MONITOR

of the 2017 Deutsche Bank Mortgage Settlement

SECOND REPORT | NOVEMBER 2017

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INTRODUCTION

This is the second report of the independent Monitor appointed pursuant to the January 17, 2017, settlement agreement (the "Settlement Agreement") between Deutsche Bank AG and its current and former subsidiaries and affiliates (collectively, "Deutsche Bank" or the "Bank"), ACE Securities Corp., and the United States Department of Justice ("Department of Justice"). Michael Bresnick was selected as the independent Monitor to determine whether the Bank is satisfying its obligation to provide the $4.1 billion in consumer relief required by the Settlement Agreement, and to provide quarterly reports on the Bank's progress to the public.[1]

In this second report, the Monitor addresses Deutsche Bank's ongoing consumer relief progress. Most notably, the Bank submitted its first request for credit for 100 new residential mortgage loans originated to borrowers under Menu Items 2.B.1 (Hardest Hit Areas) and 2.B.3 (low-to-moderate-income first-time homebuyers) of the Settlement Agreement.[2] These 100 loans were financed by Deutsche Bank and underwritten and originated by one of its counterparties – Shellpoint Partners LLC, through its subsidiary New Penn Financial, LLC, and other affiliates (collectively, "Shellpoint").[3]

The Monitor, with the assistance of his consultant, Control Risks, L.L.C. ("Control Risks"), and following the protocols agreed to with the Bank, reviewed and tested each of the 100 loans for adherence to the elements of the applicable Menu Item. Pursuant to these reviews, the Monitor validated the eligibility of and credit claimed for each loan and determined that the Bank earned the maximum **$1,150,000** in

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[1] Deutsche Bank also entered into an agreement with the Office of the Maryland Attorney General on June 1, 2017, which requires that at least $80 million of consumer relief provided by the Bank under the Settlement Agreement with the Department of Justice go to Maryland residents. Michael Bresnick was appointed to serve as Monitor of Deutsche Bank pursuant to the agreement with Maryland.

[2] These Menu Items, as well as the others described in Annex 2 of the Settlement Agreement, are discussed in detail in the Monitor's first report, which can be found at https://deutschebankmortgagemonitor.com/wp-content/uploads/2017/07/Deutsche-Bank-Monitor-Initial-Report-July-2017.pdf.

[3] The Settlement Agreement authorizes Deutsche Bank to earn credit by financing counterparties (such as Shellpoint) to modify or originate loans in accordance with the Settlement Agreement's requirements. The Monitor's first report noted that the Bank had entered into an agreement with "Counterparty 1" – Shellpoint – to originate residential mortgage loans. The Monitor did not name Shellpoint in the first report because he had not completed his diligence of the company nor provided his consent to Deutsche Bank's arrangement with Shellpoint under the Settlement Agreement. As described below, the monitor has completed his diligence of Shellpoint and provided his consent for the Bank to finance Shellpoint loan originations under the Settlement Agreement.

consumer relief credit available for the relief provided. The Monitor describes in this report the process followed in validating these loans.

In addition, the Monitor summarizes the diligence performed on Shellpoint and his decision to provide consent to Deutsche Bank's financing arrangement with that counterparty under the Settlement Agreement's "safe harbor" provision.[4] Further, since this provision allows the Bank to earn credit (subject to certain limitations) for relief provided through counterparties in violation of the law if the Monitor previously gave his consent, the Monitor reviewed a sample of the 100 loans submitted for credit to assure himself that they in fact had been originated lawfully and that he should not withdraw his consent. These "compliance reviews," described below, are distinct from the reviews the Monitor and Control Risks performed to determine whether the loans qualified for credit under Menu Items 2.B.1 and 2.B.3 of the Settlement Agreement.

Overall, the Bank has continued its efforts to provide meaningful consumer relief while remaining attentive to relevant consumer protection concerns throughout the process. The Bank continues to commit significant resources to meet its consumer relief obligations, including assigning teams of professionals within the Bank to this effort (many of whom are dedicated full-time), hiring outside vendors to assist the Bank where necessary, and maintaining ongoing oversight of its relief efforts by members of the Bank's Management Board.

The Bank also has cooperated with the Monitor's many requests for documents related to the Bank and its counterparties, and provided the Monitor with access to management and other key employees of the counterparties when asked. This process has not always been simple, since the counterparties are not parties to the Settlement Agreement. Such cooperation is critical, however, to the Monitor's ability to conduct appropriate oversight of the Bank's consumer relief efforts. To date, the Bank has made a significant effort to facilitate its counterparties' cooperation, and the Monitor has been encouraged, in turn, by the counterparties' accessibility and responsiveness to his requests. Since obtaining and reviewing documents, and interviewing individuals, are central to the Monitor's ability to perform his duties under the Settlement Agreement, he will continue to address the Bank's and its counterparties' ongoing compliance with these matters in future reports.

In sum, the Bank appears dedicated to fulfilling the requirements of both the letter and spirit of the Settlement Agreement in a timely and effective manner.

