The McGraw-Hill Companies

STANDARD & POOR'S

Ratings

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Servicer Evaluation: Chase Home Finance LLC

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• Current Ratings

Opinion

Standard & Poor's Ratings Services has affirmed its STRONG rankings on Chase Home Finance LLC (Chase) as a residential mortgage servicer and a residential subprime mortgage servicer. The outlook is negative. Chase services mortgage loans under the name of J.P. Morgan Chase Bank N.A. (since Jan. 1, 2005) and Chase Home Finance LLC. Chase Home Finance LLC acts as a subservicer for J.P. Morgan Chase Bank N.A.

Chase is on schedule to complete the final phase of its transition to a new servicing system for its prime residential mortgages in mid-2009. With the completion of the subprime conversion in 2008, the company will operate on a unified technology platform that should result in better productivity and efficiencies. The company properly employed additional training mechanisms to assist staff in learning the new system, and continues to use these tools to prepare remaining personnel for the forthcoming conversion to ensure they are skilled in the system functionality.

Call center metrics for the customer service and collection departments continue to reflect sound results. Key statistics from Chase's investor base, specifically Fannie Mae, Freddie Mac, and HUD, indicate favorable historical performance. Data provided through Standard & Poor's proprietary SEAM questionnaire through June 30, 2008, indicate that Chase remains a very proficient servicer in the prime and subprime markets. Management successfully outsourced additional functions to its vendor-based offshore facility, with future plans to increase the functionality at both of its international locations in 2009 for both non-default and default tasks. This should effect additional cost savings due to the lower expenses associated with offshoring these processes. Good oversight of the offshore facilities allows the company to maintain proper control over the operations. The company's auditing program relies on three levels of administration to ensure that proper safeguards are in place throughout the servicing operation to mitigate risk of loss and regulatory issues.

The company continues to maintain delinquency levels that are competitive with industry averages. Due to market conditions, Chase has been proactive in implementing new initiatives related to loss mitigation activity designed to assist borrowers who are delinquent on their mortgage accounts. Given the increased call volumes, management expediently hired staff throughout the default operation to help ensure it had sufficient resources to handle borrower inquiries. The company has also increased its outreach efforts to both its borrower and investor bases to encourage more workout activity.

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Outlook

The outlook is negative for residential mortgage and subprime mortgage servicing. Chase purchased two large servicing entities in 2008. Consolidating these companies and their servicing platforms into the firm will entail significant planning and strategic decisions. Management has stated that it will conduct the assimilation using a carefully measured approach to minimize any potential service disruptions that could occur with large servicing transfers. However, uncertainties and challenges remain regarding several areas such as synergizing the disparate cultures, significantly increasing the prime and subprime portfolios, and undertaking decisions affecting the acquired servicing platforms.

Chase has successfully maintained its fine servicing performance over the last several years and continues to effectively outsource various functions. Management indicated they will continue to adopt a best practices approach when integrating the various portfolios and staff. We'll continue to monitor integration developments to assess whether they will materially adverse Chase's servicing business. Standard & Poor's believes Chase will remain a highly effective residential mortgage servicer and subprime mortgage servicer in the residential marketplace.

Chart 1

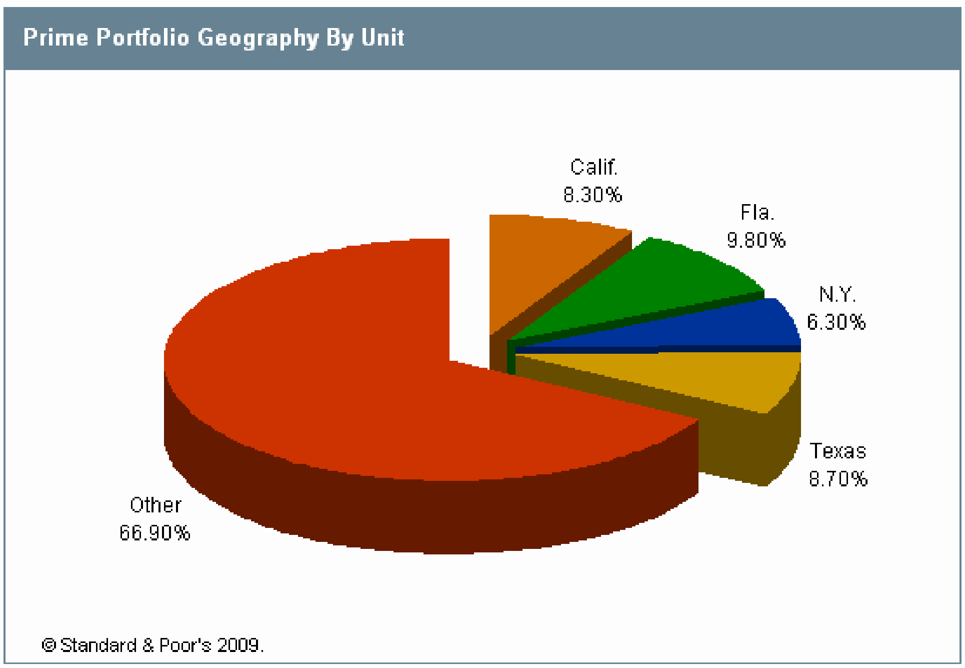

Chart 2

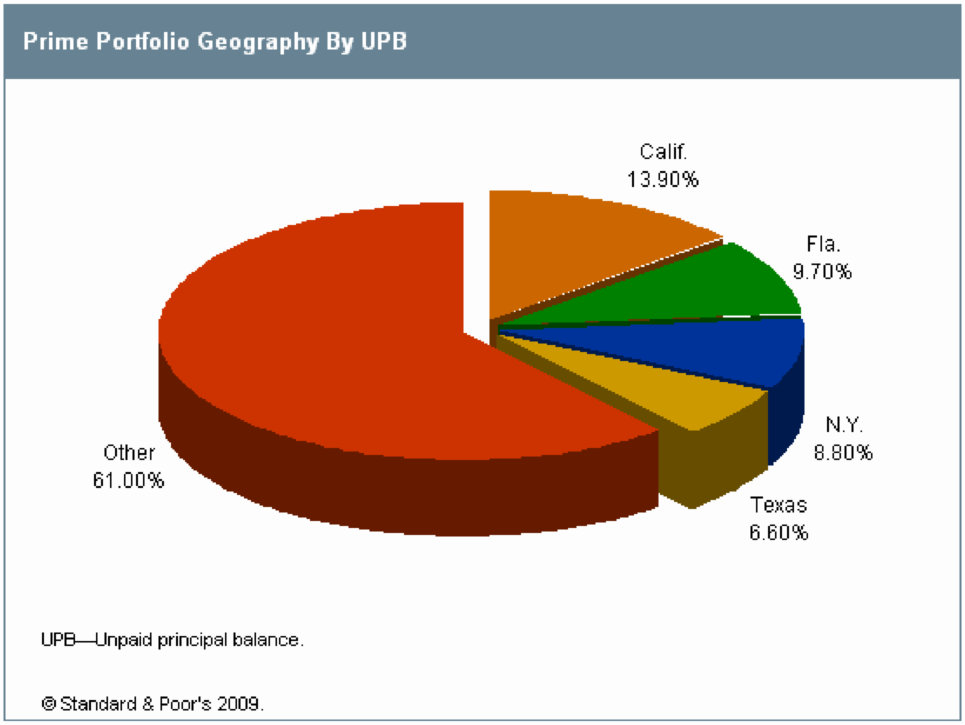

Table 1

Key Statistics: Residential Loan Administration

	2008*
Loan portfolio total	
Volume ($000)	639,485,800
Assets (No.)	3,838,899
Delinquencies (% of loans)	
Total	4.18
30-day	2.76
60-day	0.79
90-plus day	0.63
Foreclosure	0.86
Bankruptcy	0.6
REO (No.)	14,351

*As of June 30.

Chart 3

Subprime Portfolio Geography By Unit

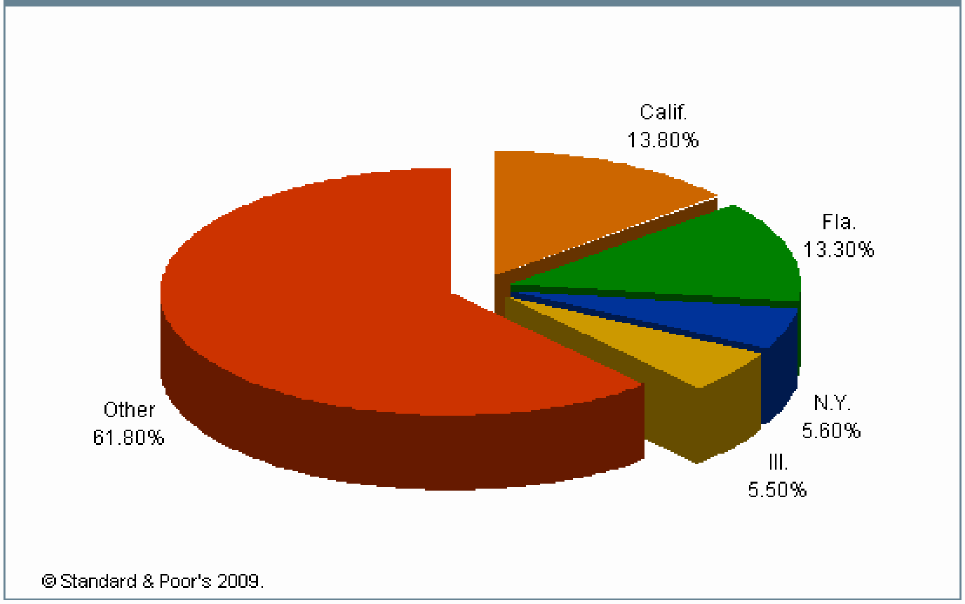

Chart 4

Subprime Portfolio Geography By UPB

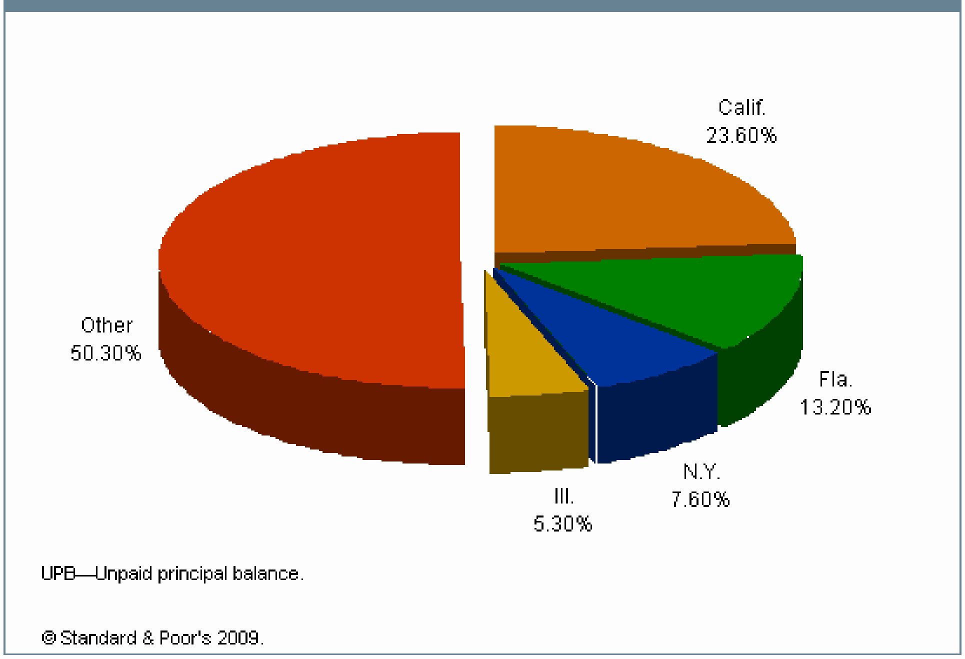

Table 2

Key Statistics: Subprime Loan Administration

	2008*
Loan portfolio total	
Volume (Mil. $)	62,566
Assets (No.)	351,508
Delinquency (% of loans)	
Total	20.46
30-day	10.95
60-day	4.89

90-plus-day	4.62
Foreclosure	12.33
Bankruptcy	2.39
Real estate owned (No.)	14,192

*As of June 30.

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Profile

Chase is part of the Home Lending Division in the Retail Financial Services Group, which also encompasses regional banking and auto finance. The company continues to expand its servicing volume and presence, as two large acquisitions completed by the parent organization, JPMorgan Chase & Co., in 2008 indicate. It acquired The Bear Stearns Companies, which operated a mortgage subsidiary known as EMC Mortgage Corporation (EMC), on May 30, 2008. After the sale, the parent's investment banking unit oversaw EMC. However, on Sept. 23, 2008 ,management announced that the mortgage division would now manage the operation. The company completed a second and more significant acquisition, of Washington Mutual (WaMu), on Sept. 25, 2008. JPMorgan Chase & Co. acquired all deposits, assets, and certain liabilities of WaMu's banking operation as well as its servicing portfolio, which amounted to approximately 3.7 million accounts. Chase is now developing an integration plan for both EMC and WaMu, and expects a full integration of both operations by year-end 2010. The company expects to have firmer plans for the future integration schedule and direction of both entities in place within the next 45-60 days.

For prime and subprime servicing, Chase operates seven domestic sites, in: Columbus, Ohio; San Diego, Calif.; Monroe, La.; Tempe, Ariz.; Irving, Texas; Tampa, Fla.; and Deerfield Beach, Fla. The Deerfield Beach site houses a small Rural Housing REO (real estate owned) department, which leverages the expertise of another mortgage group that already occupies the site. Chase also uses a site in Rochester, N.Y. for some specialty lending work. Chase maintains offshore platforms in three countries through two captive sites in Manila, the Philippines; a site in Bangalore, India; and a vendor location in Panama City, Panama. Management plans to close the Bangalore operation and relocate those positions to Panama City, where it's planning for significant growth over the next year. Additionally, the company has room for expansion in other sites, such as Irving, Tampa, and San Diego.

