures established by CFPB and state law can be longer and thus conflict with investor requirements
- Rule coordination is critical to support access to credit and recovery
Real Estate Settlement Procedures Act (RESPA)  
Truth in Lending Act (TILA)  
Disclosure integration (2015 implementation; ramp-up efforts in 2014)

- Dodd-Frank Act required CFPB to integrate existing mortgage disclosure forms consumers receive under TILA and RESPA acts
- Most new requirements are about two disclosure documents: Loan Estimate and Closing Disclosure, with goal of improving the way consumers get loan info when they apply and close a mortgage
- Targeted industry testing begins in 2014; some testing may show need for clarification of the rules or the new forms themselves
Market Trends: Lending Landscape Mixed

- Consumer demand for mortgages has changed fundamentally
- Moving from refinance to purchase environment
- Home prices continue to show strength
- Home price appreciation expected to slow to 5%
- Housing inventory grew steadily at 5-6% first two months of 2014
- Mortgage originations down to $226 billion Q1 from $293 in Q4
CoreLogic Home Prices up 0.9% in Feb

Source: CoreLogic, J.P. Morgan
Existing Home Sales Down 15% from July 2012

Source: J.P. Morgan, NAR
Purchase Applications are Tracking the Decline in Sales
Construction Activity Flat

Source: US Census Bureau, J.P. Morgan
Months’ Supply of Homes up to 5.2 for New and Existing

Source: NAR, US Census Bureau, J.P. Morgan
There is broad bipartisan consensus that long-term structural changes to U.S. housing finance are needed

- Reduce the government’s dominant presence in U.S. housing
- Put private capital at center of housing finance
- Manage the transition to minimize market disruptions
- Avoid drastic cost increases or limits to mortgage credit availability
- Consensus developing around desire to preserve broad availability of 30 yr FRMs
- TBA market currently most efficient financing mechanism for 30 yr FRMs
Chase is Well-Positioned in Market

- Leadership positions across the industry
  - #2 mortgage originator
  - #2 mortgage servicer
  - #1 in customer satisfaction among the largest banks for purchase originations by J.D. Power
- Growing lifelong relationships with our customers
- Reducing complexities to make it easier to do business with us
- Offering a core set of products our customers want
- Fortifying bonds with realtors
- Aggressively recruiting mortgage bankers
- Investing in technology
- Leveraging My New Home<sup>SM</sup> mobile platform and educational materials
Thank You