[4] The Settlement Agreement provides a "safe harbor" for Deutsche Bank where credit for consumer relief that was provided by the Bank or a counterparty in violation of law will not be denied if, in advance of retaining or contracting with the counterparty, Deutsche Bank does appropriate due diligence of the counterparty and receives prior consent of the Monitor, and the Monitor's consent is not withdrawn before the particular consumer relief is provided.

SUMMARY OF CONSUMER RELIEF MENU ITEM 2 – LOAN ORIGINATIONS

In his first report, the Monitor provided a detailed summary of the different Menu Items of consumer relief for which Deutsche Bank may earn credit pursuant to the Settlement Agreement's Consumer Relief Annex. These options include providing principal forgiveness to distressed and underwater homeowners, loan refinancings and originations to certain individuals, and financing for affordable housing. The Settlement Agreement does not require Deutsche Bank to provide relief to any specific borrower and gives the Bank wide latitude in how it may meet its overall obligations.

As described in greater detail in the following sections, Deutsche Bank has entered into an agreement to provide financing to Shellpoint to originate loans under Menu Item 2 – Loan Originations. The first 100 loans that Deutsche Bank submitted to the Monitor for consumer relief credit fall under Menu Item 2.B, which allows Deutsche Bank to receive credit for the following:[5]

> 2.B. Low-to-Moderate-Income and Other Lending. Deutsche Bank may earn credit by providing new mortgage loans to credit worthy borrowers:
>
> - In Hardest Hit Areas (Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington, D.C.), to assist borrowers to buy homes in areas of the country that were particularly affected by the housing crisis and thereby to help to revitalize those areas;
> - Who lost a primary residence to foreclosure or short sale; or[6]
> - Who are first-time, low-to-moderate-income ("LMI") homebuyers. An LMI borrower is someone with an income at or below 100% of the Area Median Income ("AMI"), which is calculated by the U.S. Department of Housing and Urban Development.

Additional information about this and the other Menu Items, including the Bank's ability to receive additional credit depending on the timing of the relief provided, can

[5] The Bank may receive credit under this Menu Item for loans originated pursuant to financing arrangements (where the originated loan serves as collateral) or for participation agreements with a counterparty in which the Bank owns an equity interest that allows it to influence the provision of relief. The counterparty, however, must not be subject to an ongoing Financial Institutions Reform, Recovery, and Enforcement Act of 1989 settlement with the Department of Justice involving a consumer relief schedule.

[6] At this time, Deutsche Bank does not have plans to submit loans for credit under Menu Item 2.B.2 (borrowers who lost a primary residence to foreclosure or short sale).

be found in the Monitor's first report in the section titled "Overview of the Settlement Agreement."

OVERVIEW OF THE COUNTERPARTY DILIGENCE AND SAFE HARBOR PROCESS

Deutsche Bank may earn consumer relief credit by providing financing to counterparties to modify or originate loans in accordance with the Settlement Agreement's requirements. With limited exceptions, Deutsche Bank no longer originates or services mortgages in the United States and, therefore, does not currently have the infrastructure or capabilities in-house to provide consumer relief by itself.[7] The Bank, therefore, has spent the past several months exploring potential arrangements to finance loan originators, investors, and servicers to provide consumer relief according to the Settlement Agreement's requirements.

To date, these potential arrangements have focused primarily on loan originations under Menu Item 2.B., although the Bank has begun to explore ways to finance loan modifications and similar relief under Menu Item 1. The Monitor will address modifications in future reports once the Bank finalizes its arrangements and the Monitor has had an opportunity to perform appropriate due diligence on the proposed counterparties.

The Due Diligence Process

In order to provide consent for the Bank's arrangement with a counterparty (thus, giving the Bank and that counterparty safe harbor protection), the Monitor has determined he must first interview the management and operations teams of the proposed counterparty, review its relevant policies and procedures governing originations, and understand how the counterparty implements its policies and procedures in its day-to-day operations. The Monitor's diligence process, while tailored for each arrangement's unique circumstances, generally involves participating in the Bank's (or its outside legal counsel's) on-site diligence visit with a counterparty. The Monitor also conducts follow-up visits, requests specific documentary material, and seeks additional interviews.

Moreover, for those transactions that involve loan originations under Menu Item 2.B., such as the Shellpoint transaction, the Monitor's diligence includes reviewing the practices of the counterparty's servicing operations, or the practices of the servicer hired by the counterparty to service its portfolio. The purpose of this review is to give the Monitor reasonable assurance that the servicer has implemented policies and procedures to protect borrowers after their loans have been originated. Indeed, a

[7] In many of the other, similar residential mortgage-backed security settlements, the settling institutions have mortgage originating or servicing businesses, allowing them to provide relief directly to their customers.

homeowner who obtains a new home loan, but soon after is treated unlawfully by his or her servicer, would not receive the full benefit of the relief provided.

In all cases, of course, the Monitor's diligence is limited to publicly available information or information made available by the counterparties. The Monitor's diligence, therefore, does not constitute a complete review of all potential legal or regulatory compliance risks or issues. The Monitor's provision of safe harbor consent does not constitute an endorsement, or any other representation or statement regarding the counterparty, and such provision does not constitute a legal opinion and may not be relied upon as such.