Of the over 7,000 total servicing personnel Chase employs, almost 3,300 are responsible for prime mortgage servicing, another 1,300 are dedicated to subprime functions, and the remainder handle second-lien administration. Columbus remains the main servicing site, with over 3,000 personnel. The company is an approved seller/servicer for Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Veterans Affairs (VA), Housing and Urban Development (HUD), and other private investors. Chase still plans to use its retail, wholesale, and correspondent channels, along with opportunistic acquisitions, to grow its portfolio, although it has reduced correspondent volumes. Based on market conditions, management expects an increase in its Federal Housing Administration (FHA) production over the next year. Because of adverse securitization circumstances, the company is now retaining originations. However, Chase has decided that it will no longer actively originate or purchase subprime accounts; it is a runoff portfolio at present. The company projects prime origination volume at 845,000 units representing a $178 billion unpaid principal balance (UPB). The average weighted prime FICO score is 729 and the subprime FICO score is 607.

Chase was the third-largest prime mortgage servicer by volume and by number of accounts outstanding as of June 30, 2008, according to data that National Mortgage News compiled. The company was the fourth-largest subprime servicer by volume and the third-largest by number of accounts as of June 30, 2008, according to data compiled by the same publication. These figures do not incorporate the expected large increase in both portfolios from the WaMu acquisition.

All statistics referenced in the report reflect data received for the semi-annual period ending June 30, 2008 unless otherwise noted. When applicable, comparison data is year over year.

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Management And Organization

The ranking for management and organization is affirmed at STRONG.

Management and staff recruitment, development, and training

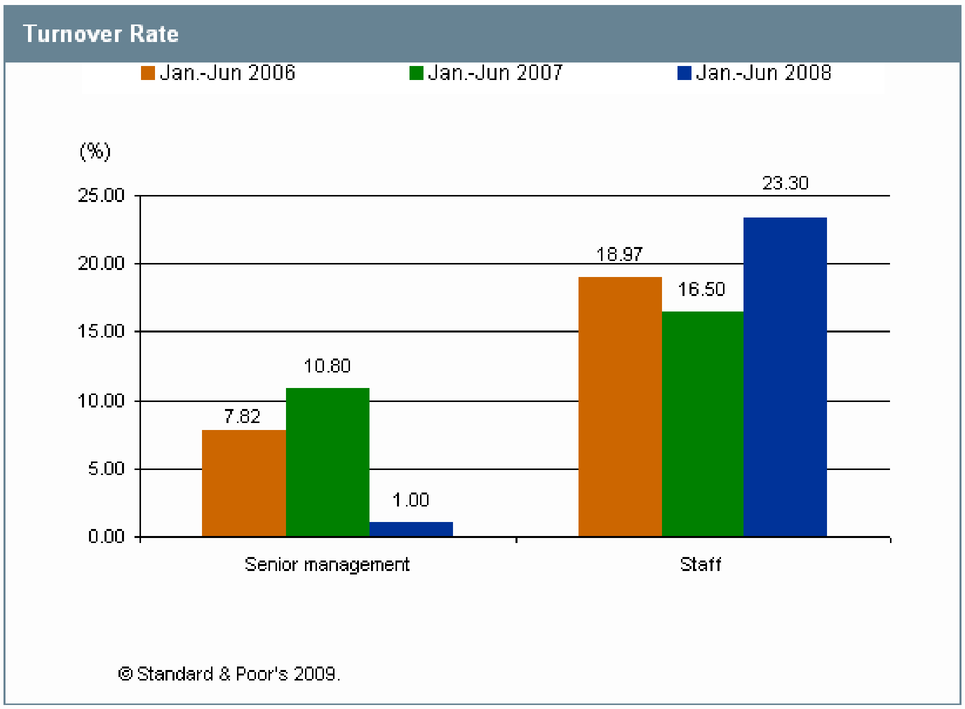
Chase has excellent management depth, as the following indicate:

- Senior managers average 21 years' industry experience and 12 years with the company;

- Middle managers average 15 years' experience and seven years' tenure with Chase;
- Supervisory staff average 12 years' experience; and
- Annualized turnover averages a satisfactory 23.3% for staff and an excellent 1% for management.

In late 2007 Chase established an internal temporary agency to assist with staffing needs for mainly entry level positions. The company offers permanent positions to those associates who are successful in their positions for approximately 12months. Management indicated this program has been successful, as it has realized notable cost-savings when compared with using an outside employment firm .

Chart 5



Chase's comprehensive training programs provide employees with a commendable level of instruction on mortgage-servicing operations and their specific job responsibilities. Three training directors report to a senior director, who oversees non-default, default, and shared services training functions, respectively. Shared services, consisting of 26 trainers, addresses areas such as E-learning, governance (policy and processes), and the learning management system. There are 26 dedicated trainers for nondefault servicing (including eight personnel in Manila) and another 28 who address default topics. The three teams include instructional designers who assist in developing the training materials. Trainers average nine years' experience and five years' company tenure. The curriculum includes instructor-taught, self-directed, and on-the-job (OTJ) instruction that an experienced mentor provides. Management has augmented its orientation program to include more information on Chase's history as well as the customer experience. The training program includes the following:

- New hires undergo an eight-hour orientation that provides a broad overview of the Chase organization, origination, and servicing topics;
- Customer service staff complete 146 hours of classroom training and a newly augmented 54 hours of OTJ instruction, an increase from the prior 14 hours;
- Customer service employees complete three days of call monitoring with quality control (QC) staff after the training period, to gain a better understanding of borrower calls and expected etiquette;
- Specialized customer service associates who address certain borrower calls attend a separate five-day training program;
- Collectors undergo 74 hours of classroom training (reduced from 160 hours), along with 80 hours (an increase from 14 hours) of OTJ instruction;
- Annual online testing and certification (as well as applicable refresher training) on the Fair Debt Collection Practices Act (FDCPA) ensure that collectors remain cognizant of this

important regulation;
- Default staff participate in a two-day collection excellence program;
- New hires attend a program for subprime loss mitigation;
- Offshore staff attend one week of standardized induction training followed by department-specific instruction;
- New employees in the escrow administration area receive substantial training that includes introductory classroom sessions specific to escrow and OTJ mentoring;
- The company provides an average of 24 hours of training for each employee;
- Chase assists its vendors in standardizing language and operations training for the offshore staff;
- Weekly scorecards grade employee performance during classroom instruction for most courses;
- The Core Servicing Operations unit provides a regular schedule of classes to employees in the escrow administration area, covering topics such as Introduction to Mortgage Banking, Introduction to Escrow, and Investor Reporting, as well as servicing systems training; and
- Supervisors take classroom-based management courses.

Management indicated that even though it reduced formal classroom training in the collections area, a more concise format addresses all appropriate topics. Additionally, the department believes that augmented OTJ training has enhanced results from its new employees as they are better able to learn in an active calling environment under the close supervision of a mentor.

The escrow area is partnering with training personnel to create applicable modules that better educate customer service and default employees about these functions, to improve communication with customers on these issues when questions arise. In response to the ongoing system conversion, the department has already developed two Web-based training modules for the staff. It's also creating a unified servicing training Web site to facilitate training and communication. Management plans to expand its leadership and training programs in the Manila site, given the 2009 planned expansion of this facility. The department has already developed approximately 33 courses for the Manila operations that it plans to implement over the next few years.

Internal controls

Chase's comprehensive policies and procedures provide employees with the necessary information to perform their job responsibilities satisfactorily. After the system conversion, management rewrote all subprime policies and procedures, and plans to do the same before the prime system conversion. The company has sound controls for disseminating and revising the guidelines, as the following show:

- Policies and procedure manuals are available online; this promotes consistent application of servicing practices and provides quick access when employees have questions;
- In many instances, the policies include helpful definitions of common terms and screen prints;
- Staff members have detailed summary desktop procedures explaining how to perform certain tasks;
- Centralized units, with both servicing and default teams, retain responsibility for entering all changes;
- Departments must review their manuals at least annually, and a separate area monitors the policies to ensure they were updated accordingly;
- The company requires managerial signoff on, and a possible review by, the compliance department; and
- Departmental meetings and electronic bulletins keep staff informed of changes to the manuals.

Before the company enters changes into the system, the methods and procedures group reviews those changes to ensure that they're written logically and provide a clear understanding of the proposed revision. Additionally, the core servicing operations unit conducts independent reviews of its respective policies; this serves as a dual control to ensure that guidelines are current and have the appropriate signatures.

Chase's audit plan provides proper controls to safeguard the company and its investors against risk of loss due to noncompliance with investor or regulatory guidelines. The general auditing department consists of 535 global business auditors, 15 of which are responsible for auditing Chase's mortgage operations. Five auditors in Columbus focus on servicing audits. Additionally, a separate group of 20 auditors focuses on Chase's IT environment. In 2008, Chase committed approximately 36,000 total auditing hours, including time spent on quality assurance (QA) and compliance exams, to mortgage servicing functions. This figure represents an approximate 20% increase from 2007. The auditing cycle includes over 3,000 hours dedicated to details affecting the subprime system conversion and planned 2009 prime system conversion. The audit methodology encompasses the following:

- Management averages a high 15 years of experience and 10 years' company tenure, while supervisors and staff have seven and three years' experience, respectively;
- The audit cycle is based on a numerical risk rating of the entity and department. Rankings of "4" or "5" require annual examinations, while a "2" or "3" ranking requires review approximately every two years;
- The company reviews specific categories (oversight and governance, level of change, and credit and market risk) to determine the risk rating;
- The company reviews servicing departments every 18-36 months;
- Chase continually re-examines risk ratings to address changes in business criticality based on prior audits or a change in the regulatory environment;
- The audits grades are Satisfactory, Needs Improvement, and Inadequate;
- Chase issues full reports, including responses, within 30 days after it completes the audit
- The CEO receives copies of all audits graded Needs Improvement and Inadequate;
- The company performs additional semiannual examinations for those groups that receive an unsatisfactory grade;
- If a group is found to be unsatisfactory in the same areas as in an earlier audit, Chase could lower its rating, depending on the severity of the finding;
- A centralized proprietary database tracks the timeframe for follow-up on key audit exceptions; and
- Chase conducts onsite audits of certain vendors, including the lockbox provider, off-shore call centers, and tax and insurance entities.

Management plans to revise and simplify its risk rating mechanism to a three-tier approach using 'High', 'Moderate' and 'Low' in 2009. A review of audit reports revealed only minor findings, which Chase addressed in a timely manner, and there were no material 2007 USAP or Regulation A/B exceptions.

An independent QA department, consisting of approximately 12 employees, reports to the credit risk area and performs servicing reviews. Two distinct teams test default and non-default functions. (Previously, one team performed both functions.) QA plans to test approximately 15,000 transactions in 2009, an increase from 10,000 in 2008. The QA process, which Chase has formalized and expanded over the past 18 months, includes the following:

- The group performs servicing quality control (QC) exams of prime and subprime accounts, including a HUD QC program;
- The group tests against policies and procedures, and for violations of federal or state statutory guidelines;
- QC for prime and subprime accounts is also based on Reg AB, with 30 key items reviewed as part of the exam process;
- The internal audit area and executive management review the QA reports;
- The group uses a database to track testing results;
- Chase requires that managers release their responses, including the corrective action recommendations within 10 business days; and
- The company issues all QA reports within 90 days.

A dedicated compliance group, consisting of four staff members who report to the assistant general counsel, is responsible for servicing compliance reviews affecting federal, state, and local laws. The group also provides advice, as applicable, on implementing new regulatory requirements to ensure that Chase complies with all statutory guidelines. Specific tests encompass areas including RESPA, FDCPA, SCRA, state laws governing late charges, lien release, etc., FCRA, Homeowners Protection Act, and other such regulations. In the last several months, the department has further expanded its scope to encompass loss mitigation, charge-off, and bankruptcy reviews using guidelines that the Federal Financial Institution's Examination Council has established.

Management states that there are no material lawsuits outstanding that would have an adverse impact on the company. For further information, please see the parent company's most recent SEC filings.

Technology

Chase operates in a highly automated environment with solid systems and support. The company conducts systems development and other related functions from its Columbus, Edison, and Tampa sites; Columbus is the largest site. Management averages 22 years of industry experience. A notable enhancement was the company's successful conversion of the subprime portfolio from LSAMS™ to the MSP system (offered by Lender Processing Systems, Inc.) on July 1, 2008. Technology attributes include:

- Chase uses a customized version of Fidelity Information Services Inc.'s Mortgage Charter Systematics software as its main nondefault servicing system for prime loans;
- The company uses the FORTRACS™ system for tracking and reporting foreclosure, bankruptcy, REO, and loss mitigation actions on its prime portfolio;
- Chase uses DRI software for subprime default functions regarding loss mitigation, bankruptcy, foreclosure, and REO;
- Imaging technology, with desktop access for affected staff, is available for more timely retrieval of documents;
- Computer Sciences Corp.'s EarlyResolution application assists with the collection and workout process;
- Chase now uses COGNOS data tool in default;
- A program management organization (PMO) interacts with IT personnel for system development and enhancements throughout loan servicing;
- Chase stores tape backups at an offsite storage facility;
- The auditors perform IT compliance reviews, including those for Sarbanes-Oxley regulations;
- The company encrypts all data to protect customers' privacy;
- Chase has a satisfactory disaster recovery and business resumption plan that it tests at least annually;
- The company conducts a quarterly executive review of the plans to ensure that they are accurate; and
- Alternate servicing sites serve as backup facilities in case of a business interruption.

