Banks Settle with States Over Illegal Foreclosure and Lending Procedures

February 9, 2012 - Late yesterday, California and New York agreed to join a $25 Billion settlement with the nation's five largest banks over their foreclosure and lending procedures. The settlement is the largest of its kind and will provided relief for as many as 1 million current homeowners who are having trouble with refinancing their homes because they owe more on them than they are actually worth. It will also provide some payment to those who lost their homes due to illegal foreclosure procedures.

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The ability to reach a settlement with the banks was in question until late yesterday. That's when California, New York and several other states agreed to join in. By the time the settlement was announced today, the only state not agreeing to participate was Oklahoma.

Under the terms of the agreement, the states have agreed not to pursue separate civil suits against the banks. But individual homeowners can still sue. The states can also continue criminal probes and prosecutions of bank employees.

Existing homeowners who owe more money on their homes than they are currently worth stand to be the largest beneficiaries under the terms of the agreement. $10 Billion of the settlement money will be used to reduce the principle on their mortgages. Another $7 Billion will be used for state run homeowner assistance programs. And $3 Billion will be used for short-refis; the term for refinancing properties that are worth less than what is owed on them. Short-refi's will allow borrowers to take advantage of current low interest rates but won't reduce the principle owed on the properties.

Another $1.5 Billion will used to provide checks to 750,000 homeowners who lost their homes in foreclosures that

involved illegal procedures by the banks. These checks will amount to $2,000 per homeowner.
And last, $3.5 Billion will go directly to the states.

How effective the settlement will be remains to be seen. Under the terms of the that were being discussed two weeks ago, the costs associated with it would have been shared between the banks and any investors who purchased mortgage backed securities. ACCESS doesn't know if that is still the case with the final settlement.

The banks participating in the settlement include Bank of America, Ally Financial (formerly GMAC), Citigroup, JP Morgan Chase and Wells Fargo. The banks have three years to comply with the terms of the settlement. If they violate the terms, they can be fined up to $1 million per violation. And banks that repeatedly violate the terms of the agreement can be fined up to $5 million per violation.

byJim Malmberg
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