

MONITOR

*of the 2017 Deutsche Bank
Mortgage Settlement*



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INTRODUCTION

This is the third 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”). As explained in the Monitor’s first two reports, 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 report the Monitor discusses the Bank’s most recent submission for credit and the results of his review. In particular, on November 28, 2017, the Bank’s Internal Review Group (“IRG”) submitted 1,977 newly-originated loans to the Monitor for credit under Menu Item 2.B. The Monitor, with the help of his consultant Control Risks Group LLC (“Control Risks”), reviewed these loans and verified that they meet the requirements of the Agreement, and further qualify for early incentive credit, as described in previous reports. Accordingly, the Monitor has validated that the Bank is entitled to **\$22,735,500** in consumer relief credit for this recent submission, and cumulative credit to date in the amount of **\$23,885,500**. The Monitor describes this relief in more detail below.

Further, the Monitor addresses Deutsche Bank’s continuing efforts to identify opportunities with counterparties through which it can provide consumer relief. As previously discussed, Deutsche Bank has entered into a financing arrangement to originate loans pursuant to Menu Item 2 with Shellpoint Partners LLC, through its subsidiary New Penn Financial, LLC, and other affiliates (collectively, “Shellpoint”).²

¹ Deutsche Bank also entered into a separate agreement with the Office of the Maryland Attorney General requiring the Bank to provide at least \$80 million of consumer relief to Maryland residents. Michael Bresnick was appointed to serve as Monitor of Deutsche Bank pursuant to that agreement as well.

² The Monitor’s Second Report provided information about the Monitor’s due diligence of Shellpoint and his consent for the Bank to finance Shellpoint-originated loans under the Settlement Agreement. The Monitor’s Second Report also described a November 29, 2017 definitive agreement for New Residential Investment Corp. (NYSE:NRZ) to acquire Shellpoint. On February 13, 2018, New Residential provided an update on the transaction:

As part of the acquisition, New Residential purchased and settled on approximately \$8 billion UPB [unpaid principal balance] of Fannie Mae and Freddie Mac MSRs [mortgage servicing rights] from Shellpoint in January 2018. The corporate acquisition is expected to close in the first half of 2018, subject to receipt of regulatory approvals and certain third party consents and satisfaction of certain other closing conditions.

Since the Monitor's last report, the Bank has entered into similar financing arrangements with: (1) PennyMac Loan Services, LLC and PennyMac Mortgage Corporation (collectively, "PennyMac");³ (2) AmeriHome Mortgage Company, LLC ("AmeriHome"); and (3) Freedom Mortgage Corporation ("Freedom").⁴ As detailed below, the Monitor performed substantial due diligence on these new counterparties and provided consent for the Bank to finance loan originations with them. Consequently, the consumer relief the Bank is offering through these counterparties currently is entitled to the so-called "safe harbor" protection of the Settlement Agreement, which was discussed in detail in the Monitor's First and Second Reports.

Last, the Bank has hosted two consumer outreach events: one on October 21, 2017, in Detroit, Michigan, and the other on November 11, 2017, in Chicago, Illinois. The Monitor addresses these events in detail later in this report.

The Bank's overall performance to date has been encouraging. As explained in prior reports, the Bank is in a unique situation, having to provide \$4.1 billion of relief to consumers despite not having any customers of its own to whom it can offer relief directly.⁵ Though this can make the Bank's job more difficult than other banks that have settled with DOJ for similar conduct, the Monitor has observed that the Bank has been thorough and methodical in its approach. Although the Bank's total cumulative credit to date has been modest, the process of identifying appropriate counterparties, performing robust due diligence, executing formal financing arrangements, and allowing the counterparties sufficient opportunity to originate

New Residential Investment Corp. Press Release, New Residential Announces Fourth Quarter & Full Year 2017 Results (Feb. 13, 2018), available at <http://ir.newresi.com/file.aspx?IID=4347089&FID=392163286>. The Monitor has discussed the transaction with executives from Shellpoint and New Residential, and no material changes are expected regarding the origination and servicing operations the Monitor evaluated during the due diligence process. The Monitor will continue to track the transaction and any effect it may have on Deutsche Bank's arrangement with Shellpoint to provide consumer relief under the Bank's Settlement Agreement.

³ The Monitor's Second Report noted that the Bank had entered into an agreement with "Counterparty 2" to originate residential mortgage loans. The Monitor has completed his diligence, described below, and now can report that Counterparty 2 is PennyMac.

⁴ The Settlement Agreement authorizes Deutsche Bank to earn credit by financing counterparties to modify or originate loans in accordance with the Settlement Agreement's requirements. This provision of the Settlement Agreement is 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>.

⁵ In many of the other, similar residential mortgage-backed security settlements, the settling institutions or their subsidiaries have mortgage originating or servicing businesses, allowing them to provide relief directly to their customers.

loans under their financing lines with the Bank takes time. The Monitor expects the total cumulative credit to increase substantially in 2018 as the Bank continues to enter into and explore agreements with additional loan originators, investors, and other entities, including those that will be able to offer loan modifications under Menu Item 1, such as principal forgiveness, forbearance, and forgiveness of forbearance. The Monitor will continue to discuss these developments and the Bank's overall progress in future reports.

SUMMARY OF THE COUNTERPARTY DUE DILIGENCE

As described in the Second Report, the Monitor has developed a due diligence process to evaluate the Bank's arrangements with proposed counterparties and to inform the Monitor's decision regarding whether to consent to the Bank's arrangements pursuant to the Settlement Agreement.

The Monitor's due diligence process includes conducting multiple on-site interviews with the counterparty's management and operations teams and reviewing the counterparty's relevant policies and procedures, as well as other documents such as marketing materials and sample borrower communications. The Monitor also considers the prospective counterparty's regulatory or law enforcement history with state or federal agencies, and various other reports about consumer protection-related issues. The Monitor followed this process to evaluate PennyMac's, AmeriHome's, and Freedom's origination and loan servicing operations.

