

# **EXHIBIT 3**



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January 10, 2014

U.S. Bank National Association, as Trustee  
Attn: James H. Byrnes  
One Federal Street, 3<sup>rd</sup> Floor  
Boston, MA 02110  
By Email: james.byrnes@usbank.com

Dear James:

Funds under our management are holders of 2 senior tranches in the JPMAC 2006-WMC1 trust and 2 senior tranches in the JPMAC 2006-WMC3 trust. Our holdings total 21.3%<sup>1</sup> and 5.2%<sup>2</sup>, respectively, of each current trust balance. We are writing to you as the Trustee in order to express our disapproval of the proposed RMBS Trust Settlement Agreement ("**JPM RMBS Agreement**") for these trusts. Not only is the payment in aggregate (across all trusts) comparatively low, but, more importantly, the payments on the JPMAC 2006-WMC1 and JPMAC 2006-WMC3 trusts (and other "JPMorgan Trusts" like it) are subject to a 90% haircut. In our view, the proposed consideration – 10% of an already low figure – is grossly inadequate in light of the broad releases which the Trustee must then grant JPMorgan in respect of its mortgage repurchase obligations. We believe that the Trustee should therefore reject the settlement on these trusts.

The JPM RMBS Agreement is the second multi-trust agreement focused on settling representation and warranty claims initiated by Gibbs and Bruns and certain Institutional Investors. The JPM RMBS Agreement follows the Bank of America/Countrywide Settlement Agreement ("**Countrywide Agreement**") in seeking relief for losses to trusts resulting from breaches of representations and warranties contained in the Governing Agreements of covered trusts. In both cases, an aggregate settlement amount is allocated to different trusts in proportion to the past and future losses projected for each trust. In the JPM RMBS Agreement, Section 3.05 allocates the Settlement Payment on the basis of Net Losses, with haircuts for losses on loans originated by certain non-JPMorgan affiliated originators.

#### **The Aggregate Payment is Too Low**

It is natural, therefore, to compare the amounts proposed in the JPM RMBS Agreement with those agreed to in the earlier Countrywide Agreement. There, a settlement amount of \$8.5 billion was applied to 530 trusts, with a projected total loss of \$80.8 billion, or a loss payout of 10.5%<sup>3</sup>. In this case, the proposed \$4.5 billion payment corresponds to \$67.1 billion of loss, or a loss payout of 6.7%<sup>4</sup>. Using the same loss percentage as in the Countrywide Agreement would increase the payment to more than \$7 billion.

<sup>1</sup> As of 1/10/2014 this includes 29,850,000 (Original Face) JPMAC 2006-WMC1 A4 (46626LHT0) and 26,000,000 (Original Face) JPMAC 2006-WMC1 A5 (46626LHU7).

<sup>2</sup> As of 1/10/2014 this includes 12,832,040 (Original Face) JPMAC 2006-WMC3 A3 (46629KAD1) and 7,718,000 (Original Face) JPMAC 2006-WMC3 A5 (46629KAF6).

<sup>3</sup> This uses the loss calculations provided by Bloomberg in their BOAS function (dividing BBG Settle Amt by the sum of Historical Loss + Projected Loss).

<sup>4</sup> The estimate of 67.1B of current and future losses is from Barclays published research in "Securitized Products Weekly," 11/22/2013 page 26. This includes total losses for all deals, regardless of whether they have loans originated by Selected Third Party Originators.

Furthermore, the negotiated settlement amount in the Countrywide Agreement incorporated a discount for Bank of America's defenses related to Countrywide's limited net worth and the issue of successor liability. Capstone Advisory Group estimated Countrywide's net worth to be a maximum of \$4.8 billion<sup>5</sup>, significantly less than the settlement amount. Bank of America further claimed that it was not liable as a successor. Bank of New York Mellon admitted that it considered both of these issues when evaluating the ultimate settlement amount. US Bank, as Trustee, does not face these issues in the proposed JPM RMBS Agreement. JPMorgan has no such defenses in the case of the settled trusts, and – contrary to the proposed JPM RMBS Agreement – one would expect a larger aggregate payment, as a percentage of current and future losses, than in the Countrywide Agreement.

