

The National Mortgage Settlement:

What Does it Mean for NSP?

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2:00 – 4:00pm

Presenters

- Moderator: National Development Council (NDC)
  - Jennie Vertrees
- Presenters:
  - Craig Nickerson, National Community Stabilization Trust
  - Tasha Harris, National Community Stabilization Trust
  - Damon Smith, Senior Counsel to the General Counsel, HUD
  - Dina Levy, Special Assistant, NY Attorney General Office
- HUD/CPD:
  - Hunter Kurtz
  - David Noguera
  - John Laswick

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

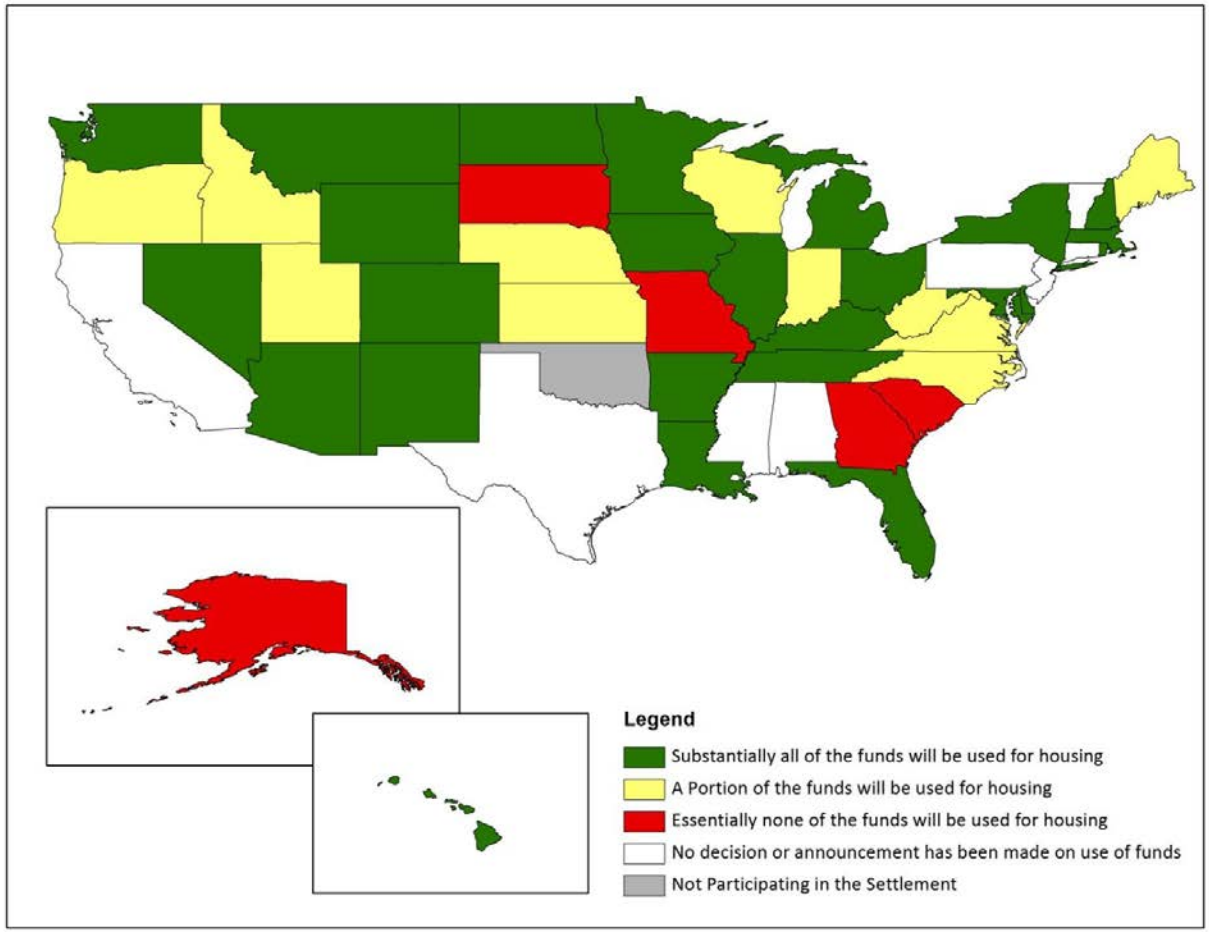
- $5 billion reserved for federal programs and states; state funding can be used for housing-related activities
  - **Foreclosed Borrowers:** a $1.5 billion Borrower Payment Fund will provide cash payments for borrowers whose homes were foreclosed between Jan. 2008 and Dec. 2011
  - **Federal Payments:** $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: http://www.enterprisecommunity.com/policy-and-advocacy/issues/foreclosure/neighborhood-stabilization#mortgage-settlement-state-report

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

State Funding Slated for Housing Activities



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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 write-down = $1.00 credit
  - Investor Loan Principal Reduction – $1.00 write-down = $0.45 credit
  - 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	Maximum 12%
Cash costs paid by servicer for demolition of property	$1.00 payment = $1.00 credit	
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

What does this mean for Grantees?

- Grantees should look at the settlement as another resource for neighborhood stabilization
- Provide direct input to the 5 servicers regarding how to participate in local neighborhood stabilization efforts
- Reassess how your community can effectively absorb low value distressed assets and donated properties
  - Are funds available for demolition and renovation?
  - What local entities can serve as good stewards of low value assets?

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:** https://www.mortgageoversight.com/
- **National Association of Attorneys General:** http://www.naag.org
- **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:** http://www.ncsl.org/issues-research/banking/national-mortgage-settlement-summary.aspx

Questions and Answers

NSP Resource Exchange Links

NSP Resource Exchange	http://hudnsphelp.info
Search the Resource Library	http://hudnsphelp.info/resources
Search the FAQs	http://hudnsphelp.info/faqs
View All Training Materials on the Learning Center	http://hudnsphelp.info/learning
Submit a Policy Question via Ask A Question	http://hudnsphelp.info/question
Request Technical Assistance	http://hudnsphelp.info/RequestTA

Connect with NSP	
Join the Listserv	http://hudnsphelp.info/listserv
Visit the NSP Flickr Gallery	http://www.flickr.com/photos/nspresourceexchange
Visit the NSP YouTube Channel	http://www.youtube.com/user/NSPResourceExchange