

# **The National Mortgage Settlement:**

What Does it Mean for NSP?

July 31, 2012

2:00 - 4:00pm

## **Webinar Objectives Today**

- Provide an overview of the National Mortgage Settlement
- Highlight the key terms of the settlement
- Examine how the Anti-Blight provisions and settlement scoring system reinforce NSP efforts
- Point out ways grantees can work with servicers to ensure the settlement enhances their local community revitalization efforts

## **Overview of the National Mortgage Settlement**

- Landmark settlement between state attorneys general and top 5
  mortgage servicers to resolve claims of mortgage servicing abuses
  and unfair foreclosure practices (a.k.a. the AG Settlement, 5
  Servicers Settlement, Mortgage Servicing Settlement)
- \$25 billion in monetary sanctions and homeowner relief approved in April 2012
- Largest multistate financial recovery since the 1998 Master Tobacco Settlement for \$206 billion
- Largest consumer financial protection settlement in US history
- Outside of monetary reparations, settlement calls for comprehensive reforms of mortgage loan servicing standards



#### **Genesis of the Settlement**

- State attorneys general launched a robo-signing investigation in October 2010 but probe was quickly broadened to include other mortgage servicing complaints, i.e., lost paperwork, long delays, poor customer service
- Attorneys general formed a working group and partnered with federal agencies – Dept of Justice, Treasury Dept and HUD – to engage the servicers about allegations
- A bipartisan Negotiating Committee, comprised of 8 attorneys general led the settlement negotiations

## **Scope of the Settlement**

- Five largest mortgage servicers agreed to participate in settlement – Ally Financial / GMAC, Bank of America,
   Citigroup, JP Morgan Chase, and Wells Fargo – other servicers may voluntarily implement components of the settlement
- Settlement does not address mortgage loan securitization claims (GSEs); government and private parties can pursue those claims
- Settlement doesn't protect servicers from homeowners' claims against servicers
- Does not shield servicers from prosecution from criminal activities, fair lending suits, or claims against MERS



# **Financial Obligation by Servicer**

Servicer	Federal/State	Relief to Borrowers	Total
Ally Financial/GMAC	\$110 million	\$200 million	\$310 million
Bank of America	\$3.24 billion	\$8.58 billion	\$11.82 billion
Citigroup	\$415 million	\$1.79 billion	\$2.20 billion
JP Morgan Chase	\$1.08 billion	\$4.21 billion	\$5.29 billion
Wells Fargo	\$1.01 billion	\$4.34 billion	\$5.35 billion

#### **Five Key Settlement Elements**

- 1. Financial Relief for Struggling Homeowners
- 2. Payments to State and Federal Governments
- 3. Mortgage Servicing Reforms
- 4. Benefits to Service Members and Veterans
- 5. Monitoring and Enforcement

#### **#1 - Relief for Struggling Homeowners**

- \$20 billion set aside to right-size mortgages of delinquent and underwater homeowners and to support Neighborhood Stabilization activities
  - Principal Reduction: at least \$10 billion for reducing principal for underwater borrowers that are either delinquent or at risk of default
  - Refinancing: at least \$3 billion for underwater borrowers who are current on their mortgages
  - Other Homeowners Assistance: up to \$7 billion for other forms of relief, including forbearance for unemployed borrowers, short sales, service members, and anti-blight programs



## #2 - State and Federal Government Payments

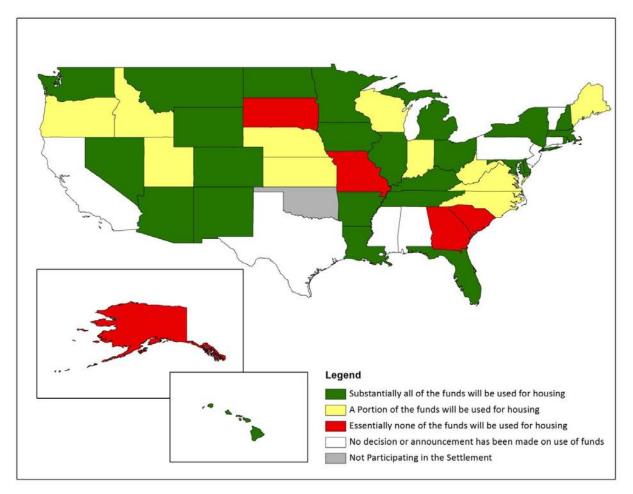
- \$5 billion reserved for federal programs and states; state funding can be used for housing-related activities
  - Foreclosed Borrowers: a \$1.5 billion Borrower Payment Fund will provide cash payments for borrowers whose homes were foreclosed between Jan. 2008 and Dec. 2011
  - Federal Payments: \$1 billion for the FHA capital reserve fund,
     Veterans Housing Benefit Program and Rural Housing Service
  - State Payments: \$2.5 billion direct payments to 49 states and the District of Columbia to repay public funds lost as a result of servicer misconduct, fund housing counseling, legal aid, etc.