In all cases, the Monitor's diligence of Deutsche Bank's counterparties is limited to publicly available information or information made available by the counterparties through Deutsche Bank. 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 of any counterparty, 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.

Overview of Deutsche Bank's Transactions with PennyMac, AmeriHome, and Freedom

In August and November 2017, and in February 2018, Deutsche Bank entered into financing arrangements with non-bank mortgage loan originators PennyMac, AmeriHome, and Freedom, respectively, 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, low-to-moderate-income ("LMI") homebuyers. PennyMac is headquartered in Westlake Village, California. AmeriHome is headquartered in Woodland Hills, California. Freedom's headquarters are in Mount Laurel, New Jersey. The Monitor has provided his consent to Deutsche Bank's arrangements with these counterparties.

The Monitor previously described the Master Repurchase Agreement (“MRA”) Deutsche Bank entered into with Shellpoint to finance mortgage originations.⁶ The Bank has entered into similar agreements with PennyMac, AmeriHome, and Freedom, each of which will act as the mortgage lender under an MRA with Deutsche Bank. And, as with the Bank’s arrangement with Shellpoint, each of these MRAs requires the Bank to provide an incentive payment to its counterparties, which, in turn, encourages them to provide relief to the specific categories of borrowers identified in the Settlement Agreement. In other words, the Monitor anticipates that the Bank’s agreements with these counterparties may result in more loans originated to borrowers in need and in Hardest Hit Areas than would have been originated in the ordinary course of business.

PennyMac’s, AmeriHome’s, and Freedom’s Correspondent Lending Channels

PennyMac, AmeriHome, and Freedom originate loans through multiple channels,⁷ though each relies primarily on a correspondent lending structure. For example, approximately 90 percent of PennyMac’s originations are generated through its large network of more than 600 correspondent lenders.⁸ PennyMac has reported that it is the second-largest correspondent mortgage producer in the United States.⁹ AmeriHome reports that it maintains the United States’ fourth largest correspondent lender network, with relationships with approximately 400 correspondent lenders.

⁶ See Monitor’s Second Report, *available at* <https://deutschebankmortgagemonitor.com/wp-content/uploads/2017/11/Second-Monitor-Report-November-2017.pdf>. 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.

⁷ For example, the lenders may rely on brokers to take loan applications from borrowers, but the lenders underwrite and fund the brokered loans at settlement. Or, the lenders may engage direct lending, where the lenders work directly with borrowers and originate, underwrite, and fund the loans themselves.

⁸ See PennyMac Financial Services, Inc., Third Quarter Earnings Report, at 14 (Nov. 2, 2017) (“Continued to add seller relationships, which totaled 604 at quarter end”), *available at* <http://ir.pennymacfinancial.com>. PennyMac also has a Consumer Direct lending channel, which, in large part, focuses on refinancing existing mortgages serviced by PennyMac, and which uses its call centers to communicate with borrowers about these programs.

⁹ PennyMac Presentation, Barclays Global Financial Services Conference, at 7 (September 11, 2017), *available at* <http://ir.pennymacfinancial.com>.

Freedom, like PennyMac and AmeriHome, utilizes an extensive correspondent network of approximately 500 lenders for its mortgage originations.

A correspondent origination is one in which a mortgage loan is originated and funded by a lender in its own name and subsequently sold pursuant to an existing agreement to a second, typically larger, lender, which either holds the loan on its books, resells the loan in the secondary market, or packages the loan for sale in a security. In other words, a correspondent lender typically is responsible for tasks such as processing a borrower's application, ordering and reviewing credit reports, appraisals, and title reports, confirming the borrower's employment and salary information, and ultimately funding the loan to the borrower.¹⁰ A correspondent lender with "delegated" underwriting authority has been authorized by a loan purchaser to underwrite the mortgage loan itself, meaning that the correspondent lender determines whether to lend a borrower money to purchase a home. A correspondent lender with "non-delegated" underwriting authority, on the other hand, has not received delegated underwriting authority from a mortgage loan seller and, accordingly, does not underwrite the loan. Non-delegated loans typically are underwritten by the entity that purchases the loan; the correspondent lender, however, typically funds the loan.

As part of the due diligence process, the Monitor evaluated PennyMac's, AmeriHome's, and Freedom's own underwriting standards and processes, as well as their oversight of their correspondent networks and quality control of the loans they acquire from their correspondent lenders. Each of these companies has implemented a thorough review process for their correspondent lenders, and each performs multi-layered underwriting and compliance reviews of the loans they purchase from those correspondent lenders, the correspondent lenders' performance history with investors like Fannie Mae and Freddie Mac, their policies and procedures, and their owners and leadership.

The Monitor has determined that each of these counterparties has robust compliance and monitoring controls in place to mitigate the risk that their correspondent lenders will engage in loan origination practices harmful to consumers. Further, because they sell loans to Fannie Mae and Freddie Mac, and originate FHA-insured ("HUD") loans, they are subject to audits by those entities, as well as by state and federal regulators, providing additional layers of compliance review and oversight.¹¹

¹⁰ Fannie Mae Selling Guide, Glossary, "Correspondent Origination" (December 19, 2017), available at <https://www.fanniemae.com/content/guide/selling/e/3/glossary.html>

¹¹ In its 2016 10-K filing, which is publicly available on the SEC's EDGAR website, PennyMac reported: "During 2016, our loan origination and servicing operations were reviewed by Fannie Mae, Freddie Mac, Ginnie Mae, FHA, the FDIC and by other state and federal regulators. There were no significant findings or allegations of violations of law from any of these reviews." PennyMac Financial Services, Inc., Form 10-K as of December 31, 2016, at

PennyMac’s and AmeriHome’s Connection to Countrywide Financial Corporation

In the aftermath of the Financial Crisis, many state and federal regulators and law enforcement authorities, as well as several committees of the United States Congress, conducted inquiries and investigations into its causes. Their collective spotlight illuminated the acts and practices of various individuals and entities, including the financial institutions that originated subprime and Alt-A mortgage loans and that packaged and sold residential mortgage-backed securities containing these loans. Among mortgage loan originators, however, the light may have shone brightest on the origination practices of Countrywide Financial Corporation and its affiliates (collectively “Countrywide”), its Chairman of the Board, and other senior executives.