Limits to the Scope of the Safe Harbor Provision

There are two important limits to the scope of the safe harbor afforded a counterparty following the Monitor's consent. First, the Monitor has interpreted the Settlement Agreement to prohibit Deutsche Bank from earning credit for consumer relief that has been implemented through any policy that violates the Equal Credit Opportunity Act ("ECOA") or Fair Housing Act ("FHA") (the anti-discrimination laws),[8] or was conditioned on a waiver or release by a borrower (unless the waiver or release was given in a contested claim where the borrower would not otherwise have received as favorable terms or consideration). This prohibition applies even when the Monitor has provided consent to a particular counterparty. The Monitor therefore will deny credit, or withdraw credit previously given, for any relief that violates ECOA or FHA, notwithstanding the safe harbor. The Monitor describes his plans for performing appropriate ECOA and FHA analyses in the section titled "The Monitor's Credit Testing Process," below.

Second, the Monitor may withdraw consent he has given for a counterparty at any time. Any relief provided through a counterparty after such withdrawal will not be covered by the safe harbor. Because he may withdraw consent, the Monitor has determined that he will perform compliance reviews on a sample of loans from each submission for credit (with the review tailored to the particular counterparty and the nature of the credit being requested) to determine if any of the relief was provided in violation of law, notwithstanding the safe harbor granted by the consent. This process will inform the Monitor's decision whether to maintain or withdraw his consent for the counterparty. In other words, even if the Monitor cannot deny credit for relief provided in violation of law by a consented-to counterparty (other than, as noted above, for a violation of the ECOA or FHA), he can withdraw that consent

[8] The FHA prohibits housing providers from discriminating against consumers on the basis of race, color, national origin, religion, sex, familial status, or disability. Examples of prohibited conduct include refusing to provide information on loans or imposing different terms or conditions on loans offered to consumers based on one of the factors noted above. Similarly, the ECOA prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status, or age in connection with a credit transaction.

immediately when appropriate. The Monitor describes his plans for performing compliance reviews in the section titled "The Monitor's Credit Testing Process," below.

SUMMARY OF THE MONITOR'S DILIGENCE OF SHELLPOINT

In June 2017, Deutsche Bank entered into a financing arrangement with Shellpoint, a non-bank mortgage loan originator, to (a) perform mortgage rate refinancings for consumers, and (b) originate loans to credit worthy borrowers who are purchasing homes in Hardest Hit Areas or are first-time, LMI homebuyers.[9] Shellpoint's subsidiary New Penn Financial is headquartered in Pennsylvania, and has more than 150 offices in 32 states. It is licensed to originate mortgages in 48 states and the District of Columbia.[10]

The Monitor has provided his consent to Deutsche Bank's arrangement with Shellpoint under the Settlement Agreement's safe harbor provision.[11] The Monitor's due diligence of Shellpoint covered its loan origination and servicing activities, and its compliance program for those operations. As part of this process, the Monitor reviewed information provided by the Bank about its own due diligence of Shellpoint's origination and servicing operations, including its examination of Shellpoint's financial health, and Shellpoint's regulatory and litigation history. In addition to reviewing Deutsche Bank's due diligence, the Monitor interviewed Shellpoint representatives and reviewed the company's relevant policy and procedure documents for compliance with applicable loan origination and servicing laws and regulations. After review of these materials, the Monitor sought additional information from the Bank and Shellpoint to understand better the company's compliance policies and corresponding activities.

[9] Deutsche Bank has entered into a second financing arrangement with another non-bank loan originator ("Counterparty 2") to provide relief under Menu Item 2. Deutsche Bank and Counterparty 2 are implementing that arrangement. The Monitor has not completed his diligence of Counterparty 2, but expects to do so before the issuance of the third report. As appropriate, the Monitor will provide a more detailed summary of the Deutsche Bank arrangement with Counterparty 2 and the diligence conducted on Counterparty 2 in the next report. Since the Monitor to date has not provided consent to the Bank's Counterparty 2, the Bank currently is financing new loans originated by Counterparty 2 without the benefit of the safe harbor provision.

[10] Shellpoint is not licensed to originate loans in Hawaii and Alaska.

[11] On November 29, 2017, New Residential Investment Corp. (NYSE:NRZ) announced it had entered into definitive agreements to acquire Shellpoint. For information on the acquisition, please visit: http://ir.newresi.com/file.aspx?IID=4347089&FID=391266637. The Monitor is reviewing this development and will provide additional information in a future report on the impact, if any, of the acquisition on Deutsche Bank's consumer relief efforts under the Settlement Agreement.

Structure of the Deutsche Bank / Shellpoint Agreement

A subsidiary of Shellpoint, New Penn Financial, and another subsidiary, Shelter Mortgage Company[12] and its affiliates, will act as the mortgage lenders under a Master Repurchase Agreement ("MRA") between Shellpoint, the Shelter entities, and Deutsche Bank.[13] These Shellpoint entities originate loans primarily through broker, wholesale, and correspondent-lending channels. This means that Shellpoint originates loans directly to consumers using its own brokers (including through retail locations), provides financing directly to other brokers to originate loans pursuant to Shellpoint's requirements (wholesale loan purchases), and purchases loans originated by a network of correspondent lenders that originate loans in their own names and then sell to Shellpoint pursuant to established contractual arrangements.