The company owns the code for DRI, which allows it to expediently make revisions to the system as needed. IT has also upgraded its architecture through various 2008 releases to ensure it's operating on the most current version of the system. This affected systems such as DRI and its call monitoring software. Chase has consolidated previously separate dialers onto one platform and implemented best-time-to-call software. Management believes that the prime platform will fully convert to MSP by approximately June 2009; this will be the first time that Chase's prime and subprime accounts are on a common system for nondefault functions. The company expects further cost savings due to the efficiencies gained from operating on a unified platform compared with maintaining two separate systems.

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Residential Mortgage Loan Administration

The ranking of STRONG is affirmed for residential mortgage loan administration.

Dave Lowman, Home Lending CEO, oversees the approximately 7,000-person total servicing division, 4,600 of whom address prime and subprime functions. Some sites handle both prime and subprime mortgages, although the extent of the responsibilities differs based on location.

As referenced in a prior chart, the portfolio is geographically diverse; this helps insulate the company from excessive losses during regional economic declines. As of June 30, 2008, the servicing portfolio included more than 3.8 million loans, representing an approximate UPB of $639 billion.

Management has expanded its site functionality in certain areas. Columbus remains the main site for nondefault tasks for both portfolios and the main default prime portfolio site, while Monroe is responsible for document management and customer service. The default management team is centered in Irving, along with various support teams and REO operations. Manila currently handles certain customer service, lien release, and research functions. Management plans to hire 400 additional personnel in Manila. However, Chase has distributed delinquent account tasks among several sites to leverage time zone capabilities and other expertise. San Diego and Tampa serve as default sites for subprime loans; the latter facility exclusively handles collections. The Phoenix site now performs various default functions for both the prime and the subprime portfolios; previously it oversaw only subprime accounts. Similarly, the vendor location in Panama City now addresses both prime and subprime default functions. As noted, two leveraged ancillary small sites in Deerfield Beach and Rochester assist with REO and loss mitigation.

Chase continues to receive excellent investor scores for its servicing operation in areas addressing investor reporting and default management. The company has been in FHLMC's Hall of Fame since 2001 and achieved Tier 1 performance for the past nine years.

Due to the leveraging of many functions across product lines, Chase uses a combined section for most nondefault functions, although specific personnel might be dedicated to a particular task. We discuss the separate sections that handle prime and subprime default management later in this report.

Standard & Poor's reviewed all areas of loan servicing, including escrow analysis, partial releases, assumptions, and document management. Overall, we found these areas satisfactory. We discuss key areas of risk in more detail below.

Table 3

Key Statistics: Mortgage Loan Administration

	2008*	2007	2006	2005	2004
Loan portfolio total					
Volume ($000)	639,485,800	591,309,267	492,761,736	445,672,027	424,167,777
Assets (No.)	3,838,899	3,630,900	3,220,030	3,089,469	3,132,172
Delinquency (% of loans)					
Total	4.18	4.35	4.29	4.49	4.18
30-day	2.76	2.89	2.95	2.88	2.99
60-day	0.79	0.83	0.74	0.82	0.71
90-plus day	0.63	0.63	0.6	0.79	0.48
Foreclosure	0.86	0.56	0.45	0.38	0.47
Bankruptcy	0.60	0.59	0.68	1.09	0.98
REO (No.)¶	14,351	9,404	6,264	6,341	7,895

*As of June 30, 2008. ¶Includes FNMA/FHLMC.

Loan boarding and rate administration

The Loan Transfer and Document Management Division is responsible for most post-closing functions. Approximately 30% of the staff reside in Manila and address areas such as correspondent indexing, collateral processing, eDocs, and quality assurance. There are satisfactory controls over loan boarding procedures regarding input and compliance with RESPA requirements for loan transfers. The division electronically downloads information from the origination system to the servicing system. A document-to-system verification confirms the validity of the data; Chase plans to transfer this task from the U.S. to Manila by the second quarter of 2009.

The special servicing area within the investor/special services division handles prime and subprime functions related to areas such as ARMs, assumptions, buydowns, modifications (input, imaging, etc.), the HUD 235 program, and the Servicemembers Civil Relief Act (SCRA). In June 2008, management implemented an automated SCRA database that assists in servicing these types of accounts; previously it used manual methods. Additionally, through the development of an internal application, the department can now better ensure the consistent application of regulatory guidelines for qualifying assumptions. The department also began accepting telephone applications for assumptions to reduce timeframes and provide better communication. The department images all modifications and assumptions. A separate audit unit within the department oversees all QC monitoring and procedures.

Chase has good controls in place to verify the accuracy of ARM payment changes within its operations. The company recently introduced (in partnership with a vendor) a quality control mechanism that seeks to identify errors on initial payment changes. Performed monthly, and completed four-months in advance of a revision, the process compares imaged documentation data (through an Excel file) against system information to ensure its accuracy before the ARM is adjusted. ARM loans make up more than 44% (a decrease from 54%) of Chase's subprime portfolio, but only 7.43% of the prime portfolio. The vast majority of prime ARMs are one-year adjustable product compared with a six-month product for subprime ARMs.

The default division has a 50-person collections and early loss mitigation team to assist subprime borrowers who experience problems with ARMs (mainly 2/28 and 3/27 product) that are about to reset. Team members begin calling customers approximately 60 days before the reset date and then follow up with a letter campaign. The group's main focus is on accounts that are current or less than 30 days delinquent and experiencing material payment changes. When Chase receives the completed financial package, it transfers the account to a dedicated loss mitigation group that handles these files and reviews borrower qualifications.

Cash management and investor accounting

Chase's 217-person financial services department maintains solid posting efficiencies and exhibits sensible controls designed to minimize the risk of loss resulting from fraud or human error. The default remittance group addresses collections, loss mitigation, foreclosures, and bankruptcy payments, while the financial research group handles payoffs, reversals, and payment research, (previously handled by customer service but moved here in April 2008), and loan accounting adjustments. The financial services staff mainly handles payment postings. Highlights of the financial services function include:

- Two lockbox locations are available in different regions of the U.S. to maximize posting effectiveness;
- All customers have e-bill access, as well as the ability to print tax documents through Chase's Web site;
- Chase completes a monthly report card on its lockbox vendor to evaluate overall performance and holds regular meetings to discuss any issues and areas for improvement;
- Staff members receive payments in a secure, segregated area of the facility with restricted access, thus providing an added level of security when handling funds;
- Turnover remains low, at 6.50% for prime staff and 3.50% for subprime staff;
- The prime electronic processing rate remains an excellent 99%;
- The subprime electronic processing rate is solid at 96.43%;
- The lockbox reject rate is minimal, at less than 1% for prime and 6.29% for subprime, resulting in less manual posting of payments;
- The group processes lockbox rejects the same day through a new Web-based payment logic system, and a recent enhancement allows for more augmented subprime payment processing;
- Chase now posts those subprime borrower payments that are completed using telephone methods through an ACH transaction (compared with printing the actual check), resulting in reduced clearing times and cost savings;
- The company posts 84% of prime checks and 78% of subprime checks through ARC;
- Chase Image Deposit Direct allows for depositing checks using images, compared with paper transactions, thus increasing efficiencies; and
- An internal check-tracking database facilitates communication between the default and cash groups.

The department has additionally increased productivity by consolidating the payment research function into this unit; it has reduced outstanding volume by over 90% for both products. Future initiatives, scheduled for 2009, include same day crediting of payments received by non-Chase customers who use the Web (compared with the current two-day process); allowing customers to make ATM payments; and introducing a modified payment coupon (with an MICR line) for subprime borrowers that allows the branch to process payments in a more expedient manner.

Chart 6

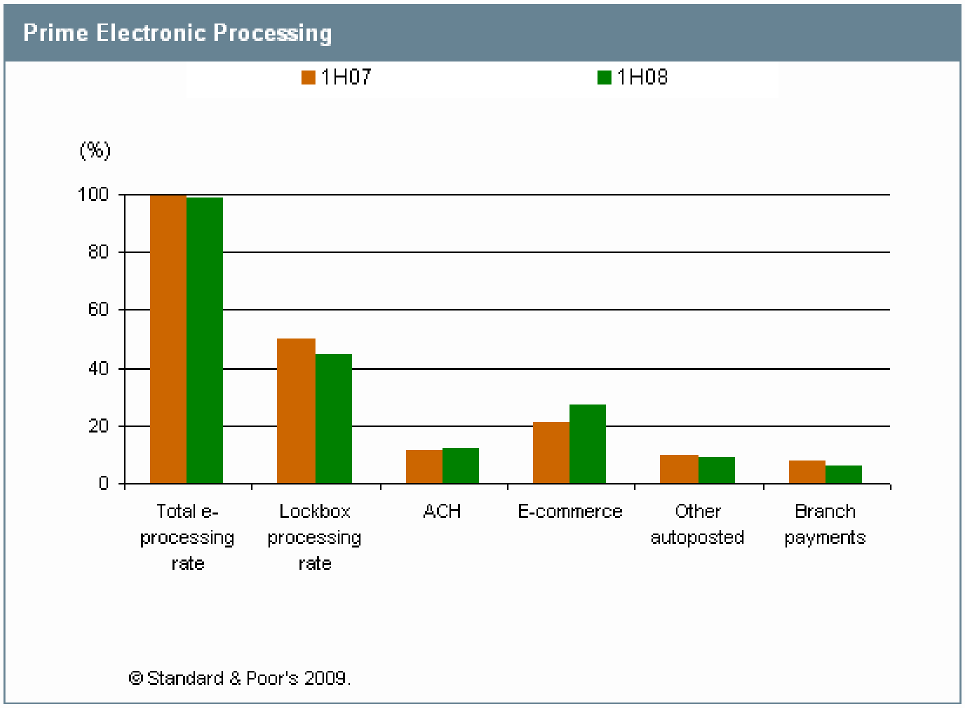
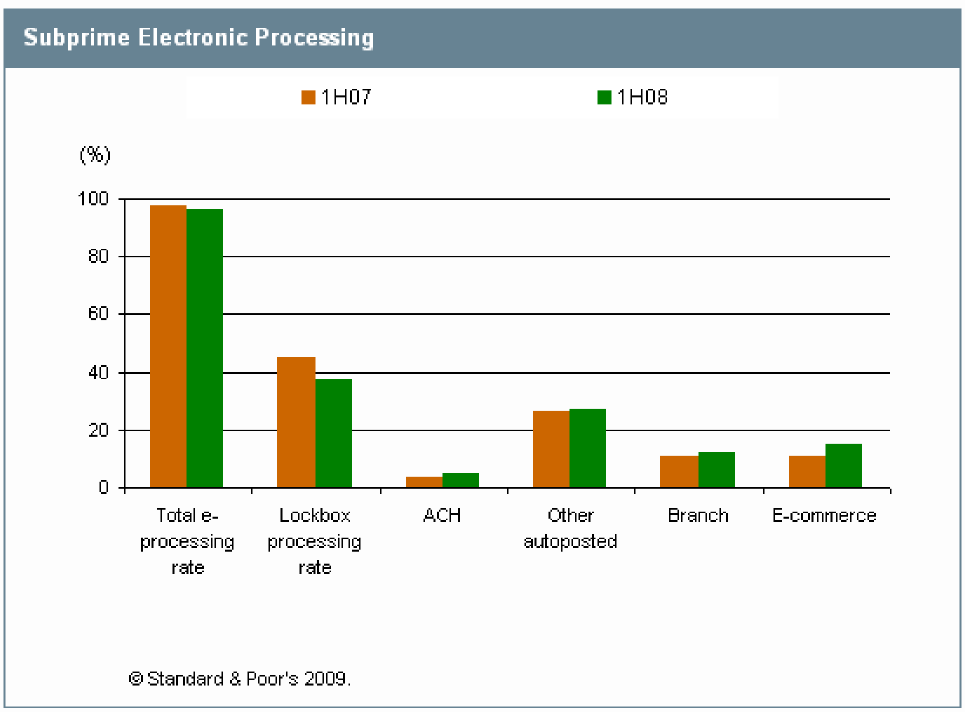


Chart 7



Chase is trying to increase the ACH percentage through the service-to-sales program currently in place in the customer service area. Future initiatives include developing a bi-lingual (Spanish) billing statement by October 2009.

The company has divided the 101 employees in the investor reporting unit into separate teams responsible for specific investors. A dedicated unit of five handles compliance functions related to Reg AB, third-party servicing audits, and other required annual reporting tasks. Management averages 21 years of experience and 10 years' company tenure. Supervisors and staff average approximately nine and seven years of relevant expertise, respectively. The department oversees more than 108,000 pools (mostly prime) affecting 825 investors. Fifty-eight dedicated staff in the

Service Accounting and Loan Operations department are responsible for oversight of the custodial bank account reconciliations, wires, ACH, and clearing and disbursement accounts. There are 1,194 prime bank accounts and 522 subprime custodial bank accounts, the large amount exclusively due to private investor relationships.