Countrywide’s lending practices, which focused on subprime loan originations, spawned numerous investigations, lawsuits, and settlements. In May 2014, for example, Countrywide’s successor, Bank of America, paid \$9.3 billion to settle a civil lawsuit brought by the Federal Housing Finance Agency (“FHFA,” the conservator for Fannie Mae and Freddie Mac) against Countrywide affiliates and individuals, relating to allegations that Countrywide made misrepresentations about the mortgage-backed securities it had sold to Fannie Mae and Freddie Mac. The Department of Justice entered into a separate \$16.65 billion civil settlement with Bank of America relating to allegations about Countrywide’s mortgage origination and secondary market activities.¹²

In light of this history, the Monitor noted with careful consideration that several of PennyMac’s and AmeriHome’s current senior executives formerly held leadership roles at Countrywide.¹³ In some cases, these executives were named as defendants in

10 (filed with Securities Exchange Commission, March 2017). Similarly, the Monitor’s own due diligence did not reveal any significant findings or violations of law.

¹² See, e.g., Department of Justice Press Release, Bank of America to Pay \$16.65 Billion in Historic Justice Department Settlement for Financial Fraud Leading up to and During the Financial Crisis (Aug. 21, 2014), available at <https://www.justice.gov/opa/pr/bank-america-pay-1665-billion-historic-justice-department-settlement-financial-fraud-leading>.

¹³ PennyMac itself has acknowledged publicly that there are risks associated with the connection between several of its executives and Countrywide. See PennyMac Financial Services, Inc., Form 10-K as of December 31, 2013, at 31 (filed with Securities Exchange Commission, March 2014); see also PennyMac Financial Services, Inc., Form 10-K as of December 31, 2015, at 27 (filed with Securities Exchange Commission, March 2015) (“Certain of our executive officers are former executive officers and senior managers of Countrywide Financial Corporation, which has been the subject of various investigations and lawsuits and ongoing negative publicity.”).

a government lawsuit. In others, they were identified by title in a statement of facts describing a financial institution's unlawful conduct.

As part of the Monitor's due diligence of these connections, he interviewed executives and other members of PennyMac's and AmeriHome's senior leadership (including several executives named in a government lawsuit) to gain reasonable assurance that they follow appropriate policies and procedures designed to prevent a repeat of the type of conduct in which Countrywide is alleged to have engaged. Based on this due diligence, the Monitor is satisfied that any prior connection to the troubled non-bank mortgage originator has limited bearing on the current practices of these two entities. This conclusion is buttressed by the absence of any significant regulatory problems in their admittedly brief history. Further, they have not been barred from selling their loans to Fannie Mae and Freddie Mac or from participating in HUD's FHA insurance program, and they were able to obtain and maintain all licenses required by state regulators to originate loans in their respective areas of operation.

Review of Counterparty Servicing Operations

As part of the review process, the Monitor examined each counterparty's servicing operation. PennyMac and Freedom service their loans themselves. As with their origination operations, PennyMac and Freedom maintain an extensive CMS¹⁴ in their servicing operations to provide quality control assurance. PennyMac performs rigorous monthly testing to ensure that its servicing operations are acting in compliance with applicable laws. Freedom's servicing operations are new, relative to its origination operations (Freedom previously relied on third parties to service its mortgages and began transitioning to its own platform mid-2014). Freedom has strengthened, and continues to strengthen, its servicing CMS, and it has augmented its compliance team to include professionals that specialize in servicing compliance.

AmeriHome, rather than servicing its mortgages in-house, relies upon mortgage subservicers,¹⁵ Cenlar FSB and LoanCare, to service its loans. AmeriHome has

¹⁴ CMS is the commonly-used abbreviation for a servicer's compliance management system, the overall framework established by a servicer to implement and manage its compliance program. A CMS typically sets management's expectations for compliance and establishes the various policies and procedures, training, monitoring, and consumer complaint response processes that form the basis of the servicer's compliance with applicable laws and regulations.

¹⁵ It is not uncommon for parties that own the rights to service mortgage loans to contract with subservicers to carry out loan servicing responsibilities. As the Consumer Financial Protection Bureau has explained:

A mortgage servicer, among other things, collects and processes loan payments on behalf of the owner of the mortgage note. Servicing transfers are common and may occur in several ways. The mortgage owner may sell the rights to service the loan, called the Mortgage Servicing Rights (MSR), separately from the note ownership.

indicated, however, that it expects all of the loans originated with Deutsche Bank financing to be serviced with Cenlar. Since, as explained in the Second Report, the Monitor determined that it is critical to review the servicing practices of each of the Bank's counterparties, the Monitor reviewed the servicing of AmeriHome's loans even though AmeriHome has hired a subservicer to service its loans. Accordingly, the Monitor reviewed documents and conducted interviews of key executives from the subservicer Cenlar, which, the Monitor is pleased to report, complied fully with the Monitor's requests even though Cenlar is two levels removed from Deutsche Bank and the Settlement Agreement.¹⁶

The Monitor's due diligence of Cenlar provides him with reasonable assurance that Cenlar's CMS and loan servicing practices are robust and compliant with relevant consumer protection laws and regulations. Notably, Cenlar is a federal savings bank that is directly supervised by the Office of the Comptroller of the Currency ("OCC"); and although Cenlar's size (it holds less than \$10 billion in assets) does not place it within the Consumer Financial Protection Bureau's (CFPB) direct supervision, many of Cenlar's clients, including AmeriHome, are supervised by the CFPB and state regulators. Thus, Cenlar's servicing is examined, albeit indirectly, through the Bureau's examinations of Cenlar's clients. The Monitor can be reasonably assured, therefore, that borrowers who receive mortgage loans from AmeriHome pursuant to the Bank's financing arrangement will be treated in accordance with relevant consumer protection laws and regulations throughout the process.