Through the MRA, Deutsche Bank provides a line of credit to Shellpoint to fund originations for "eligible mortgages." The Monitor had expressed his expectation that, as a general matter, any loans originated pursuant to Menu Item 2.B. should contain baseline consumer protections commensurate with those required by the relevant government agencies. Following these discussions, the Bank agreed to define "eligible mortgages" in the MRA as those that are eligible (1) for purchase by Fannie Mae or Freddie Mac (the "GSEs"), or (2) for Federal Housing Administration ("FHA"), Veterans Administration ("VA"), or U.S. Department of Agriculture Rural Development ("USDA") insurance or guarantees (if securitized, such loans may then be guaranteed by Ginnie Mae).

The MRA's requirement that loans be eligible for insurance by FHA, VA, or USDA, or purchase by the GSEs, addresses the Monitor's concerns related to the types and forms of mortgage products potentially offered by Shellpoint in connection with Deutsche Bank's financing.

Significantly, the Bank also included in the MRA an agreement to provide Shellpoint a financial incentive for each loan originated that ultimately is awarded credit by the Monitor. This provision encourages Shellpoint to lend to the specific types of borrowers identified in Menu Item 2.B. of the Consumer Relief Annex (e.g., borrowers in Hardest Hit Areas and first-time LMI homebuyers). Although it will be difficult for the Monitor to quantify precisely how many loans Shellpoint will originate to these categories of borrowers as a direct result of the MRA, it is promising that the financing arrangement with Deutsche Bank is designed to result in Shellpoint's

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[12] Shellpoint acquired Shelter Mortgage Company, and Shelter's related joint ventures, in September 2014; the Shelter entities became wholly-owned subsidiaries of New Penn Financial/ Shellpoint Partners.

[13] In the mortgage context, repurchase transactions are a common mechanism used by mortgage originators to raise short-term capital. A repurchase agreement typically is viewed as having the same effect as a short-term, collateral-backed, interest-bearing loan. The buyer acts as a short-term lender, the seller acts as a short-term borrower, and the loans (or securities) purchased are the collateral.

focusing on these qualifying borrowers and originating more of these types of loans than it would have originated in the ordinary course of business.

THE MONITOR'S CREDIT TESTING PROCESS

Developing a Work Plan for the IRG's Submission of Requests for Credit

As discussed in the Monitor's first report, the Bank formed an Independent Review Group ("IRG") to serve as an independent body to review the Bank's submissions for consumer relief credit, certify and submit them to the Monitor for validation, and respond to any questions the Monitor may have regarding the submissions.

Over the past several months, the Monitor and Control Risks have worked with the IRG to establish the testing processes and methodologies for assessing the Bank's requests for credit. These processes and methodologies are set forth in a work plan (the "IRG Work Plan") governing the IRG's testing procedures. Various additional working papers set forth specific definitions, process flows, and testing scripts to effectuate the IRG Work Plan.

In addition to establishing a formal IRG Work Plan, the Monitor and Control Risks have worked closely with the Bank's Consumer Relief Group ("CRG") – the Bank's dedicated business unit responsible for consideration and implementation of relief under the Settlement Agreement – to establish the parameters for seeking credit under various Menu Items (focusing initially on Menu Item 2, given the Bank's agreement with Shellpoint). In the case of Menu Item 2, for example, there are a number of key terms that required interpretation by the Monitor following discussions with the Bank (which is addressed in the sections below).

The development and implementation of these protocols ensure that the Monitor, IRG, and CRG have a common understanding of the Consumer Relief Annex requirements, and that all involved have agreed on the required testing parameters in advance of Deutsche Bank's submitting any requests for credit.

Compliance Reviews – Reviewing Consumer Relief for Compliance with Law

As described above, in addition to validating requests for credit against the Consumer Relief Annex requirements, the Monitor determined he has an obligation to review, on an ongoing basis, relief provided through any counterparty that has received consent pursuant to the Settlement Agreement (and thus enjoys the related protections of the safe harbor provision) to determine if that relief was provided in violation of law. Even if the Monitor cannot deny credit to the Bank for such relief, he can withdraw his consent prospectively, and any relief provided after such withdrawal will not be covered by the safe harbor.

To this end, the Monitor has developed a process to perform compliance reviews in connection with the Bank's submissions for credit. The compliance reviews include a review of certain mortgage loan file documents supporting the underlying consumer relief transaction (tailored to the nature of the relief provided). For loan originations, for example, the compliance reviews involve an examination for compliance with key laws and regulations governing originations (such as the TILA-RESPA Integrated Disclosure ("TRID") Rules), and a search for other indicia of potentially unlawful, even fraudulent, activity in the transaction (such as, for example, unexplained discrepancies in borrower income or assets provided in connection with a loan application).