Chart 8

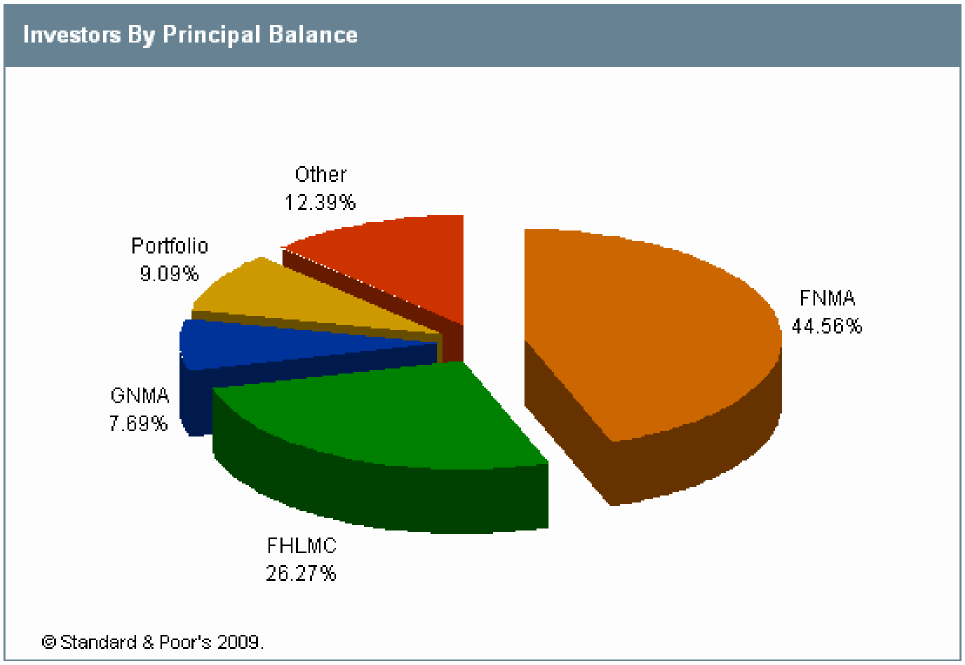
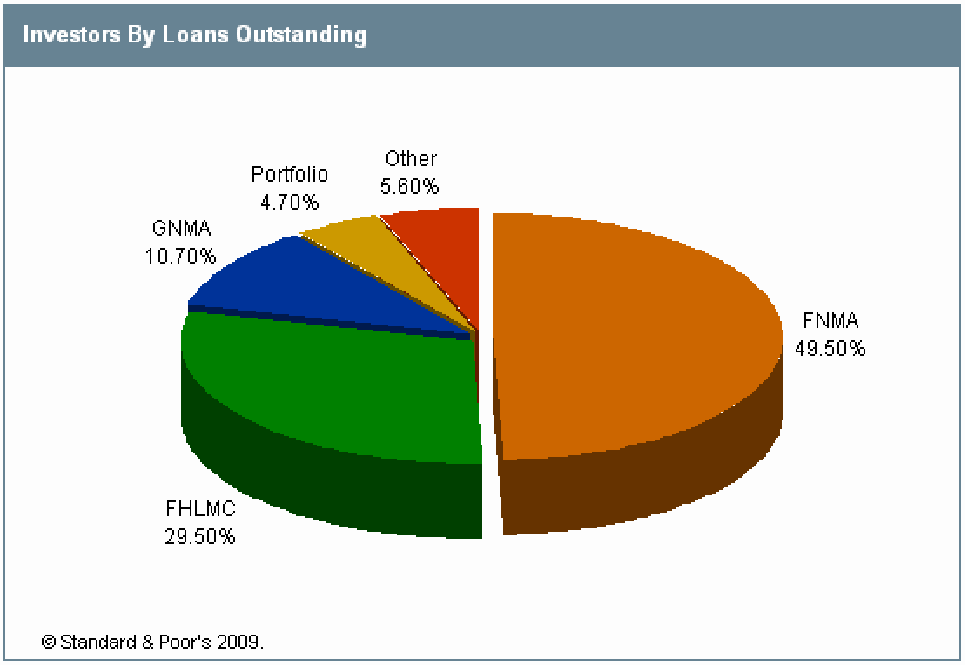


Chart 9



Controls in place include:

- All reports, remittances, and reconciliations undergo a thorough review;
- The electronic reporting and remittance rate for subprime is highly efficient at 100%;
- For prime loans, 98% of reports are submitted electronically;
- An excellent 99% of remittances are completed via auto drafting or repetitive wire;

- Separate bank reconciliation groups for prime and subprime oversee the custodial accounts;
- Online access to bank statements enables timely reconciliation;
- The company paid less than $300 for late reporting and remittance penalties;
- The group conducts semiannual internal self-assessments;
- A QC contract database facilitates compliance with Reg AB rules and is being enhanced to a Web-based reporting format;
- Each vendor receives a monthly scorecard (from a specific department responsible for monitoring them) assessing its reconciliation performance;
- Chase has maintained Tier 1 investor reporting status with FHLMC for the past 115 months, and averaged an almost perfect score over the last 12 months;
- FNMA assigned Chase a "superior" peak performance profile for the period ending June 2008, and the department achieved a perfect score five times in the last year; and
- Chase won FNMA's Circle of Excellence Award for 2007 (as well as 2006) for achieving Superior Peak Performance scores.

Customer relations

Chase handles customer service on its portfolio at the Columbus, Monroe, and Manila sites. Separate call center managers at each location report to the division manager of customer care. The Manila site handles only prime accounts. However, other locations address both products through separate teams. Management has also cross-trained approximately 65 employees to handle both prime and subprime loans. Chase employs 897 domestic telephone representatives (an increase of approximately 100). Separate groups address correspondence, general research, process management, the IVR, and the Web site. The Manila facility has 320 employees. Due to the large acquisitions completed in 2008, call volume has increased by approximately 29%. Chase has aligned certain customer research tasks that this department previously handled with their respective functional areas, providing a more centralized approach to addressing borrower issues. The department provides a suitable level of customer service, as the following characteristics show:

- Call center managers and supervisors average 12 and nine years' industry experience, respectively, while staff average four years' experience and company tenure;
- Research managers and supervisors average 21 and 15 years' experience, respectively, while staff average five years' experience and company tenure;
- The turnover rate is 36%, a large increase from the prior low 18%;
- The department maintains two separate telephone lines, one for standard Chase customers and another for preferred clients, who represent employee loans, private bank, and affinity relationships;
- The company added separate staff for banking customers who make a mortgage inquiry while at a Chase branch;
- The department records all calls;
- Chase established a 10-person operations research team that analyzes and identifies customer contact trends by reviewing 300 calls monthly;
- The department continues to reflect a good abandonment rate of 3.22% and a 27-second average speed of answer (ASA);
- The bilingual IVR is available 24/7 and handles 43.0% of calls;
- Screen pop and virtual hold technology are now available for both products;
- The first-call resolution rate is exceptional, at 96.7%;
- Web-based management tools allow supervisors to grade domestic and global agents' performance based on quantitative and qualitative statistics;
- Representatives attempt to contact customers if mail is returned three times;
- The company certifies bilingual representatives' language skills;
- Chase has established a concierge team that handles calls from borrowers who do not authenticate through the IVR;
- Approximately 35 domestic QC staff, along with supervisors, perform quality monitoring sessions of domestic and offshore staff;
- Each month, Chase grades at least 10 calls per associate and provides verbal and written feedback;
- The company has introduced a self-graded scorecard emphasizing soft skills that employees review with their supervisors on a bi-weekly basis;
- There are more than 2.1 million registered Web site users, a large increase from the prior 1.5 million;
- A global command center forecasts schedules, tracks service levels, and identifies telephony improvements;
- The company uses an outside firm to conduct monthly telephone surveys of 3,500 prime and

subprime borrowers;

- The company performs additional periodic IVR surveys of approximately 400 customers for each site to immediately gauge feedback on the representative;
- There are no Real Estate Settlement Procedures Act (RESPA) or Fair Credit Reporting Act (FCRA) timeline compliance issues;
- Customer advocates, who address elevated issues, are embedded in the customer service teams; and
- The company performs a 100% review for certain customer letters, and assigns some a quality score.

Chart 10

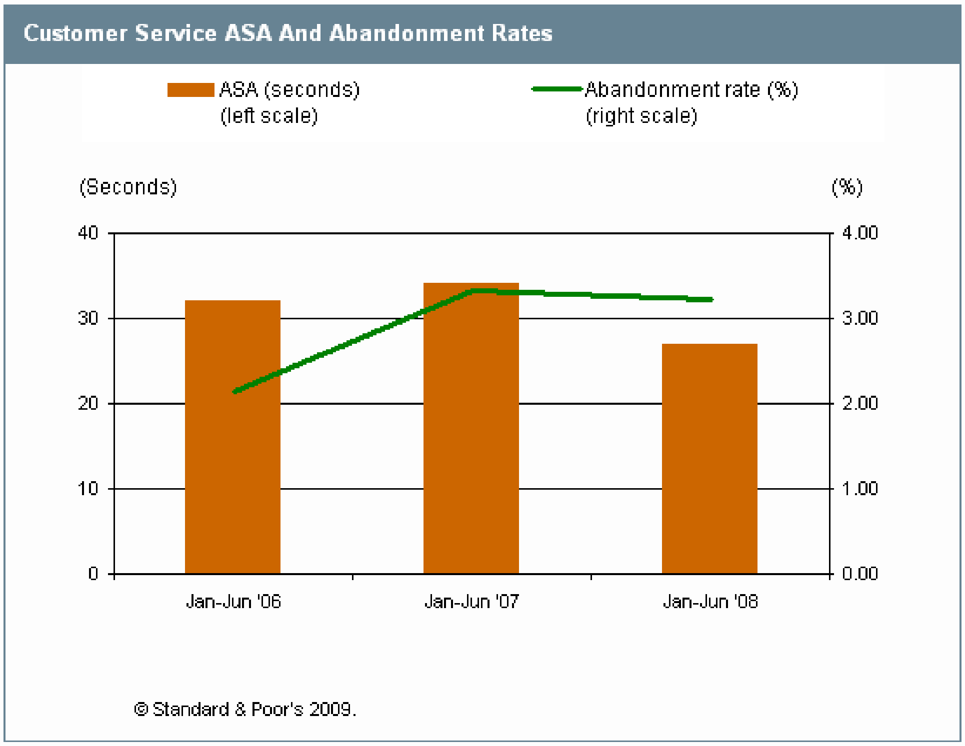
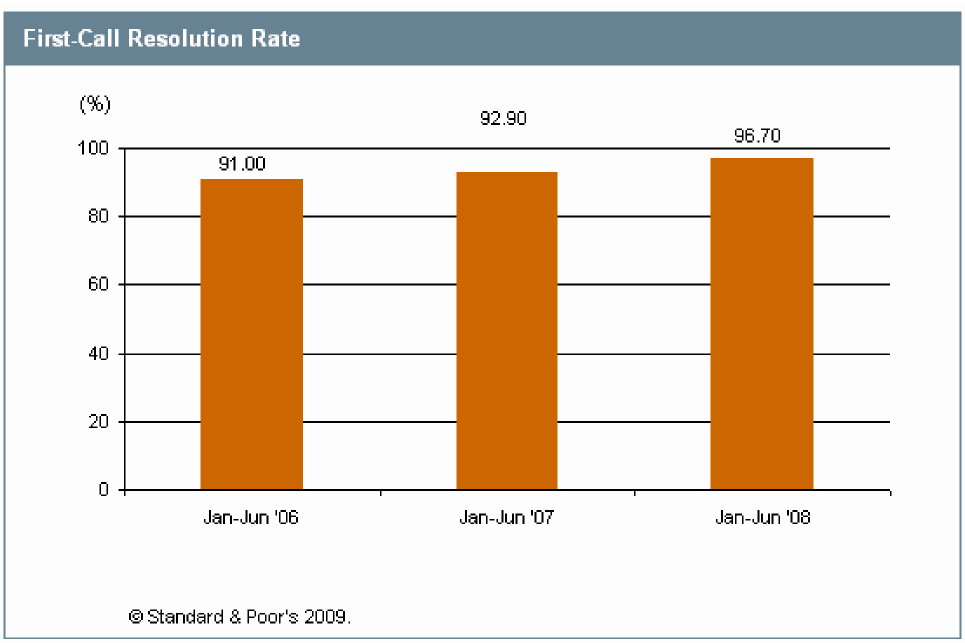


Chart 11



In June 2008 Chase transferred the credit bureau reporting and research issues dispute functions from the customer service group to a different area. In Manila, 22 dedicated personnel specifically address credit reporting disputes for both products. Management completed a full review of all correspondence in 2007 to ensure consistency in narrative and the format. As a result, it revised many letters and subsequently entered those formats into the system.

Future company initiatives include consolidating the three disparate IVR menus (prime, subprime, and subordinate-lien) into a unified format; expanding Web site eligibility to allow seriously delinquent customers the opportunity to access information (those less than 90-days in arrears can now use the site); requesting e-mortgage statements through the Web site; consolidating to one call monitoring system from the current two systems; and launching video email tutorials that introduce new customers to the company and present procedures for accessing their account information.

Chase conducts lien release functions, including research, in Manila. Employees enter the requisite data into the system and the Monroe site produces the actual documents for signature. Chase has incurred minimal penalties for failure to convey within statutory guidelines. Management is introducing its eLien release program in the first quarter of 2009.