Freedom's Regulatory Actions

Financial institutions are highly regulated. Consequently, it is not uncommon – especially as a result of increased scrutiny following the Financial Crisis – for such institutions to experience regulatory compliance-related issues. These issues might include settlements with government agencies and other law enforcement actions resulting from improper conduct. It is not surprising, then, that some of the entities the Bank has identified as potential counterparties, at one time or another, have been the subject of a governmental action relating to alleged misconduct. In conducting his diligence of these counterparties, the Monitor has reviewed the conduct alleged in

The owner of the loan or MSR may, rather than servicing the loan itself, hire a vendor – typically called a subservicer – to take on the servicing duties. MSR owners frequently sell MSR outright as an asset.

CFPB, Compliance Bulletin and Policy Guidance: Mortgage Servicing Transfers, Bulletin 2014-01, at 2 (Aug. 19, 2014).

¹⁶ If the counterparty is one level removed, then the counterparty's subservicer would be two levels removed.

many of these actions, the dates they occurred, and the remediation efforts, if any, the specific entity undertook to ensure that similar violations would not re-occur.

The Monitor's due diligence of Freedom, in particular, included extensive discussions with the Bank and Freedom about several relatively recent developments, including:

- On April 15, 2016, Freedom entered into a settlement with the U.S. Department of Justice, paying \$113 million to resolve False Claims Act allegations that “[b]etween Jan. 1, 2006, and Dec. 31, 2011, it falsely certified mortgage loans for FHA insurance that did not meet HUD underwriting requirements and were therefore not eligible for FHA mortgage insurance.”¹⁷ The alleged violations, which focused on conduct that ended more than six years ago, resulted from Freedom's failure to report early payment defaults to HUD while falsely certifying that it had.¹⁸ These are serious allegations, to be sure. Nevertheless, the fact that they were related to older conduct and that the Monitor's diligence demonstrated that Freedom subsequently implemented stricter processes and oversight to improve its quality control reporting to HUD was sufficient to give the Monitor comfort that this settlement, though significant, should not itself preclude the Bank from pursuing a financing arrangement with Freedom. Further, as noted above, HUD continues to allow Freedom to originate FHA-insured loans.
- Freedom also has been the subject of several enforcement actions by state regulators.¹⁹ For example, in September 2016, Freedom paid a \$2 million fine to the Massachusetts Division of Banking. Its agreement with the Massachusetts regulator required Freedom to assess its compliance, in particular, with borrower verification and due diligence procedures, as well as to put in place proper controls to ensure that certain charges and fees are not imposed in violation of Massachusetts law, that all of its originators are properly licensed, and that Massachusetts disclosure requirements are satisfied. Freedom has invested substantial resources to address these issues

¹⁷ U.S. Department of Justice, Freedom Mortgage Corp. Agrees To Pay \$113 Million To Resolve Alleged False Claims Act Liability Arising From FHA-Insured Mortgage Lending (April 15, 2016), *available at* <https://www.justice.gov/usao-nj/pr/freedom-mortgage-corp-agrees-pay-113-million-resolve-alleged-false-claims-act-liability>

¹⁸ “Early Payment Default” relates to FHA mortgage loans that become “60 days delinquent within the first six payments.” U.S. Department of Justice, Attachment A to Freedom Settlement Agreement, Par. 4, *available at* <https://www.justice.gov/usao-nj/file/866721/download>.

¹⁹ Information about Freedom's state actions is publicly available and can be reviewed through the NMLS Consumer Access web portal, *available at* <http://www.nmlsconsumeraccess.org/EntityDetails.aspx/COMPANY/2767>.

through the expansion of its compliance team – including by hiring seasoned professionals to assume senior compliance positions – and improving its compliance controls and testing processes.

- In November 2017, it was reported that Freedom paid a fine for allegedly violating a Ginnie Mae rule governing certain loan securitizations, which requires loans made through the Veterans Administration (“VA”) “streamline” refinance program to be at least six months old before they are refinanced and pooled into a Ginnie Mae security.²⁰ In addition, news outlets reported in February 2018 that Freedom is one of nine lenders that received letters from Ginnie Mae warning that they are at risk of having their VA refinance loans excluded from Ginnie Mae’s traditional mortgaged-backed securities.²¹ The reporting associated with the Ginnie Mae fine and warning has involved a broader, separate discussion of potential “churning” in the industry – the practice of quickly refinancing loans, multiple times, to the detriment of the veteran-borrower. A significant concern with a lender engaged in churning, from a consumer protection perspective, is that a lender may encourage a veteran to refinance his or her loan soon after having obtained a new loan or refinanced an older one in order to benefit from the costs the borrower pays to refinance. The Monitor’s diligence into this issue revealed that Freedom applies a “tangible benefit” test to ensure that veterans are benefitting from

²⁰ See Lorraine Woellert, *As lenders targeted veterans with risky mortgages, VA failed to act*, Politico.com (Nov. 11, 2017), available at <https://www.politico.com/story/2017/11/10/veterans-risky-mortgages-va-244767>; see also Christina Rexrode, *Mortgage Firms ‘Churning’ Refinance Loans to Veterans*, Wall Street Journal (Sept. 27, 2017). On December 7, 2017, Ginnie Mae issued an All Participant Memorandum directed at addressing “activities that result in unduly rapid prepayments to investors in Ginnie Mae mortgage-backed securities.” Ginnie Mae, APM 17-06: Pooling Eligibility for Refinance Loans and Monitoring of Prepay Activity (Dec. 7, 2017), available at https://www.ginniemae.gov/issuers/program_guidelines/Pages/mbsguideapmslibdisppage.aspx?ParamID=82.