## **State Funding Slated for Housing Activities**

- State attorney general, legislature and/or governor determine how the \$2.5 billion in state funding will be allocated
- Some states have finalized their plans as of June 2012:
  - 26 states are using all for housing/foreclosure
  - 11 states are using a portion of funds for housing/foreclosure
  - 5 states are not using funds for housing/foreclosure
  - 8 states are undecided
- State allocations can be viewed at: <a href="http://www.enterprisecommunity.com/policy-and-advocacy/issues/foreclosure/neighborhood-stabilization#mortgage-settlement-state-report">http://www.enterprisecommunity.com/policy-and-advocacy/issues/foreclosure/neighborhood-stabilization#mortgage-settlement-state-report</a>

Source: \$2.5 Billion: Understanding How States Are Spending their Share of the National Mortgage Settlement, Enterprise Community Partners

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## **#3 - Mortgage Servicing Reform**

- Servicers are required to implement new servicing standards to correct past harmful practices. Some examples are:
  - Stop robo-signing, improper documentation and lost paperwork
  - Strict oversight of foreclosure processing
  - Ensure accuracy of information for federal bankruptcy
  - Pursue foreclosure as the option of last resort
  - Foreclosures prohibited while loan modification is pursued
  - Set procedures and timelines for loan modifications and short sales
  - Single point of contact for borrowers seeking information



#### #4 - Benefits to Service Members and Veterans

- Wrongful Foreclosures: payments to service members who were foreclosed upon since the passing of the Servicemembers Civil Relief Act (SCRA) in Jan. 2006
- Interest Charged in Excess of 6%: payments to military personnel who were charged mortgage interest in excess of 6%
- Veterans Housing Benefit Program: \$10 million for program to provide loans on favorable terms for veterans
- Permanent Change in Station: compensation for service members who experienced a loss when forced to sell their home due to a change in duty location

#### **Consumer Relief Scoring System**

- The \$25 billion settlement not only requires servicers to make direct payments to homeowners and other entities, but servicers receive credits against financial obligation. Some examples:
  - Portfolio Loan Principal Reduction LTV ≤ 175% \$1.00 writedown = \$1.00 credit
  - Investor Loan Principal Reduction \$1.00 write-down = \$0.45
  - Borrower incentive payments to facilitate short sales or deed-in-lieu \$1.00 payment = \$1.00 credit for amounts over \$1,500
  - Forbearance for unemployed borrower \$1.00 new forgiveness= \$1.00 credit



#### **Anti-Blight Settlement Provisions**

- New servicing mortgage standards ensure "walk-away" and REO properties do not become blighted
  - Enhance participation in state/local anti-blight programs, such as landbanks, Neighborhood Stabilization Programs, and nonprofit redevelopment programs
  - Must notify borrower and local authorities when foreclosure is no longer being pursued and lien will be released
  - Must inform borrower of responsibility to maintain the property and pay taxes until sale or other title transfer has occurred
  - Request borrower notify servicer of intention to abandon property so alternatives to foreclosure can be discussed, such as deed in lieu or cash for keys



# **Anti-Blight Scoring System**

Anti-Blight Provision	Credit Towards Settlement	Credit Cap of Total Consumer Relief Funds	
Forgiveness of property's principal where servicer doesn't pursue foreclosure	\$1.00 property value = \$0.50 credit		
Cash costs paid by servicer for demolition of property	\$1.00 payment = \$1.00 credit	Maximum 12%	
REO properties donated to municipalities or nonprofits or disabled service members or relatives of deceased service members	\$1.00 property value = \$1.00 credit		



## Ripple Effects in the Marketplace

- Settlement scoring system and anti-blight provisions are impacting the ways in which servicers are engaging in the neighborhood revitalization space
- More emphasis is being placed on pre-foreclosure solutions short sales, deed in lieu, cash for keys
- Servicers are donating properties of value (above \$25K) as well as low value distressed assets (below \$25k) and vacant lots, sometimes along with financial incentives
- Demolition is becoming a more prevalent disposition solution for blighted homes
- Increased interest in partnering with Veterans organizations to provide housing for military personnel

#### **#5 - Monitoring and Enforcement**

- Monitoring Committee comprised of representatives from State
  Attorneys General, State Financial Regulators, Dept. of Justice, and
  HUD will oversee compliance with settlement terms
- Joseph Smith North Carolina's banking commissioner appointed to head up Nominating Committee
- Impose penalties up to \$5 million for violations
- Publish reports to publicize servicers' compliance with settlement obligations
- Settlement will remain in effect for 3.5 years, but servicers are required to earn 75% of the consumer relief credits within 2 years and 100% within 3 years



#### **NCST Donation Program**

- NCST has created a donation program for single family properties
- Property donations should be viewed as an unprecedented opportunity for additional neighborhood stabilization solutions
- Servicers are moving from "one off" donations to:
  - More predictable, scalable donation executions
  - Including properties with greater residual value (not just teardowns)
- As a result, NCST is actively seeking government and non-profit entities in select markets to participate in a donation program
- If you are interested in receiving donated properties, contact your Senior
   Asset Manager or email NCST at newbuyer@stabilizationtrust.com



#### **Additional Resources**

- National Mortgage Settlement website: http://nationalmortgagesettlement.com
- Office of Mortgage Settlement Oversight website: <a href="https://www.mortgageoversight.com/">https://www.mortgageoversight.com/</a>
- National Association of Attorneys General: <a href="http://www.naag.org">http://www.naag.org</a>
- Enterprise Community Partners Mortgage Settlement Report:
   http://www.enterprisecommunity.com/policy-and advocacy/issues/foreclosure/neighborhood-stabilization#mortgage settlement-state-report
- National Conference of State Legislatures: <a href="http://www.ncsl.org/issues-research/banking/national-mortgage-settlement-summary.aspx">http://www.ncsl.org/issues-research/banking/national-mortgage-settlement-summary.aspx</a>