Escrow management

Chase escrows on 78% of its prime portfolio and 50% of the subprime portfolio. Management averages 16 years' experience and 12 years with Chase. Supervisors and staff average nine and seven years' industry experience, respectively. Chase now completely outsources tax functions to First American Real Estate Tax Service, which has 49 dedicated staff reserved exclusively for tax customer service questions. It continues to outsource insurance operations to Assurant Group. Chase has these stringent oversight controls in place:

- Prime tax penalties are good, at $0.08 per loan, although this represents an increase from the prior $0.02 per loan;
- Subprime tax penalties have increased to $0.37 per loan from $0.26 per loan; the company should target this area for improvement;
- The company uses autodialer-specific contact with customers in certain states and/or municipalities; this system informs them about certain intricacies affecting their future taxes;
- Borrowers with expired hazard policies receive a series of three letters over a 75-day period before lender placement of coverage, with a more aggressive 60-day cycle for loans with cancelled policies;
- Chase has a letter series in place for flood insurance, with lender placement by the 45th day of cancellation or expiration;
- The group now uses the autodialer to leave an initial message requesting insurance information;
- Force-placed hazard and flood insurance placement rates were negligible for both products;
- The company uses enhanced customer communication through written mailings that provide more detail on insurance requirements, and differences in the cost and coverage of a lender-placed insurance policy compared with obtaining a policy through an outside agent or agency;
- Additional communication through informative inserts notifies customers of possible property tax increases due to assessor reassessments;
- Chase has updated its Web site (based on customer trends) to include additional answers to frequently asked questions about escrow;
- Insurance vendor call center metrics remain excellent, as reflected in the 10-second ASA and 1.55% abandonment rate;
- Tax vendor call center metrics reflect a 35-second ASA and 1.88% abandonment rate, both of which are very good;
- Borrowers can update their insurance information online;
- The company holds regular meetings and communicates with its tax provider and insurance vendor to discuss any issues;
- The department produces a monthly scorecard for grading vendor performance;
- Dedicated escrow administration staff monitor vendor performance; and
- An audit oversight group performs compliance and risk assessment reviews of the department.

In an effort to reduce errors related to escrow boarding issues, management, in collaboration with the production group, initiated monthly meetings that focus on data quality. The company produces scorecards that grade the accuracy of the information received from the production area. Chase has reduced preliminary discrepancies by 50% since introducing this program. Management has also expanded its messaging efforts on the monthly mortgage statements, particularly on tax and insurance self -service options available on the Web site. Subsequently, Web site usage for these areas increased by 32%. Through a separate area, the company partnered with another vendor to verify the accuracy of the Social Security numbers for its prime borrowers. Error rates were less than 1% and the necessary W-9 letters were forwarded to the customers.

Chart 12

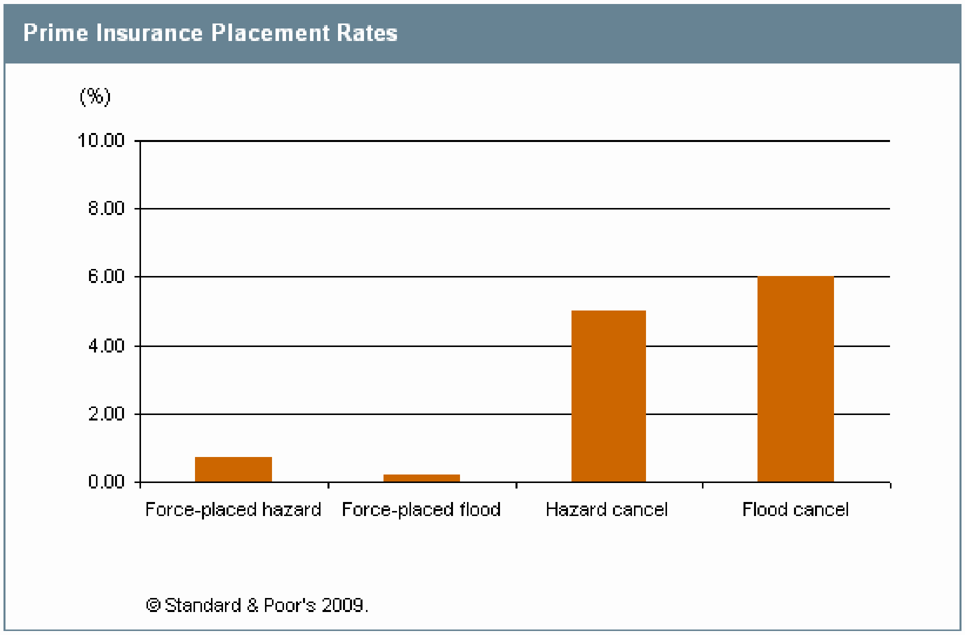
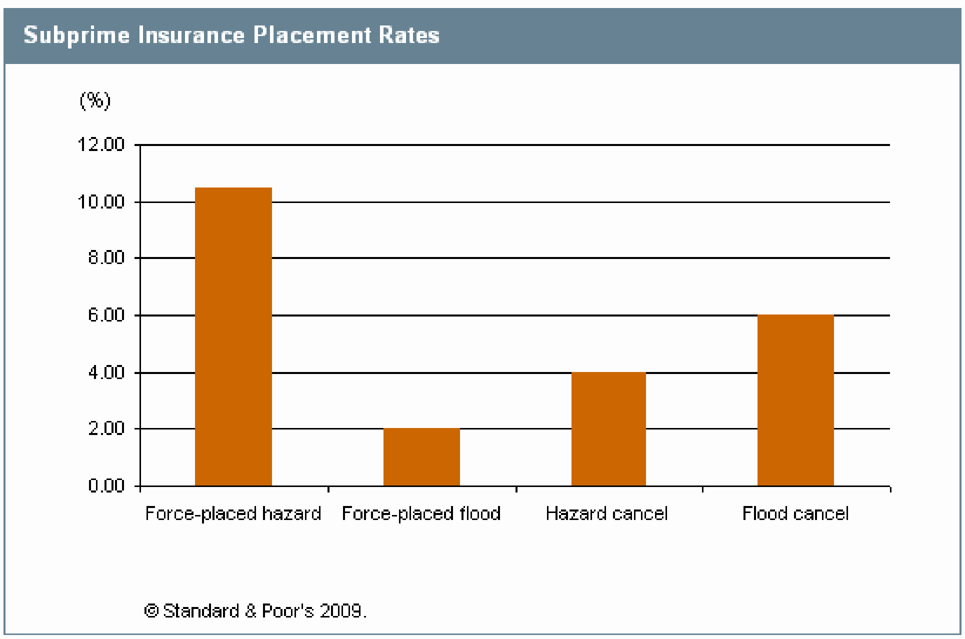


Chart 13



Default management

Management realigned its default area, adopting a line-of-business model in October 2007. With this change, separate senior vice presidents for prime and subprime accounts oversee the entire default process (except for REO), and concurrent separate dedicated product-specific management and staff handle each individual default function. A dedicated senior vice president oversees bank-owned prime accounts and subordinate lien accounts. Additionally, Chase has consolidated the previously disparate support area into one division encompassing dedicated operations, technology, and default support groups. Key components of support are the default operations group, which helps integrate best practices and other outreach efforts, and a default support group that helps with procedural compliance at the state and federal levels. In 2008, Chase launched a specialty lending department to address the non-traditional default mortgagor's needs. Management's strategic approach over the last year encompassed increasing mortgagor contact and education surrounding workout availability; refining its collection strategies; encouraging better communication; and expanding its loss mitigation programs. We discuss and include all of these initiatives in their appropriate functional sections, and many of these programs encompass all product types.

There are 350 prime collectors (an increase from 230). A separate audit and control department (AC), reporting to the senior vice president of default, is responsible for procedure reviews, the default internal Web site, account-level audits, infrastructure reviews, and other matters. Currently, Bangalore staff perform call monitoring. However, management is closing this site and relocating those positions to Panama City. Chase employs a certification program for call monitoring staff to ensure consistency in practices.

Chase has proficient collection methodologies designed to minimize default rates on its portfolio. Government loans, which generally have higher delinquency levels, represent almost 11% of the portfolio; this is similar to 2007 statistics. An additional 4.7% of bank-held accounts have similarly high default rates. Delinquency rates have remained stable over the last several years.

Table 4

Delinquency Statistics

	Chase delinquency statistics (%) as of June 30, 2008*	MBA delinquency statistics (%)¶
Prime	3.01	3.93
FHA	9.55	12.63
VA	5.11	6.82

*30-day through 90-plus-day (excludes foreclosure and REO). ¶Seasonally adjusted as of June 30, 2008.

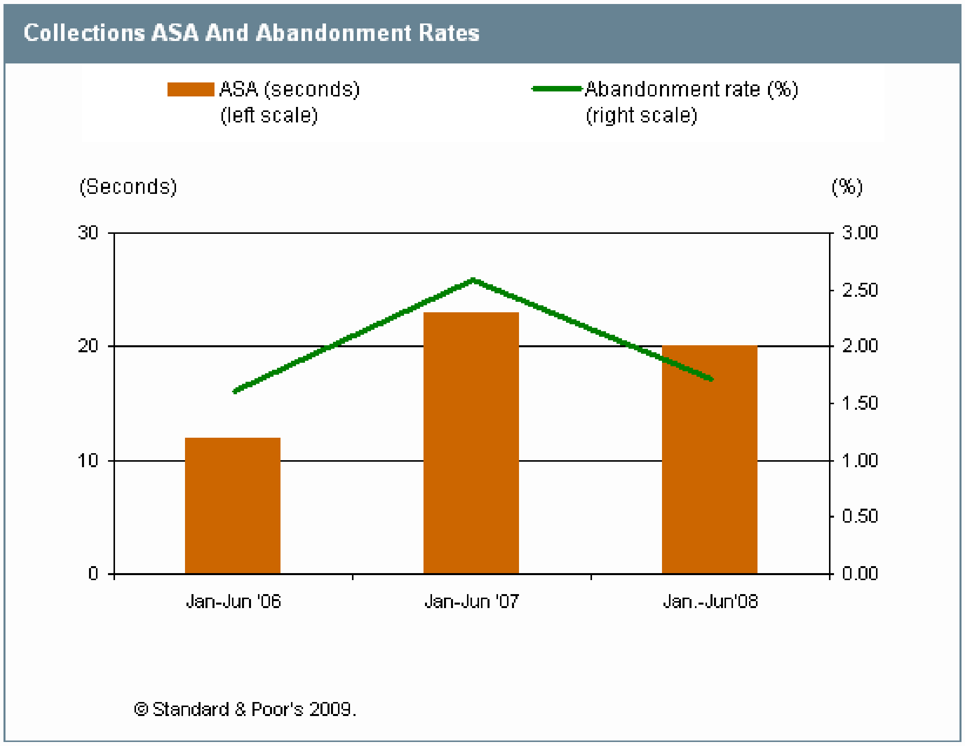
Attributes of the collection process include:

- Managers have a commendable 16 years' experience and eight years' company tenure;
- Supervisors average 16 years' experience and six years' company tenure, while the staff average a satisfactory five years' experience and two years with Chase;
- The domestic turnover rate stands at a fine 26%, while offshore staff average a 13% rate;
- The company continued to receive Tier 1 performance scores from FHLMC through June 30, 2008;
- Chase system-codes accounts requiring bilingual capabilities and refers them to dedicated representatives;
- Call center metrics remain excellent, with a 1.72% abandonment rate and 20-second ASA;
- The company begins automated messages after the late charge date informing borrowers they can use the IVR or Web site to make a payment;
- FHLMC's EarlyIndicator (EI) scoring model allows the company to identify loans likely to transition into serious delinquency and concurrently commence earlier collection efforts to reduce future losses;
- Collection contact, based on the EI score, begins as early as the sixth day (for high-risk accounts) in arrears, but no later than the 25th day (for low-risk accounts);
- The company assigns dedicated collectors to high risk bank owned accounts;
- Chase uses field agents and vendors to provide workout information to customers on high-risk accounts and take applications, which are scanned and downloaded;
- A default risk management group addresses behavior scoring and generates analytics surrounding the portfolio;
- Chase tracks payments through mail bar-coding, which allows it to remove accounts from the dialer for a prescribed number of days;
- The company leaves a telephone number on the door of all borrowers 60-90 days delinquent who have had no contact with the company;
- Chase has an outbound team for evening contact and seriously delinquent accounts;
- The company uses a messaging system to prompt for IVR payments at late charge cut-off and to follow up on document submissions for loss mitigation;
- A collection resolution team handles default issues, such as missing payments or late-charge disputes; this allows collectors to concentrate on contacting and curing delinquent accounts;
- A three-person team attempts to reinstate the borrower during the first 30 days the account is in loss mitigation;
- An automatic transfer from the IVR to collections occurs at the 30th day of delinquency;
- The company monitors a minimum of 10 calls per collector per month and provides verbal

and written feedback;

- Web-based performance mechanisms are in place for monitoring collector performance and department trends;
- A centralized dialer operations team actively manages call volume among the sites to ensure proper balancing and minimal abandonment rates; and
- Proactive risk self-assessment reviews serve as an informal audit mechanism to identify problems with controls, reporting factors, and other potential issues.

Chart 14



Due to extenuating market conditions that have resulted in a large number of defaults, on Oct. 31, 2008 Chase announced additional loss mitigation program initiatives to further assist customers. Chase expects to implement the program within 90 days from the announcement; the program applies to owner-occupied properties that Chase currently owns, as well as to Washington Mutual and EMC customers). However, the company will continue to communicate with investors and try to effect a similar plan for loans in securitizations that require investor approvals. Notable attributes of the program include:

- It uses prequalified modifications;
- Chase employs an outreach program that analyzes the portfolio to determine possible homeowner payment defaults in the near future;
- The company maintains direct customer contact through the establishment of 24 regional counseling centers in high-delinquency areas;
- Chase is suspending foreclosure initiation on bank-owned loans during the program's implementation stage;
- A new quality group will independently review all foreclosure recommendations to ensure appropriate loss mitigation; and
- Chase plans to offer 500 homes to community groups and other non-profit organizations through discounted prices or though donations.

Management believes the program will assist 400,000 families (with a total $70 billion UPB) over the next two years.