In all cases, the Monitor's compliance reviews are limited to publicly available information or information made available voluntarily by the counterparties. The Monitor's compliance reviews do not constitute a complete review of all potential legal or regulatory compliance risks or issues, and they do not constitute a legal opinion and may not be relied upon as such.

Equal Credit Opportunity Act and Fair Housing Review

The Settlement Agreement prohibits Deutsche Bank from earning credit for any consumer relief provided through any policy that violates the ECOA or FHA. The Monitor, therefore, must deny credit, or withdraw credit previously validated, for any relief that violates the ECOA or FHA, notwithstanding the safe harbor. Standard analysis for such matters typically requires a backward-looking statistical review. This process has not yet commenced since Deutsche Bank has only recently begun to provide consumer relief. The Monitor has retained a consultant with experience in antidiscrimination statistical analysis to assist in these efforts moving forward. The Monitor will provide additional detail on these efforts in subsequent reports.

Deutsche Bank's System of Record

Since Deutsche Bank, with limited exceptions, does not originate or service mortgages, it does not have a pre-existing System of Record ("SOR") for the loans originated or modified by its counterparties; rather, the Bank must rely on and collect data from its counterparties when testing loans and submitting requests for consumer relief to the Monitor. To do so, Deutsche Bank hired a third-party vendor to build an SOR to receive relevant mortgage and loan data from counterparties and maintain the data for eligibility testing and credit calculation purposes. Because the integrity and validity of the data contained in the SOR are vital to the Monitor's validation of requests for credit submitted by Deutsche Bank, the Monitor asked Control Risks to review the SOR and the processes by which information is transferred from a counterparty and into it.

As part of these procedures, Control Risks conducted multiple calls with the CRG, IRG, and Deutsche Bank's SOR vendor and reviewed technical documentation to assess whether sufficient controls and processes were in place. After a thorough evaluation, Control Risks concluded that the process for uploading and maintaining information and data in Deutsche Bank's SOR is valid and reliable. Of particular note:

1. Deutsche Bank (or its vendor) checks information via a manual review of 100% of the loans in the SOR against the original source documents to ensure accuracy.

2. Deutsche Bank employs multiple data validation and quality control checks at each critical data handoff stage: data collection, submission to IRG, and submission to the Monitor.

3. The IRG performs data validation on a random sample of loans selected from the CRG submission before the IRG submits loans to the Monitor for credit.

The SOR is expected to evolve over time and, as a result, Control Risks will continue to review it, as necessary.

THE MONITOR'S REVIEW OF THE BANK'S FIRST 100 LOANS

On September 1, 2017, Deutsche Bank's IRG submitted its first request for consumer relief credit to the Monitor. The request consisted of 100 loans originated by Shellpoint to borrowers in Hardest Hit Areas and first-time, LMI homebuyers. The loans were originated for properties in 20 states between the dates of June 8, 2017, and July 7, 2017.

Eighty-five of these loans (85 percent) were submitted for credit pursuant to Menu Item 2.B.1 of the Consumer Relief Annex, which permits Deutsche Bank to receive credit for financing the origination of loans to borrowers in the Hardest Hit Areas. The remaining 15 loans (15 percent) were submitted pursuant to Menu Item 2.B.3, which permits Deutsche Bank to receive credit for financing the origination of loans to first-time, LMI homebuyers.

Each loan submitted under Menu Items 2.B.1 and 2.B.3 is potentially eligible for $10,000 of consumer relief credit. Because all of the submitted loans were closed before September 1, 2018, Deutsche Bank also claimed Early Incentive Credit for them, which allows the Bank to receive a 15% bonus credit per loan, for a total of $11,500 per origination.

Pursuant to the procedures and methodology established and agreed upon between the IRG and Monitor, Control Risks independently tested and confirmed the eligibility of the 100 loans for consumer relief credit. In the following sections, the Monitor provides an overview of the testing procedures for the Shellpoint loans, the basis for the Monitor's determination to award credit, and the final results of the testing process.

Establishing the Requirements of Menu Item 2.B.

Menu Items 2.B.1 and 2.B.3, respectively, authorize loan originations to those purchasing homes in designated Hardest Hit Areas, and those who are first-time, LMI homebuyers. Below are several key terms related to this relief, and an explanation of how the Monitor has interpreted them:

- **Credit worthy borrowers:** To be eligible for credit, all loans submitted under Menu Item 2.B. must be to "credit worthy borrowers." The term "credit worthy borrower" is not defined in the Consumer Relief Annex. To interpret the term, the Monitor determined it was appropriate to rely upon commonly recognized standards in the mortgage lending field. The Monitor thus has defined a "credit worthy borrower" as a borrower who meets the credit underwriting standards required by the GSEs, FHA, VA, or USDA. These standards, as discussed above, were built into Deutsche Bank's financing agreement with Shellpoint.[14]

- **Hardest Hit Areas**: Menu Item 2.B.1 permits the Bank to receive credit for new mortgage loans originated in Hardest Hit Areas. These areas include the following 18 states and the District of Columbia: Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. The Monitor has limited credit under the Hardest Hit Areas prong to new mortgage loans used to purchase primary or secondary residences (including primary residences with up to four units, provided the