**The Allocation Formula is Unfair to The JPMAC 2006-WMC1 and JPMAC 2006-WMC3 Trusts**

Additionally, the JPMAC 2006-WMC1 and JPMAC 2006-WMC3 trusts are severely penalized in the allocation formula prescribed in Section 3.05 of the JPM RMBS Agreement. Because 100% of their collateral was originated by WMC Mortgage Corp (a "Select Third Party Originator" (as defined in the JPM RMBS Agreement)), the deals are subject to an adjustment that credits these trusts with only 10% of losses for the purpose of allocating settlement proceeds (based on loss) across all deals in the settlement. Presumably, this heavy discount assumes that trusts with Select Third Party Originators will be able to successfully enforce repurchase claims against the underlying originators. Under the terms of the PSAs, however, virtually all of the same claims can be enforced against JP Morgan. Effectively, JPMorgan seems to be attempting to rid itself of its contractual obligations to enforce and backstop the Originator's obligations at an incredibly low price.

In Section 3.02 (iii) of the JPM RMBS Agreement, JPMorgan seeks a release for "(iii) any alleged obligation of any JPMorgan entity to enforce claims for breaches of representations or warranties against the originator of a Mortgage Loan (including but not limited to any demands already made by the Accepting Trustees or any Investors of the Settlement Trusts)". However, in the Pooling and Servicing Agreement for JPMAC 2006-WMC1 (the "PSA")<sup>6</sup>, JPMorgan offers very strong protections in the event of breaches of representations and warranties covered by the Originator.

Though WMC Mortgage Corp is the Originator for the collateral, a JPMorgan affiliate serves as Depositor, Seller, Securities Administrator, and Servicer in both deals. As stated in Section 2.03(a)(i) of the PSA, upon discovery "of the breach by the Originator of any representation, warranty or covenant under the Mortgage Loan Purchase Agreement or the Assignment and Assumption Agreement in respect of any Mortgage Loan that materially adversely affects the value of such Mortgage Loan or the interest therein of the Certificateholders", J.P. Morgan Acceptance Corporation<sup>7</sup> backstops the Originator's repurchase obligations: "In the event that the Originator shall fail to cure the applicable breach or repurchase a Mortgage Loan in accordance with the preceding sentence, the Depositor shall do so"<sup>8</sup>. Further, in Section 2.06 of the PSA, the Seller (JPMorgan) "represents, warrants and covenants" that many of the representations in Schedule 4 (Mortgage Loan Representations and Warranties) that

<sup>5</sup> As detailed in The Bank of New York Mellon's Brief in Support of the Settlement (NYSCEF DOC. NO. 750, page 26), dated 5/3/2013.

<sup>6</sup> The Pooling and Servicing Agreement for JPMAC 2006-WMC3 offers the same protections as those in JPMAC 2006-WMC1, but the JPMAC 2006-WMC1 is referenced for convenience.

<sup>7</sup> In the JPMAC 2006-WMC3 deal, it is the Seller, J.P. Morgan Mortgage Acquisition Corp., that provides the representation.

<sup>8</sup> Section 2.03(a)(i).

were made by the Originator are true. The section concludes "If the substance of the representations and warranties referred to in clauses (i), (ii), (iii), (iv) and (v) above are determined to have been breached, then the Seller will perform the remedy specified in Section 2.03 herein". This list of 68 representations and warranties includes the following, all of which are regularly cited as relevant breaches in other mortgage putback cases:

(s) Appraisal. The Mortgage File contains an appraisal of the related Mortgaged Property in a form acceptable to Fannie Mae and such appraisal complies with the requirements of FIRREA and was made and signed, prior to the approval of the Mortgage Loan application, by a Qualified Appraiser, who had no interest, direct or indirect in the Mortgaged Property or in any loan made on the security thereof, whose compensation is not affected by the approval or disapproval of the Mortgage Loan. Each appraiser and appraisal of the Mortgage Loan was made in accordance with the Seller's Underwriting Guidelines (as in effect at the time such Mortgage Loan was originated) and the relevant provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

(aa) Mortgage File. With respect to each Mortgage Loan, the Seller is in possession of a complete Mortgage File except for the documents which have been delivered to the Purchaser or the Custodian or which have been submitted for recording and not yet returned.

(dd) Underwriting Guidelines. The Mortgage Loan was underwritten in accordance with the Underwriting Guidelines in effect at the time of origination. No representations have been made to a Mortgagor that are inconsistent with the mortgage instruments used.