²¹ See Joe Light, *U.S. Threatens to Dump Lenders From Veterans Loan Program*, Bloomberg (Feb. 8, 2018), available at <https://www.bloomberg.com/news/articles/2018-02-08/u-s-threatens-to-dump-lenders-from-veterans-mortgage-program>; see also Ginnie Mae Press Release, *Ginnie Mae Notifies Select Market Participants to Take Corrective Action to Control ‘Churning’* (Feb. 8, 2018) (“Issuers who have been notified are expected to deliver a corrective action plan that identifies immediate strategies to bring prepayment speeds in line with market peers. In the event issuers are unable to demonstrate a path to improved performance, said issuers risk being restricted from access to Ginnie Mae multi-issuer pools. Thereafter, those issuers may only have access to Ginnie Mae custom pools.”), available at <https://www.ginniemae.gov/newsroom/Pages/PressReleaseDispPage.aspx?ParamID=129> (hereinafter “Ginnie Mae Feb. 8 Press Release”).

refinancings.²² Further, Freedom has imposed a rule, in conformity with Ginnie Mae’s revised program requirements, requiring at least six months to elapse before a borrower will be eligible for a VA refinance.²³ Last, under most circumstances, Freedom does not require VA borrowers to pay closing costs associated with refinancings, reducing a significant consumer protection concern.

The Monitor, therefore, received reasonable assurance that Freedom has implemented policies, procedures, and processes to prevent the reoccurrence of issues like the ones noted above. Nonetheless, the Monitor believes it is prudent to supplement the “compliance review” process, described in the Monitor’s Second Report, with an enhanced compliance review process specific to Freedom. The enhanced process includes reviewing a larger sample of mortgage loan files for compliance with key laws and regulations governing originations, as well as examining them for indicia of other potentially unlawful activity. For example, to address the allegations in the DOJ’s False Claims Act settlement, the Monitor will seek to review additional Freedom loans if Deutsche Bank receives credit for a loan that subsequently experiences an early payment default or generates a notice of error or request for information. And, to address potential concerns with churning refinancings for veterans, the enhanced review contemplates examining all loan files – rather than merely a sample – for VA refinancings, to the extent Deutsche Bank seeks to submit these transactions for consumer relief credit.

In light of Freedom’s demonstrated efforts to improve upon its compliance processes, its prompt responsiveness to the Monitor’s requests for information and interviews, including by providing additional information and interviews to address the Monitor’s specific questions about the settlements and concerns noted above, and the implementation of an enhanced compliance review, the Monitor agreed to provide his consent to Deutsche Bank’s financing arrangement with Freedom under the safe harbor provision.

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 Monitor has determined that, for purposes of sponsoring consumer outreach events, each one-year period spans April 1 through March 31, with the first

²² A tangible benefit test aims to ensure that a refinancing provides “a sufficient, countervailing net economic benefit to the homeowner.” Ginnie Mae Feb. 8 Press Release, *supra*. “The idea with such a requirement would be to ensure that the benefit to the borrower is greater than any incremental costs associated with the refinancing terms.” *Id.*

²³ The Monitor’s diligence further revealed the Freedom currently is evaluating additional steps to address potential concerns about churning.

year spanning April 1, 2017 (the start date of crediting under Annex 2), through March 31, 2018. To date, the Bank has partnered with two national nonprofit organizations, the Homeownership Preservation Foundation (“HPF”)²⁴ and the National Housing Resource Center (“NHRC”),²⁵ to help organize its first two consumer outreach events. These events focused on educating and assisting homeowners and potential borrowers. The Bank held its first event, with HPF, on October 21, 2017, in Detroit, Michigan, and its second event, with NHRC, on November 11, 2017, in Chicago, Illinois.

The Bank’s consumer outreach events are intended to educate consumers about the relief available under the Settlement Agreement, as well as about broader topics relating to home-buying and assisting consumers in resolving, mitigating, or altogether avoiding the problems that borrowers experienced leading up to the Financial Crisis.

While Deutsche Bank has significant flexibility in structuring these events, the Consumer Relief Annex sets forth certain minimum requirements that must be satisfied, including, for example, that Deutsche Bank conduct targeted borrower outreach in English and Spanish and participate in a presentation during the event informing attendees about the Bank’s efforts and obligations under the Settlement Agreement. The Monitor has reviewed, and will continue to review, the proposed agendas for the consumer outreach events, as well as proposed participants, to ensure the events comply with the Settlement Agreement’s requirements.

Both events to date, which the Monitor’s staff attended, were held on Saturdays to allow and encourage more consumers to attend. The estimated turnout at the Chicago event was approximately 300 consumers; the estimated turnout at the Detroit event, however, was approximately 10 consumers. While the Monitor was disappointed with the turnout at the Detroit event, the poor attendance may have been caused by a number of factors.

For example, more resources were dedicated to marketing the second event in Chicago. This included marshaling a more expansive roster of housing services organizations – which advertised the event on their respective Facebook pages, and engaged in personalized email and telephone communications with consumers who

²⁴ The HPF (<http://www.995hope.org/>) is a nonprofit organization with a stated mission to help homeowners navigate their budgetary constraints and, whenever possible, help them avoid mortgage foreclosure.