Chase management remains deeply committed to enhancing its loss mitigation efforts, especially given the current economic environment. The department participates in many national programs and has many initiatives in place. These include HOPE NOW (outreach efforts committed to assisting borrowers through letter solicitations and regional seminars, counseling, etc.); Project

Lifeline (suspension of foreclosure activities for 30 days while the borrower pursues loss mitigation; FNMA/FHLMC's foreclosure suspension pilot; FNMA HomeSaver Advance program (establishes an unsecured note on delinquent amount for servicing by another entity); and adhering to ASF guidelines on subprime modifications. Additionally, the company has augmented its existing programs by introducing various initiatives such as a specialty lending unit to assist with subprime nontraditional modifications, foreclosure attorney loss mitigation programs, and field agents contacting borrowers about modifications.

There are 265 employees in the homeowner's assistance department (HAD), an increase from 215 in 2007 (and only 139 in 2006). The company has divided mitigators into two teams based on processing requirements, with one group handling only short sales and deeds- in-lieu and other workout opportunities. Highlights of the process include:

- EarlyResolution software helps identify eligible borrowers for workout options based on investor guidelines;
- Collectors can approve payment plans up to 12 months in length;
- Borrowers unable to qualify under the preprogrammed alternatives receive an ER-generated loss mitigation package, followed by direct contact by loss mitigation personnel;
- Borrowers, regardless of delinquency status, can obtain and submit workout information through the Web;
- A Columbus-based telephone unit based handles inbound borrower loss mitigation inquiries, as well as some foreclosure calls, through a separate toll-free number;
- A Spanish queue is available for Spanish-speaking borrowers;
- A disaster response team assists borrowers with workout options and continually tracks applicable property and borrower information;
- The quality/operations support unit (QO) monitors five calls per employee per month;
- For HUD/VA loans, staff forwards a workout solicitation letter once the account is 55 days past due;
- On FNMA/FHLMC/private investor loans, the group sends loss mitigation correspondence at 32 days of delinquency;
- The company continues to update its loss mitigation video in an effort to adopt new approaches to workout initiatives; these will also be available on the Web site;
- The company has empowered foreclosure attorneys to approve certain loss mitigation proposals within Chase guidelines;
- For FNMA loans, there is an automatic transfer from the IVR to loss mitigation once an account is 60 days in arrears. An outside vendor also conducts special quarterly solicitations;
- Dedicated FNMA default teams are in place for subprime product sold to the GSE;
- The company maintains its Tier 1 HUD loss mitigation ranking (2007), which results in certain increased monetary incentives;
- The company can delay foreclosure referrals by 30 days if negotiating and/or closing a workout arrangement, reducing borrower costs and fees;
- The recidivism rate is 28.10%; and
- Chase has full delegated authority to complete workouts on HUD/VA accounts and partial authority from FNMA for preforeclosure sales and modifications, thus expediting the mitigation process.

Chart 15

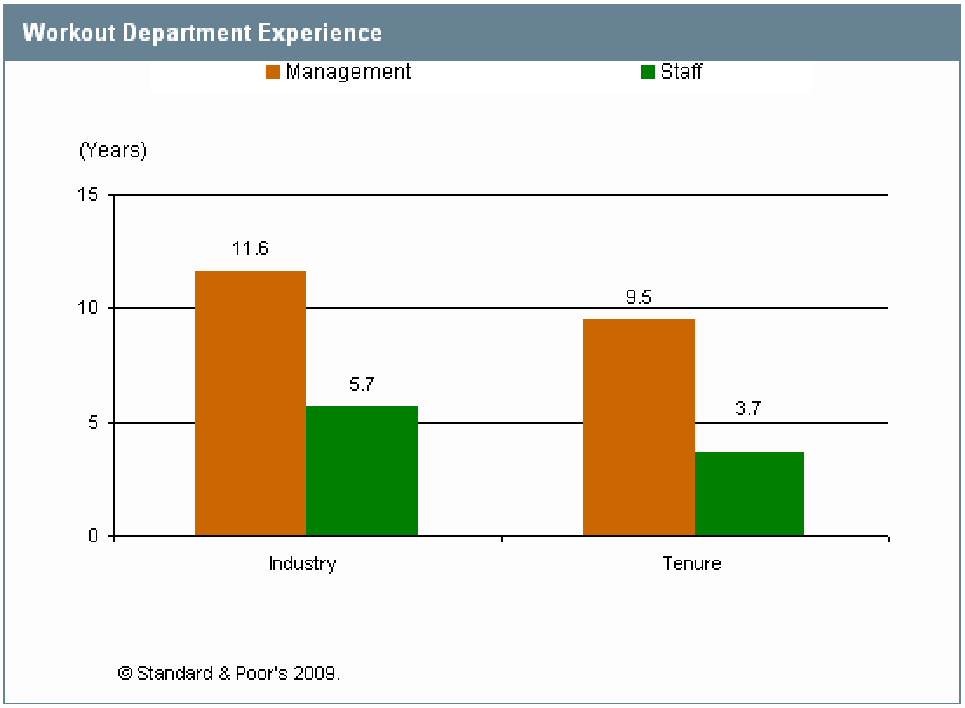


Chart 16

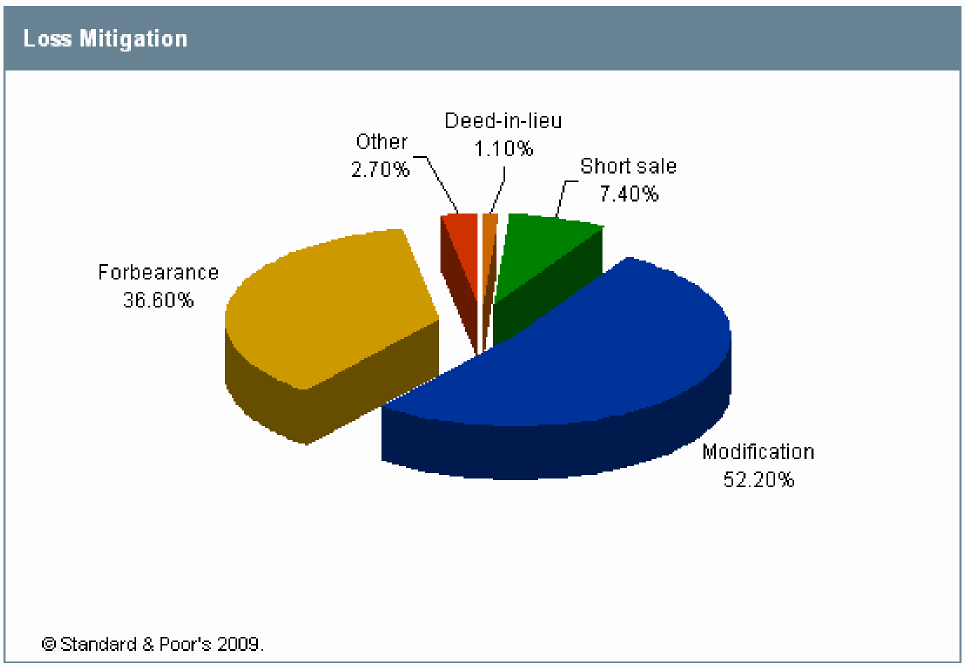
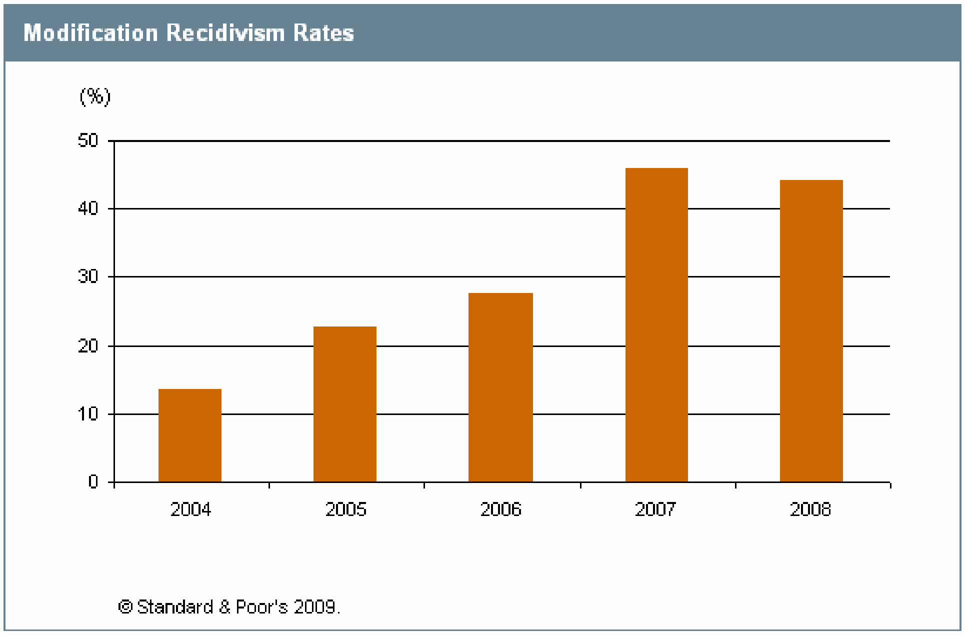


Chart 17



An independent homeownership preservation department communicates with nonprofit and community organizations to direct delinquent borrowers to HAD. Chase moved this group to the default area in 2008 to better coordinate any workout efforts and informational seminars pertaining to the various mitigation efforts that the company undertakes.

Chase has a well-managed foreclosure and bankruptcy function. The foreclosure staff has five years' experience and one year company tenure, while bankruptcy staff average four years' experience and tenure. A separate business support group concentrates on areas such as loss analysis, invoice processing, claims, evictions, property inspections, litigation research, risk compliance, and system utilization. The company has commendable controls in place to ensure proper timeline performance. Foreclosure and bankruptcy processes include the following:

- Chase uses productivity scorecards to better monitor staff performance;
- Preforeclosure analysts review cases before legal referral to ensure compliance with investor guidelines and to confirm that loss mitigation efforts were exhausted;
- The VendorScape system provides electronic communication and processing with its attorneys, thus improving productivity;
- The company uses the iClear system for electronic invoice processing and approval;
- The company has a consolidated online list of counsel for both products, with multiple attorneys for each state to balance workloads and compare performance;
- Approximately 11.20% of loans cure while in foreclosure, down from the previous 32.24%;
- Foreclosure timeline compliance averages a sound 95.85%;
- The company contacts all new foreclosure referrals by telephone to provide information on loss mitigation alternatives;
- Chase routes inbound foreclosure and bankruptcy calls to workout staff so they may continue pursuing loss mitigation options;
- Chase pursues continued loss mitigation throughout the foreclosure process through letters and calls to the borrower;
- A direct sourcing arrangement for both products in five large states places accounts directly into the attorney's queue;
- Management uses an onsite vendor to prepare and forward the legal file, and grades vendor performance;
- Chase performs onsite reviews of its larger legal vendors and those with any issues;
- The company uses Pacer and Banko to ascertain bankruptcy filings for prompt action on the file;
- Separate teams identify instances where the company attempts to recover funds resulting from vendor issues and errors;
- All curtailed FHA claims filed by the vendor undergo a complete audit;
- A dedicated mailbox is in place for communication between the FHA and claims area;

- A dedicated compliance manager approves all FHA foreclosure referrals; and
- The company files electronic mortgage insurance claims with certain large entities.

During an active bankruptcy filing, management forwards its annual escrow analysis to the customer, trustee, and bankruptcy attorney for reference. The company hopes to expand its Direct Source program to encompass 80% of accounts by June 2009, and will include prime bankruptcy referrals for non-defaulted loans.

In an effort to improve mortgage recovery efforts, the department established an internal team of 16 employees, overseen by a manager to begin insourcing accounts previously handled by an affiliate division. Management believes these initiatives will yield better results as the company intends to introduce plans that offer more flexibility to the borrower to pay off any charged-off or deficient amount.

The REO unit is centralized in Irving. We discuss this unit in the subprime loan administration section of this report.

↑back to top

Subprime Mortgage Loan Administration

The ranking for residential subprime mortgage loan administration is affirmed at STRONG.

Table 5

Key Statistics: Subprime Loan Administration

	2008*	2007	2006	2005	2004
Loan portfolio total					
Volume (Mil. $)	62,566	69,399	78,570	64,875	44,210
Assets (No.)	351,508	386,562	437,331	389,642	296,767
Delinquency (% of loans)					
Total	20.46	20.09	17.37	14.83	12.25
30-day	10.95	11.29	10.92	9.6	8.61
60-day	4.89	4.86	3.94	2.75	1.75
90-plus day	4.62	3.94	2.51	2.48	1.89
Foreclosure	12.33	8.98	4.07	2.56	2.15
Bankruptcy	2.39	2.2	1.76	2.29	2.21
Real estate owned (No.)	14,192	7,519	5,244	1,978	1,386

*As of June 30.

Standard & Poor's reviewed all areas of loan servicing, including new loan boarding, escrow analysis, adjustable-rate loan analysis, partial releases, and assumptions. Overall, we found these areas to be satisfactory. We discuss key areas of risk in more detail below. Additionally, due to the similarities in many of Chase's policies and procedures for the prime and subprime areas, we discuss only those controls and statistics unique to subprime in this section.