(hh) No Fraud. No fraud, misrepresentation or similar occurrence with respect to the Mortgage Loan has taken place on the part of the Seller, the Servicer or any other party involved in the origination of the Mortgage Loan or in the application of any insurance in relation to such Mortgage Loan, including without limitation the Mortgagor, any appraiser, any builder or developer. The documents, instruments and agreements submitted for loan underwriting were not falsified and contain no untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the information and statements therein not misleading in light of the circumstances in which they were made. The Seller has reviewed all of the documents constituting the Servicing File and has made such inquiries as it deems necessary to make and confirm the accuracy of the representations set forth herein.

(ii) Origination Practices. The origination practices used by the Seller and the collection and servicing practices used by the Servicer with respect to each Mortgage Loan have been in all respects legal and customary in the nonprime mortgage origination and servicing industry and the collection and servicing practices used by the Servicer have been consistent with Customary Servicing Procedures.

(ddd) LTV and CLTV Limit. No Mortgage Loan had an LTV or a CLTV in excess of 100% at origination.

WMC Mortgage Corp was acquired by GE Consumer Finance on June 14, 2004, as stated in the deal prospectus. However, as Deutsche Bank National Trust Company as Trustee for MSAC 2007-HE6 states in its complaint against WMC Mortgage L.L.C. as successor-by-merger to WMC Mortgage Corp. and General Electric Capital Corporation, "GE Capital's restructuring and reorganization of WMC resulted in

the ostensible transfer of WMC's repurchase and indemnification obligations to the new, undercapitalized WMC Mortgage, L.L.C.<sup>9</sup>. Given the thin capitalization of WMC Mortgage L.L.C. and the consequent reliance on GE Capital's willingness to bear responsibility for WMC's repurchase obligations, it would be premature to absolve JPMorgan from its obligations before first pursuing claims against WMC Mortgage Corp and GE Capital. This is especially true in light of the small settlement consideration contemplated in the JPM RMBS Agreement. As the language clearly states in the JPMAC 2006-WMC1 and JPMAC 2006-WMC3 PSAs, if the Originator fails to satisfy any of its repurchase obligations, JPMorgan is required to do so.

Moreover, you likely are aware of the recent decision by the New York Supreme Court, Appellate Division, in *ACE Securities Corp. v. DB Structured Products, Inc.* ("*Ace v. DB*"), regarding the statute of limitations for RMBS repurchase claims. If repurchase claims against the Originator are deemed to be untimely under New York law, then the trust will have received only 10% of its pro rata share of losses paid under the JPM RMBS Agreement, but will have no recourse against the Originator for the balance of its losses.

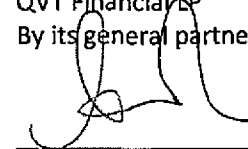
The *Ace v. DB* decision also provides an additional basis for direct claims by the trust against JPMorgan that would be released in the JPM RMBS Agreement and for which the trust should be compensated. Section 2.03(a)(1) of the PSA obligates JPMorgan, as Securities Administrator, to enforce, on behalf of the Trustee and the trust, the Originator's repurchase obligations for documentation defects and breaches of representations and warranties. JPMorgan has failed to do so. If repurchase claims against the Originator are deemed to be untimely under New York law, JPMorgan, as Securities Administrator, is directly liable to the trust for its failure to enforce the trust's repurchase rights on a timely basis. JPMorgan's liability to the trust for such failure is equal to 100% of the damages that should and would have been recovered from the Originator.

In summary, we believe that the terms of the settlement proposal are insufficient and unduly prejudicial to the JPMAC 2006-WMC1 and JPMAC 2006-WMC3 trusts. We would instruct that you do not vote in favor of the JPM RMBS Agreement in its current form, and would be happy to discuss this with you in more detail and hear your thoughts on the matter. In that regard, please contact us at (212) 705-8800 or by email at [arthur.chu@qvt.com](mailto:arthur.chu@qvt.com).

We request that you keep this analysis confidential and not disclose it to third parties, other than your professional advisors, without our express written consent.

Sincerely,

QVT Financial LP  
By its general partner, QVT Financial GP LLC



Arthur Chu, Managing Member

cc: Elizabeth Taraila

<sup>9</sup> Case 3:13-cv-01347-SRU #88, Filed in United States District Court District of Connecticut, 9/13/2013.