²⁵ The NHRC (<http://www.hsgcenter.org/>) is a nonprofit organization with a stated mission to facilitate collaboration between nonprofit housing counseling agencies and assist communities of color, the elderly, low-to-moderate income populations, and other underserved communities.

preregistered for the event.²⁶ Another significant differentiating factor between the two events was that consumers at the Chicago event had the opportunity to receive their credit reports, free of charge, and discuss them with trained representatives from the Center for Economic Progress. Further, the Chicago event may have had greater attendance as a result of the choice of venue: The Chicago event was held at Malcom X College, which was close to public transportation and provided ample parking, whereas the Detroit event was held outside of downtown Detroit and in a less convenient area.

Substantively, the two events offered homeowners significant help. The HPF event in Detroit included various educational sessions on topics such as navigating the home-buying process and options for consumers to obtain down payment assistance. In addition, the event provided consumers the opportunity to meet one-on-one with housing counselors and participating lenders. Representatives from Shellpoint, one of the lenders that Deutsche Bank has financed, participated in the event and discussed the types of loans it was originating through the Deutsche Bank financing arrangement.

The second event in Chicago offered multiple 30-minute homebuyer orientation sessions – provided in English and Spanish by local non-profits. The Monitor’s representatives attended two of these popular sessions. The presentation entitled “Are You Ready to Buy a Home?” provided an overview of basic home ownership concepts, including the advantages and disadvantages of home ownership as well as the basics of home financing. Attendees appeared engaged in the discussion and asked helpful questions, which were capably answered by the presenters.

Another local non-profit participant in Chicago provided residents with the opportunity to view their credit reports and receive an overview of factors affecting their credit. (Deutsche Bank paid the fees for the credit report pulls. There was no cost to consumers.)

Last, representatives from PennyMac, one of Deutsche Bank’s counterparties, attended. Other lenders and servicers included Wintrust, Fifth Third Bank, PNC, Bank of America, Chase, U.S. Bank, and Mr. Cooper (formerly known as Nationstar). The Monitor’s representatives observed steady attendee interest in the mortgage lenders’ tables, as well as frequent attendee visits to the various housing counselors’ tables.

²⁶ Deutsche Bank and HPF promoted the event through direct mail, emails, and phone calls with prospective homebuyers, many of whom were clients of GreenPath Financial Wellness, a “nationwide, non-profit financial counseling and education organization” that participated in the event. HPF also advised other national and local nonprofit associations about the event, and distributed flyers at Open Streets Detroit, an outdoor festival that took place in Detroit on October 1, 2017.

The Monitor validates that these two consumer outreach events satisfied the requirements of the Settlement Agreement and hopes to see positive results for future events as Deutsche Bank and its partners continue to refine their organization and marketing plans. Notwithstanding the low turnout at the initial event in Detroit, the Bank's enthusiasm and financial investment in connection with planning and executing the Consumer Outreach events in both locations has been notable.

Future Events

Deutsche Bank has planned another outreach event in Tampa, Florida for March 2018. The event is scheduled as follows:

Saturday, March 3, 2018, 10:00 a.m. – 2:00 p.m.
Crowne Plaza – Tampa Westshore
5303 West Kennedy Blvd.
Tampa, FL 33609

The Bank is working with NHRC again to coordinate this event. The most up-to-date schedule of events can be found on the Monitor's website (<http://deutschebankmortgage.com>). The Monitor will write about this event, and provide updates on future events, in forthcoming reports.

THE MONITOR'S REVIEW OF THE BANK'S SECOND SUBMISSION OF LOANS FOR CREDIT

On November 28, 2017, the Bank's IRG submitted to the Monitor 1,977 loans originated by Shellpoint and PennyMac for consumer relief credit. The loans were to borrowers in Hardest Hit Areas (Menu Item 2.B.1.) and first-time, LMI homebuyers (Menu Item 2.B.3.), and were originated for properties in 32 states between June 3, 2017, and September 11, 2017. The Monitor has validated the credit that Deutsche Bank is claiming for those loans and currently is performing a legal compliance review.²⁷ The Monitor will report on the results of the compliance review in his next report.

The overwhelming majority of the loans in this submission (1,837, or 93%) were submitted for credit pursuant to Menu Item 2.B.1. (Hardest Hit Areas), and the remaining loans (140, or 7%) were submitted pursuant to Menu Item 2.B.3. (first-time, LMI borrowers).

²⁷ In addition to conducting a compliance review, as described in the Monitor's Second Report, the Monitor intends to undertake an Equal Credit Opportunity Act and Fair Housing review. 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.

Each loan submitted for credit under Menu Items 2.B.1. and 2.B.3. is potentially eligible for \$10,000 of consumer relief credit. And because all of the submitted loans were closed before September 1, 2018, the 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 established and agreed-upon procedures and methodology, the Monitor, with the assistance of Control Risks, independently tested and confirmed the eligibility of the 1,977 loans submitted for consumer relief credit. The Monitor describes the process for this testing below.

The IRG Process and Testing Methodologies for the Bank's Second Credit Submission

As discussed in the Monitor's first two reports, the Bank's IRG serves 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. 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, as well as various additional working papers establishing specific definitions, process flows, and testing scripts to effectuate the IRG Work Plan.

The IRG Work Plan requires that for each submission of loans, the IRG is to randomly select a statistically valid sample of loans and test each loan in the sample according to agreed-upon definitions, process flows, and testing scripts.²⁸ The IRG Work Plan also provides that, in determining the size of the sample to be tested, the IRG is to use a 99% confidence level, 2.5% estimated error rate, and a 2% margin of error ("99/2.5/2 approach").