Customer relations

Chase's highly effective subprime customer service department employs 225 personnel. The department operates from Columbus and Monroe. Management plans to have Manila begin handling subprime customer calls sometime in 2009. Although Chase originally planned this integration for 2008, there were some delays in converting to the new system for subprime accounts, which resulted in a delay in training the offshore personnel. As the portfolio is decreasing, call volume has averaged 16% lower than in the prior year. The unit provides a commendable level of customer satisfaction, as the following indicate:

- Welcome calls to verify borrower data include two calls during evening hours to maximize borrower contact. If there is no contact, the department forwards a proactive letter requesting this information;
- The turnover rate has increased from 30% to 41%; Chase should target this area for improvement;
- Call center metrics remain exceptional, and actually improved, with a 1.38% abandonment rate and nine-second ASA;
- The IVR capture rate is 45%, an approximate 10% increase from the prior period;
- The first-call resolution rate is an excellent 96.2%;

- Web-based software allows agents to view their qualitative and quantitative performance at the individual and team levels;
- A broad monitoring program grades representatives 10 times per month, with an expected 90% score for employees with more than six months' tenure;
- The company uses recorded results of online quality monitoring for training purposes;
- There are almost 129,000 registered Web site users, an increase from the prior 70,000; and
- A customer advocacy program allows a senior specialist to handle complaints.

Chart 18

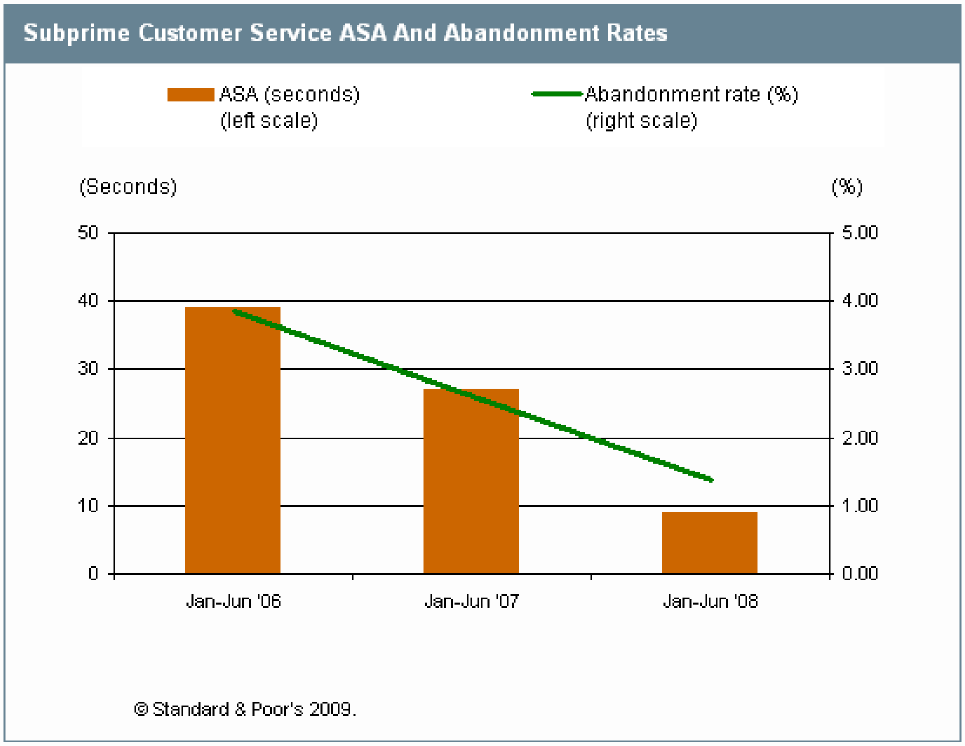
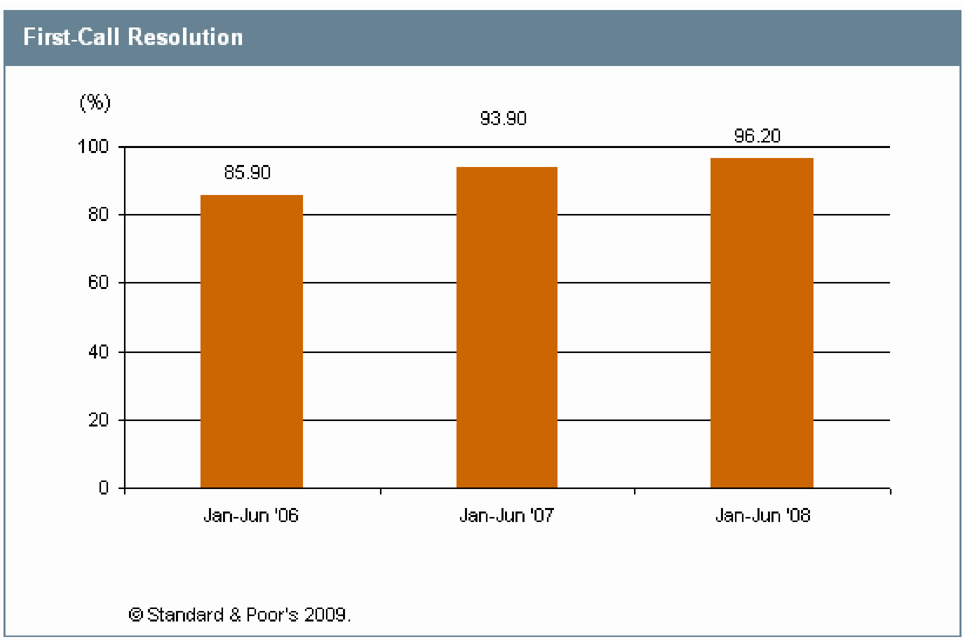


Chart 19



Future initiatives for both products include: development of an online video that helps explain year-end statements and enables borrowers to complete their annual privacy notifications online, and possibly converting to quarterly billing statements (with three coupons).

The Monroe-based loan transfer and document management department handles lien-release functions. The subprime operation has an outsourcing relationship with another vendor that assists with payoff volume as needed. Penalties incurred due to late releases have been minimal. The servicing system can now calculate the prepayment penalty.

Default management

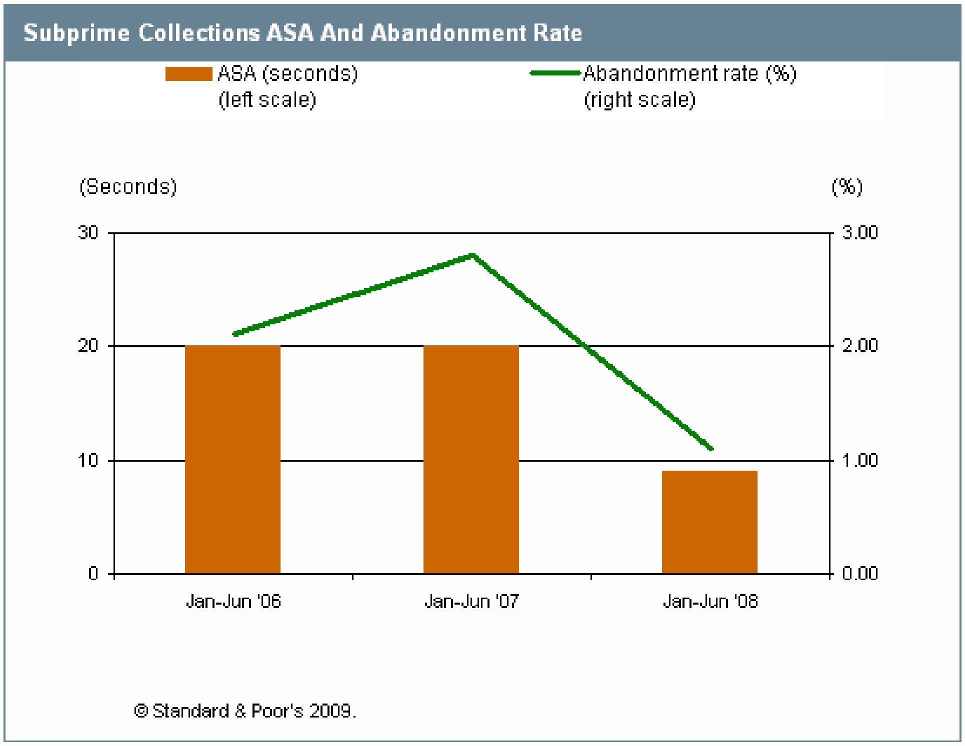
Chase applies its appropriately assertive collection philosophy, solid controls, and fine technology to minimize delinquency levels while maximizing borrower contact. There are approximately 627 subprime collectors (up from 488). Management averages 22 years of experience, while supervisors and staff each average eight years. The 245 agents (a large increase from 90) at the company's Panama-based vendor, National Asset Recovery Services (NARS), assist with low- to medium-risk collection contact for both products (employing 142 subprime and 78 prime collectors, each with separate managers). A dedicated person regularly performs a one-week onsite review of NARS and an onsite manager oversees the staff. Management intends to increase staffing to 367 total collectors in 2009; this is in addition to a further site expansion to include other default functions such as quality management, foreclosure, bankruptcy, and invoice processing. This would add yet another 179 positions for NARS, bringing the total to 546 offshore staff in Panama.

Approximately 24% of the portfolio consists of borrowers with FICO scores below 580, which is stable when compared with the prior time period. Chase uses an internally developed behavioral score based on a roll rate model in tandem with the account's EPD status to determine customer contact. The roll rate score predicts the likelihood an account will transition to the next stage of delinquency in a one-month timeframe.

Features of the company's collection processes and controls include:

- The company initiates collection calls as early as the fifth day of default for accounts scored UltraHigh, but no later than the 20th day of default for low-risk accounts;
- Dedicated collectors address high-risk accounts through an ownership approach;
- Early loss mitigation teams handle first payment and early payment defaults, hybrid accounts, and defaulted modifications;
- The EPD team monitors newly boarded loans for four months to identify potential fraud;
- Chase has established a specialty collection team established to target high-risk portfolios; senior personnel who have taken loss mitigation training staff this team;
- A delinquency forecasting model helps evaluate seasonal delinquency patterns and examines default roll rates for further collector queue tailoring ;
- The turnover rate has improved significantly, to 18% compared with the prior 39%;
- Call center metrics are outstanding, as the nine-second ASA and 1.10% abandonment rate indicate;
- The company uses Telewire letter campaigns for increased penetration and contact with the borrower;
- There is an inbound Spanish queue for non-English-speaking borrowers, with language codes on the servicing system and dialer;
- NARS now handles all Spanish language outbound contact;
- The right-party contact rate is 12.30%;
- The promise-to-pay success rate is 67%:
- The company completes a gain/loss analysis by the 60th day of default to gauge further actions;
- QA monitors 10 calls per representative per month and provides verbal and written feedback. Chase requires a minimum score of 85% for both quantitative and qualitative efforts;
- An employee performance database for both prime and subprime personnel serves as a coaching and development mechanism and tracks both qualitative and quantitative collector results;
- The database allows staff members to view their performance; senior managers can also view performance data to ensure that supervisors and managers are properly fulfilling their coaching and monitoring requirements;
- An inbound unit trained to handle all stages of delinquency allows remaining outbound calling staff to maximize their collection efforts; and
- Chase makes prompt foreclosure referrals, no later than the 105th day of delinquency.

Chart 20



Chase has a well-designed subprime workout function. The department adheres to the same proactive loss mitigation processes it uses for its prime accounts. Managers average 19 years of industry experience and two years with Chase. Staff members average six years' industry experience and one year company tenure. There are now 341 loss mitigation agents, a dramatic increase from the prior 201 agents. The company follows a dual-path scenario, proceeding with the foreclosure action while maintaining contact with the borrower. With this strategy, it can pursue possible workout alternatives in an attempt to cure the delinquency while avoiding time-consuming and expensive legal action. Highlights of the loss mitigation process include:

- The department embraces an assertive policy by forwarding a general workout letter to its borrowers once the account is approximately 10 days past due;
- The department uses a call monitoring program for subprime loss mitigators;
- Chase uses online key performance indicators to compare both teams and individuals;
- The abandonment rate remains less than 2% in the department;
- The 68% recidivism rate for forbearance plans is very high, at 68%; the company should target it for improvement;
- Almost 50% of loss mitigation packages returned to the department result in a closed workout;
- Dedicated staff members attempt to contact the borrower when there has been no communication within the past 45 days;
- Chase sends a loss mitigation video to high-risk and 45-day delinquent customers;
- A dedicated team of 35 individuals tracks delinquent modifications for referral to loss mitigation for possible legal referral;
- IVR reminds customers to return previously forwarded workout documents;
- Field agents directly contact high risk (high UPB, declining equity, etc.) borrowers to solicit workout opportunities if the company has been unable to make telephone contact;
- All workouts undergo online approval; and
- The department uses an online net present value analysis that allows it to evaluate different workout alternatives.

Chase has established a new Specialty Lending Unit to help subprime customers work through preforeclosure loss mitigation initiatives. Management plans to expand this process to prime borrowers in 2009. The group introduced three specific products to assist borrowers (although it may use other methods as applicable):

- One-year short term modification: The company generally uses this when borrowers are trying to sell their property but are delinquent;

- Two-year modification: Chase applies this product when borrowers experience a reduction in income (e.g, commissions) but expect income to return to normal levels; and
- Partial charge-off with balloon payment: The company generally uses this product in conjunction with an interest rate reduction. In this case, the company reduces the balance, but retains the charged-off amount separately as a recoverable amount for repayment, in case the property appreciates or is sold or refinanced.

Management is actively communicating with its investor base so it can offer customers more loss mitigation alternatives beyond those delegated in the servicing agreements. Additionally, the department is in contact with certain counseling organizations to arrange for pre- and post-counseling for borrowers who have received modification approval.