[14] Fannie Mae generally requires a credit score of between 620 and 700 depending on the number of units (1 to 4), the Loan-to-Value ("LTV") ratio, the borrower's debt-to-income ratio, and whether the interest rate is fixed or adjustable. *See* Fannie Mae, *Eligibility Matrix* (July 25, 2017), available at https://www.fanniemae.com/content/eligibility_information/eligibility-matrix.pdf. In determining risk, Fannie Mae also considers factors such as the length of a borrower's credit history, payment history, availability of credit, and cash reserves. *See* Fannie Mae, *Selling Guide,* Section B3-2-03: Risk Factors Evaluated by DU (Oct. 31, 2017), available at https://www.fanniemae.com/content/guide/selling/b3/2/03.html. FHA loans tend to be more flexible, generally requiring a minimum credit score of 500, with a 90% LTV financing limit for borrowers with credit scores between 500 and 579. *See* HUD, *FHA Single Family Housing Policy Handbook 4000.1*, Section II.A.2.b.i: LTV Limitations Based on Borrower's Credit Score (Dec. 30, 2016), available at https://www.hud.gov/sites/documents/40001HSGH.PDF. VA loans typically do not require a minimum credit score, or a maximum debt-to-income ratio; lenders must review the borrower's complete loan profile to arrive at a credit decision. *See* U.S. Department of Veterans Affairs, *VA Guaranteed Loan Fact Sheet* (March 2017), available at https://www.benefits.va.gov/benefits/factsheets/homeloans/va_guaranteed_home_loans.pdf.

borrower resides in one of them).[15] Allowing credit for such loans aligns with the Settlement Agreement's focus on encouraging lending that stimulates real estate activity in Hardest Hit Areas, and in a way that addresses the risk that a borrower will use funds to purchase investment properties that may sit vacant or otherwise suffer from neglect to the detriment of the building's tenants or the community in general.

- **First-time Homebuyer**: The Monitor has interpreted the term "first-time" homebuyer in Menu Item 2.B.3 consistent with the definition of first-time homebuyer in U.S. Department of Housing and Urban Development ("HUD") and Internal Revenue Service guidance: an individual who has not owned a primary residence during the three-year period prior to purchase of a home.[16] This interpretation ensures that the broadest possible class of borrowers is able to receive relief under this Menu Item. The Monitor has determined it is appropriate to limit credit under this Menu Item to loans provided to borrowers for a primary residence (including those with up to four units, provided the borrower resides in one of them).[17] The Monitor has also determined that this Menu Item permits situations where a first-time homebuyer purchases a home with a co-borrower who is not a first-time homebuyer, provided that the combined income of the borrowers qualifies as LMI and the loan is for the purchase of the first-time homebuyer's primary residence.

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[15] This would include, for example, the purchase of a four unit townhome, in which the borrower resides in one unit, and rents out the other three units.

[16] For example, HUD guidance defines a first-time homebuyer as "An individual who has had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This includes a spouse (if either meets the above test, they are considered first-time homebuyers)." HUD HOC Reference Guide, First-Time Homebuyers, Ch. 3-02 (archived Nov. 7, 2012), available at https://archives.hud.gov/offices/hsg/sfh/ref/sfhp3-02.cfm. The IRS also has applied a three-year timeframe for evaluating certain first-time homebuyer tax credits. *See* IRS, First-Time Homebuyer Credit Questions and Answers: Basic Information (updated Aug. 6, 2017), available at https://www.irs.gov/newsroom/first-time-homebuyer-credit-questions-and-answers-basic-information.

[17] By definition, a first-time homebuyer would not be purchasing a secondary residence.

The IRG Process and Testing Methodologies for the Shellpoint Loans

The following testing protocols were followed in connection with the submission of the first 100 loans to the Monitor:

1. The Bank's CRG selected 100 loans from the population of Shellpoint loans it deemed eligible for consumer relief credit. The CRG submitted the 100 mortgage loans to the Bank's IRG.

2. The IRG, with assistance from the Bank's outside consultant, BDO USA, LLP, tested and confirmed the eligibility of each of the 100 mortgage loans for consumer relief credit. The IRG also confirmed the amount of requested credit for each loan. This testing was conducted pursuant to a set of definitions, process flows, and testing scripts approved by the Monitor.

3. The IRG issued a certification titled the "IRG Assertion" to the Monitor attesting that the IRG had independently reviewed the Bank's submission for credit and determined that all of the submitted loans conformed to the requirements of the Settlement Agreement. The IRG Assertion specified the consumer relief for which Deutsche Bank sought credit; described the IRG's review of that relief; and certified that the submission and outcome of the IRG review were based on a complete and accurate performance by the IRG of the agreed-upon test scripts, process flows, and definitions, including any applicable population testing as agreed to by the Monitor.

4. The IRG's testing included procedures to validate that the loans submitted for credit had served as collateral for financing arrangements provided by Deutsche Bank, as the Settlement Agreement requires. Pursuant to those procedures, the IRG accessed a website that contained a listing maintained by Wells Fargo, called the Daily Positions Report, containing all Shellpoint-originated loans being financed by Deutsche Bank for which Wells Fargo was the collateral agent. The IRG confirmed that all of the loans contained in the submission of the 100 loans were on the list and maintained a copy of the listing of those loans in its work papers.