Further, in order to prevent the Bank from improperly claiming duplicate credit for the same loan,²⁹ the IRG compared the loan numbers and Mortgage Identification

²⁸ The process flow employs a series of tests that each loan must pass before it can be validated. A testing script outlines the questions to be answered through testing, as well as the data necessary to implement the test and the instructions on how to run the test. The Monitor's Second Report explained the Monitor's interpretation of specific terms in the Settlement Agreement, including "credit worthy borrowers," "Hardest Hit Areas," and "first-time homebuyer."

²⁹ For example, if Counterparty A originates a loan for which Deutsche Bank seeks credit under Menu Item 2.B., and Counterparty A subsequently sells the loan to Counterparty B, Deutsche Bank may not re-submit that same loan, which is now owned by Counterparty B, for credit under Menu Item 2.B.

Numbers for each loan in the submission to all other loans in the same submission and all loans in prior submissions.³⁰

After completing its testing of the sample, the IRG certified to the Monitor that Deutsche Bank was entitled to the full amount of credit claimed by the Bank.

The Results of the Monitor’s Testing of the Bank’s Second Credit Submission

After receiving the IRG’s certification, the Monitor and Control Risks (under the Monitor’s direction), conducted an extensive review and testing of the sample previously tested by the IRG, using the agreed-upon testing definitions and protocols. The Monitor and Control Risks also tested to ensure that Deutsche Bank was not inappropriately claiming duplicate credit, as explained above. After completing this testing, the Monitor confirms that there were no duplicates, and each loan submitted by Deutsche Bank satisfies the requirements of the Settlement Agreement.³¹

The Monitor further confirms that Deutsche Bank correctly calculated the amount of credit it earned from each loan origination and that, because all loans were originated before September 1, 2018, they were eligible for Early Incentive Credit. Accordingly, the Monitor validates the Bank’s recent submission of 1,977 loans for consumer relief credit, and confirms that the Bank is entitled to receive additional credit in the amount of **\$22,735,500**.

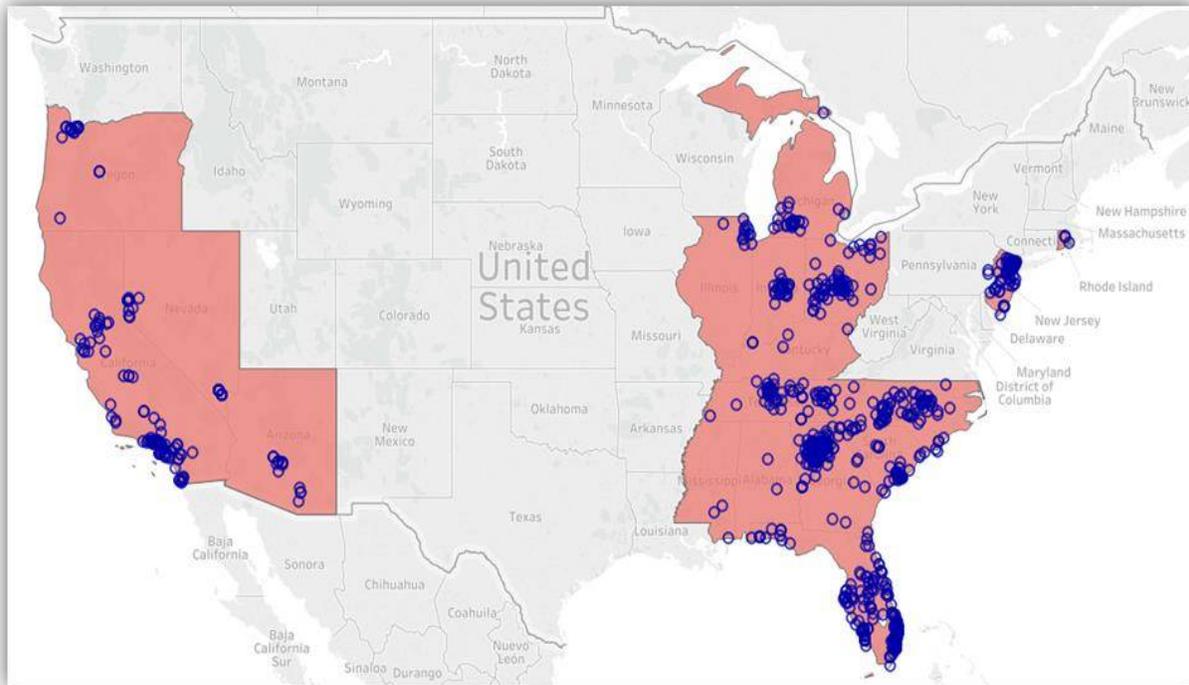
³⁰ Mortgage Identification Numbers are numerical identifiers that the Mortgage Electronic Registration Systems, Inc. (“MERS”) system assigns to each loan in its registry. In the case of loan modifications submitted pursuant to Menu Item 1 (which has not yet occurred, but is expected soon), the IRG also will compare borrowers’ social security numbers, to the extent they are available.

³¹ To receive credit for this submission, Deutsche Bank is also required to demonstrate that neither Shellpoint nor PennyMac is 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. Control Risks validated this by reviewing provisions in Shellpoint’s and PennyMac’s contracts with Deutsche Bank in which Shellpoint and PennyMac represented that they are not eligible to claim credits from, and were not providing the required reporting to, any other party subject to an ongoing FIRREA settlement involving consumer relief with the Department of Justice. The Consumer Relief Annex permits Deutsche Bank reasonably to rely on representations of a third-party originator or servicer, in this case Shellpoint and PennyMac, “that it is not eligible to claim such credits and is not providing the required reporting to other investors in making this determination.”