Chart 21

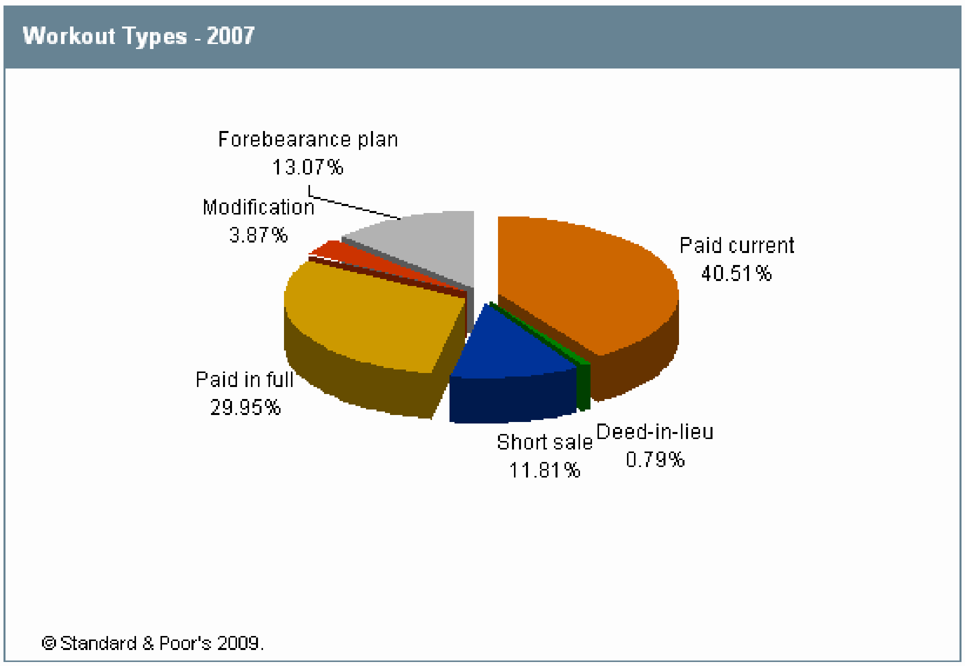


Chart 22

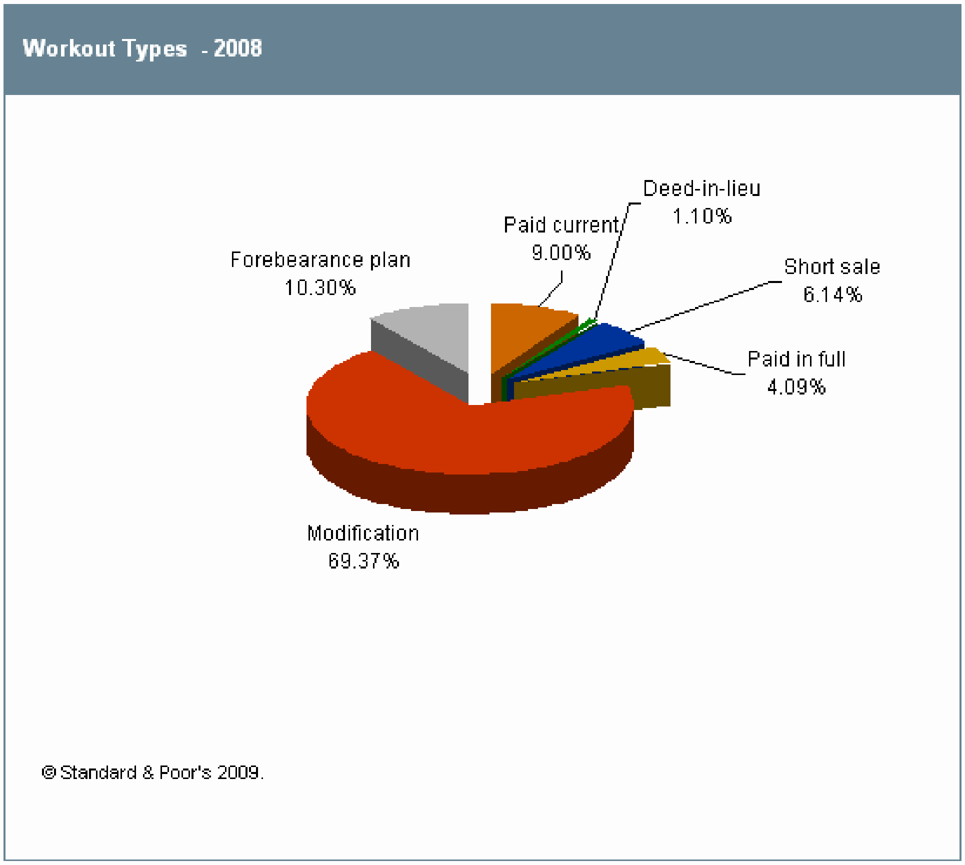
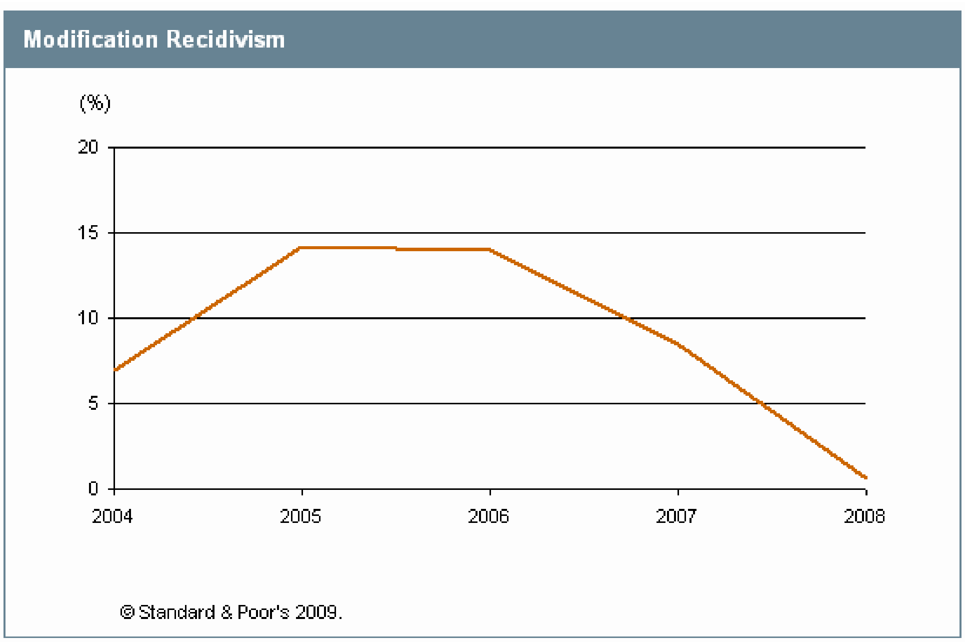


Chart 23



Chase has good policies and procedures in place for monitoring its foreclosure and bankruptcy actions. The subprime foreclosure and bankruptcy staff average eight years of experience and two years with Chase. Management convened an annual attorney summit in April 2008, where it gathered firms in the Chase legal network for all products to discuss various foreclosure and bankruptcy issues affecting the process; the company also provided training in some Chase-administered programs. Controls include the following:

- Chase uses the iClear system for electronic invoice processing and approval;
- An asset management support unit handles supplementary default tasks, such as monitoring senior-lien status, preparing gain/loss analyses, and ordering property inspections;
- An onsite vendor is responsible for file referral, assignments, proof of claim filings, and other tasks;
- The company uses a vendor scorecard to assess performance;
- Managers perform four e-quality monitoring reviews of both the prime and subprime staffs and complete performance scorecards to identify potential training issues and address productivity standards;
- Managerial review of 15 accounts monthly for each foreclosure and bankruptcy agent ensures quality standards;
- All employees must complete predatory servicing awareness training;
- Foreclosure timeline compliance is good at 90.76%;
- Chase uses a scorecard to grade attorney performance, and a review board meets quarterly to approve or disapprove counsel based on the established benchmarks;
- Attorneys must adhere to FNMA fee guidelines and timeframes when processing legal actions, which the company subsequently tracks for compliance through the DRI system;
- Online access to BPO information allows for expedited property valuation analysis;
- Approximately 30% of loans cure while in foreclosure;
- The company automatically downloads bankruptcy data through Banko/Pacer;
- Borrowers who are current on their bankruptcy plans may use the IVR to make payments; and
- Chase performs escrow analysis when a loan is in bankruptcy to protect against large shortages and the resulting payment increases to the debtor.

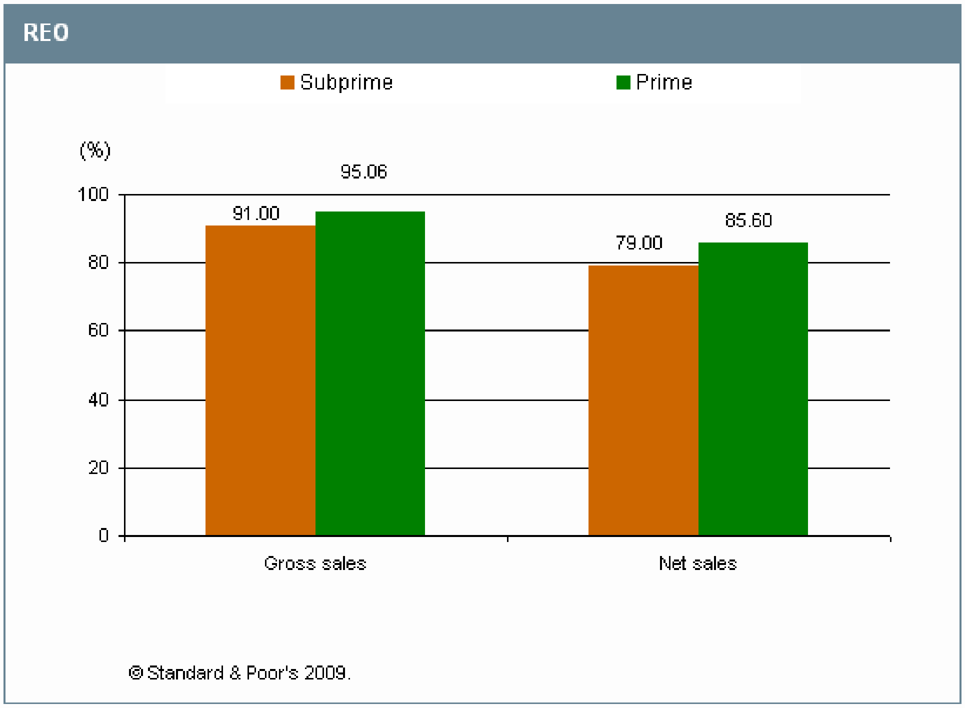
A default resolution unit in Columbus specializes in complex foreclosure actions and litigious matters on both the prime and subprime portfolios.

Chase mainly handles REO marketing from Irving and San Diego. One hundred and ten personnel (an increase from 47) are responsible for marketing subprime properties, and the remaining 27 (an increase from five) handle prime REO management. The Deerfield Beach facility has 20 personnel specifically dedicated to rural financial programs; however, Chase uses these associates to assist with REOs located in rural areas. A small staff of eight personnel in Milwaukee also assists with REOs. The company now uses the Rochester site to assist with REO financing applications through the specialty lending unit. It currently conducts this pilot program in six states, although management plans to expand its offerings in 2009. Although the REO specialists control several aspects of the marketing process, the company uses 10 asset management vendors for the selection of a real estate agent. The following support the prudent controls for REO management and oversight:

- Asset managers handling prime REOs average 12 years of experience and two years with the company;
- Asset managers overseeing subprime accounts average 12 years' experience and three years' Chase tenure;
- Chase conducts annual onsite audits of its vendors to ensure performance quality;
- The company uses two valuations used to determine pricing; review appraisers reconcile these valuations;
- Chase uses a matrix for staff and vendor pricing authority levels;
- A senior marketing specialist with extensive marketing experience oversees complex problems pertaining to items such as title claims and encroachment issues;
- The company uses financial incentives to encourage borrowers to vacate the property, an excellent way to reduce eviction proceeding delays and expenses;
- Chase uses vendor scorecards in conjunction with onsite audits to ensure that vendors meet or exceed performance expectations;
- A QC person performs informal reviews of various REO processes pertaining to departmental self-assessments;
- Marketing time averages 158 days (compared with 122 days previously) for prime loans and 140 days for subprime loans;
- Approximately 40% of prime REOs (compared with 33% previously) and 40% of subprime REOs require eviction;
- The net sales proceeds-to-market-value ratio averages 79% for the subprime portfolio and 85.60% for prime. The subprime value is low, but management stated that this results from the location and condition of the properties;

- Chase markets properties on the Web;
- The company uses auctions used for approximately 5-10% of properties, which generally encompass aged and low balance assets;
- Chase donates properties valued at less than $10,000 to other third-party entities if there is no sale within 45 days; and
- The company uses iClear presentment and payment of invoices for timely processing.

Chart 24



In June 2008 management began a pilot program offering its low balance REO properties for bulk sales; although the results were not favorable, the company is re-evaluating methods that would offer better opportunities to enhance this disposition method.

The department has a high-risk property unit that carefully monitors vacant and damaged properties through interaction with local municipalities and officials. There are also 10 field officers onsite in key geographic locations in California, New York, and Illinois. Chase assigns each property a severity score of '1' to '5' that correlates with its overall condition and the expected resolution timeframe if there are any issues. Chase has a relationship with a Chicago-based nonprofit organization and has donated or sold several such properties to this institution. Chase has since expanded the program to include other properties for donation to nonprofit groups for neighborhood redevelopment.

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Financial Position

The financial position is considered SUFFICIENT, based on the credit rating on the parent company, J.P. Morgan Chase & Co.

For more information, please refer to RatingsDirect, at www.ratingsdirect.com.

Contact Information

Chase Home Finance LLC's servicing platforms are located in Columbus, Ohio; Monroe, La.; San Diego, Calif.; Irving, Texas; Tempe, Ariz.; and Tampa, Fla.

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