

THE MASTERS

WEALTH MANAGEMENT GROUP

THE LANDMARK MORTGAGE SETTLEMENT

What kind of relief will it offer?

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Big news, but will it make a big difference? On February 9, the Justice Department announced it had struck a settlement approaching \$26 billion with the major U.S. mortgage servicers. This is the biggest multistate settlement of any kind since the Big Tobacco payout of 1998, with five big banks (Bank of America, JPMorgan Chase, Citigroup, Ally Financial and Wells Fargo) agreeing to make amends for robo-signing and other consumer abuses. Other lenders may join them in the deal.^{1,2}

While this is all well and good, Housing and Urban Development Secretary Shaun Donovan conceded to the press on February 9 that the accord “doesn’t solve everything.” Indeed, with trillions of household wealth lost in the foreclosure crisis, even a settlement of this magnitude can seem relatively puny.³

Just 9% of homeowners will have mortgages modified. About \$10 billion of the settlement will be used to rework home loans, but if your mortgage is owned by Fannie Mae or Freddie Mac, you’re out of luck; those loans aren’t included in the deal. Therefore, only about 1 million homeowners will get loan modifications out of the 11 million with underwater mortgages nationwide. These 1 million borrowers could see principal reductions of up to \$20,000.^{1,2,3}

What about cash payouts? About 750,000 borrowers who lost homes to foreclosure are in line for some monetary compensation: about \$2,000 in cash each. To qualify, you must have lost your home sometime between January 1, 2008 and December 31, 2011. These payments will be sent out by state governments.²

Here’s a breakdown of how the settlement funds will be distributed:

- \$10 billion for principal reductions on underwater mortgages
- \$7 billion for “other forms of relief” (unspecified; could include short sales, neighborhood blight reduction efforts and principal forbearance)
- \$4.25 billion to 49 states (all except Oklahoma, which reached its own settlement with the five big mortgage servicers)
- \$3 billion toward refis of underwater mortgages
- \$1 billion to the Federal Housing Administration
- \$750 million in cash to the U.S. government²

On top of that \$26 billion, Bank of America will pay out another \$1 billion to settle a separate federal investigation into mortgage fraud at Countrywide Financial, which it bought in 2008.²

The settlement amount could approach \$45 billion if other major mortgage servicers sign on to the agreement. That could presently happen.¹

When do you find out if relief is coming your way? It will likely take you from 6-9 months to determine if you are eligible for any benefits from the settlement. The federal government says you will get a claims form if you are eligible to get some money as a result of all this. If you have any doubts that the claims form will reach you at your current address, you are directed to contact your state attorney general's office.²

To learn more, you can visit NationalMortgageSettlement.com, a new website providing yet more details.¹



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Citations.

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- 3 - www.kansascity.com/2012/02/10/3421011/finally-real-mortgage-relief-for.html [2/10/12]