Characteristics of the 1,977 Loans³²

Hardest Hit Area Loans

As explained above, most of the loans submitted for credit were made under Menu Item 2.B.1. (Hardest Hit Areas) (1,837 out of the 1,977 loans). These 2.B.1. loans had an average unpaid principal balance (“UPB”) of \$232,983, and required an average monthly payment of \$1,159. They were originated in 18 states, with 843 (46%) of the 2.B.1. loans originated in Georgia and Florida, as noted in the map and chart below.



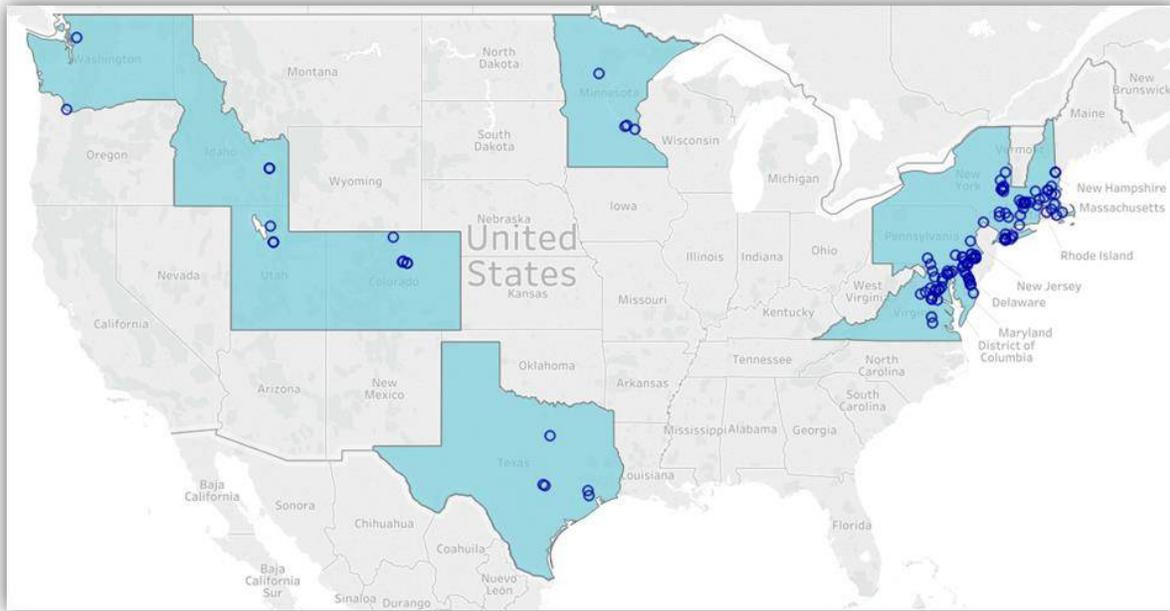
³² Of the 1,977 loans, PennyMac originated 23 loans under Menu Item 2.B.1., and 6 loans under Menu Item 2.B.3. Shellpoint originated 1,814 loans under Menu Item 2.B.1, and 134 loans under Menu Item 2.B.3.

State	# Loans	% of Total 2.B.1. Loans
Georgia	424	23.08%
Florida	419	22.81%
South Carolina	181	9.85%
Tennessee	160	8.71%
Ohio	134	7.29%
North Carolina	115	6.26%
California	90	4.90%
Nevada	73	3.97%
Indiana	60	3.27%
New Jersey	59	3.21%
Michigan	58	3.16%
Oregon	21	1.14%
Arizona	14	0.76%
Illinois	14	0.76%
Rhode Island	5	0.27%
Mississippi	4	0.22%
Alabama	3	0.16%
Kentucky	3	0.16%
GRAND TOTAL	1,837	

First-time, LMI Loans

The average UPB of the 140 loans submitted for credit pursuant to Menu Item 2.B.3. (first-time, LMI) was \$202,280. The average monthly payment for loans submitted under 2.B.3. was \$968, and the average monthly income for the first-time, LMI borrowers receiving loans under this Menu Item was \$4,302. The first-time, LMI loans were originated in 14 states, with 97 (69%) of the loans originated in Massachusetts, New York, Pennsylvania, Maryland³³ and Delaware, as noted in the map and chart below.

³³ The 17 loans originated in Maryland result in additional credit to the Bank in the amount of \$195,500 towards its obligation to provide \$80 million in consumer relief to Maryland homeowners pursuant to its agreement with the Office of the Maryland Attorney General on June 1, 2017. The Bank's total credit to date under the Maryland agreement is \$230,000. The Monitor will continue to report on the Bank's progress in satisfying its requirements under the Maryland agreement.



State	# Loans	% of Total 2.B.3. Loans
Massachusetts	25	17.86%
New York	20	14.29%
Pennsylvania	19	13.57%
Maryland	17	12.14%
Delaware	16	11.43%
Virginia	13	9.29%
Colorado	5	3.57%
Connecticut	5	3.57%
Texas	5	3.57%
Minnesota	4	2.86%
New Hampshire	4	2.86%
Utah	3	2.14%
Idaho	2	1.43%
Washington	2	1.43%
GRAND TOTAL	140	

CONCLUSION AND TIMELINE

Deutsche Bank made a third submission for credit for approximately 24,000 loan originations on February 27, 2018. The Monitor will report about this next submission in his Fourth Report, as well as the Bank’s overall progress toward fulfilling its obligation to provide \$4.1 billion in consumer relief to consumers.

Menu Item	Current Submission	Credit Earned for Current Submission	Cumulative Submission	Cumulative Credit Earned
No. 1 Loan Modification, Forgiveness, and Forbearance	None	\$0	None	\$0
No. 2 Loan Originations	1,977 loans	\$22,735,500	2,077 loans	\$23,885,500
No. 3 Community Reinvestment	None	\$0	None	\$0
No. 4 Financing for Affordable Rental Housing	None	\$0	None	\$0
Total Credit Earned \$23,885,500				

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

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