5. The IRG validated, as required by the Settlement Agreement, that Shellpoint was not subject to an ongoing Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") settlement involving a consumer relief schedule with the Department of Justice. The Consumer Relief Annex permits Deutsche Bank reasonably to rely on representations of the third-party originator or servicer, in this case Shellpoint, "that it is not eligible to claim such credits and is not providing the required reporting to other investors in making this determination." As a result, to validate that Shellpoint complied with the provisions of the Annex, the IRG reviewed a provision in the contract between Deutsche Bank and Shellpoint in which Shellpoint represents that it is not eligible to claim credits and was not providing the required reporting to

any other party subject to an ongoing FIRREA settlement involving consumer relief with the Department of Justice.

6. Last, the IRG reported to the Monitor that Deutsche Bank was entitled to the $1,150,000 in credit it claimed to have earned for the 100 loans it submitted (100 loans x $10,000 per loan x 115% early incentive credit).

The Monitor's Review and Validation of the Initial Shellpoint Submission

At the Monitor's direction, Control Risks conducted an extensive review and re-testing of the 100 loans. During this retesting, Control Risks followed the agreed-upon process set forth in the test script for Menu Item 2.B.

As part of Deutsche Bank's submission to the Monitor, the Bank provided Control Risks access to a table of agreed-upon data elements regarding various characteristics of each loan, including data relating to the borrower (e.g., monthly income), the property (e.g., primary residence), and the terms of the mortgage loan (e.g., interest rate). The Bank also provided Control Risks access to the results of the IRG testing. To carry out its testing, Control Risks had secure remote access to certain supporting documentation and evidence for each loan relied upon by the IRG for its testing (such as the borrower's loan application).

Control Risks determined that all 100 loans submitted for credit under Menu Items 2.B.1 and 2.B.3 satisfied the Consumer Relief Annex's eligibility requirements. In addition, Control Risks confirmed that Deutsche Bank had correctly calculated the dollar amount of credit it earned from each loan origination and that, because all 100 loans were completed before September 1, 2018, the Bank could receive Early Incentive Credit.

Last, Control Risks reviewed the procedures and evidence through which the IRG certified that (1) the loans that were submitted for credit had served as collateral for financing arrangements provided by Deutsche Bank; and (2) Shellpoint was not subject to an ongoing FIRREA settlement involving a consumer relief schedule with the Department of Justice. Control Risks determined that this evidence supported the IRG's conclusions that these requirements were met.

Characteristics of the First 100 Loan Submissions

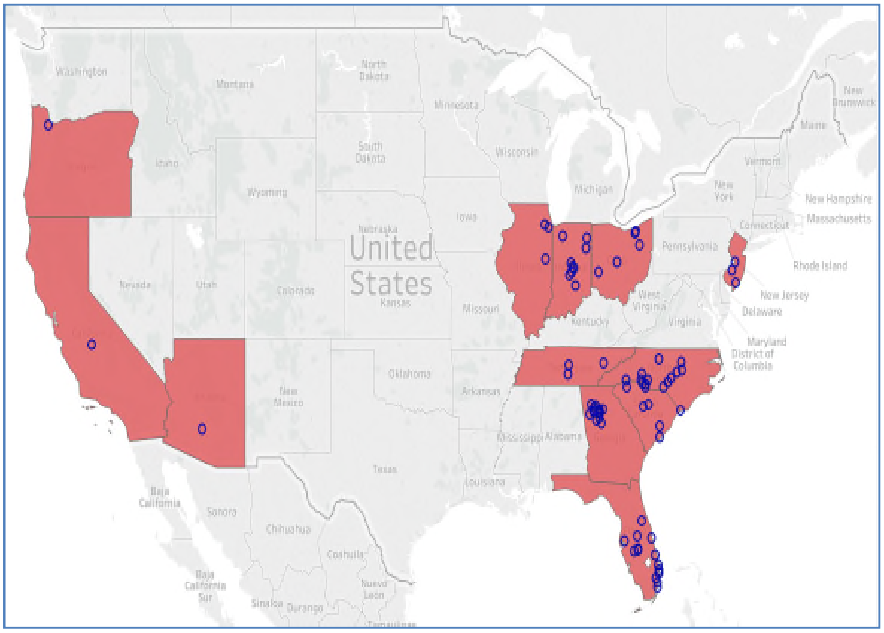
Overall, the first 100 new loans submitted by the Bank for credit had an average unpaid principal balance ("UPB") of $173,929. The average UPB for loans submitted for credit pursuant to Menu Item 2.B.3 (first-time LMI homebuyers) was slightly higher ($195,500) than that of the loans submitted for credit pursuant to Menu Item 2.B.1 (Hardest Hit Areas) ($170,122).

The annualized borrowers' income for loans submitted for credit pursuant to Menu Item 2.B.1 (Hardest Hit Areas) was, on average, 11 percent higher than the Average

Median Income ("AMI") for the respective area, while the annualized borrower income for loans submitted for credit pursuant to Menu Item 2.B.3 (first-time LMI homebuyers) was, on average, 41 percent lower than the AMI for the respective area. This is not surprising, given Menu Item 2.B.1's focus on revitalization of Hardest Hit Areas and 2.B.3's focus on individual LMI borrowers.

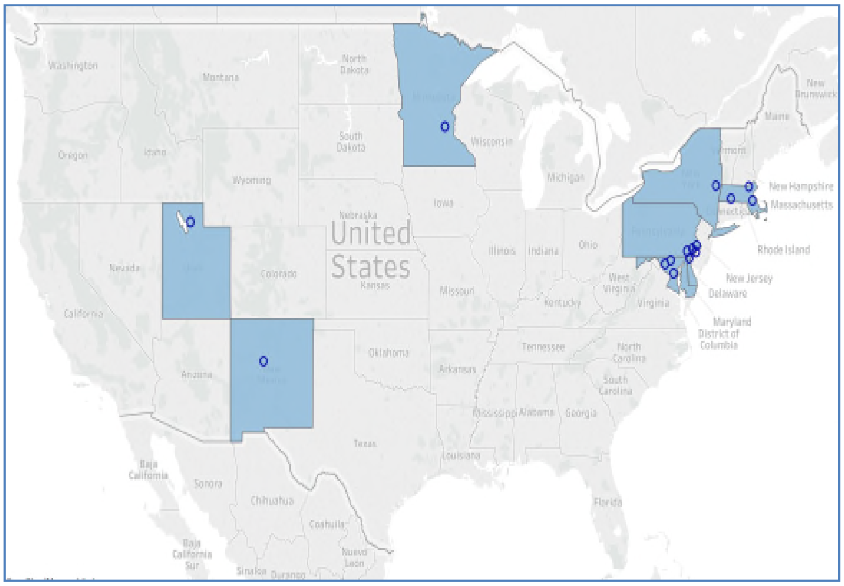
The loans submitted for credit pursuant to Menu Item 2.B.1 were originated in twelve states, with 59 (or 69% of the total loans submitted under 2.B.1) of the loans originated in Florida, Georgia, North Carolina, and Indiana:

State	Loans
Florida	19
Georgia	15
North Carolina	13
Indiana	12
South Carolina	8
Ohio	5
Tennessee	4
Illinois	3
New Jersey	3
Arizona	1
California	1
Oregon	1
Total	**85**



The loans submitted pursuant to Menu Item 2.B.3 were originated in eight states, with ten (or 67% of the total loans submitted under 2.B.3) originated in Pennsylvania, Massachusetts, and Maryland:

State	Loans
Pennsylvania	4
Massachusetts	3
Maryland	3
Delaware	1
Minnesota	1
New Mexico	1
New York	1
Utah	1
Total	**15**



Results of the Monitor's Compliance Review of Shellpoint Loans

The Monitor performed compliance reviews on a sample of loan files from the 100 loans submitted for credit. The loans that were reviewed passed the Monitor's testing. Consequently, Deutsche Bank may continue to have the Monitor's consent to its financing arrangement with Shellpoint.

The Monitor therefore confirms Deutsche Bank's claim to have earned consumer relief credit in the amount of $1,150,000 in relation to those loans (subject to the ECOA and FHA reviews, discussed above).

UPDATE ON DEUTSCHE BANK'S CONSUMER OUTREACH EVENTS

The Settlement Agreement requires Deutsche Bank to hold or sponsor (e.g., provide financing for) three consumer outreach events each year in geographically dispersed locations. The Bank decided to partner with two national nonprofit organizations, the Homeownership Preservation Foundation ("HPF") and the National Housing Resource Center ("NHRC"), to help the Bank organize its first two consumer outreach events. The Bank held its first event, with HPF, on October 21, 2017, in Detroit, Michigan, and held its second event, with NHRC, on November 11, 2017, in Chicago, Illinois. The Monitor will discuss these outreach events in more detail in his next report.

Deutsche Bank is working to schedule additional events and the Monitor will provide a schedule of such events (as available) in future reports and on the Monitor's website at http://deutschebankmortgagemonitor.com.

CONCLUSION AND TIMELINE

In the coming months, the Monitor expects Deutsche Bank to submit additional requests for credit for loan originations, and potentially for other forms of relief authorized under the Settlement Agreement, such as loan modifications under Menu Item 1. The Monitor will continue to oversee this process and report on Deutsche Bank's progress toward fulfilling its obligation to provide $4.1 billion in consumer relief to consumers.

Menu Item	Relief Submitted for Credit July 2017 – November 2017	Credit Earned July 2017 – November 2017	Total Credit as of this Report
No. 1 Loan Modification, Forgiveness, and Forbearance	None	$0	$0
No. 2.B. Loan Originations	100 loans	$1,150,000	$1,150,000
No. 3 Community Reinvestment	None	$0	$0
No. 4 Financing for Affordable Rental Housing	None	$0	$0
Totals		**$1,150,000**	**$1,150,000**

The Monitor's next report is expected to be published in January 2018. If you have questions about this report, please contact the Monitor at:

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