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The state of California has joined in an out-of-court settlement with the nation's largest banks over mortgage abuse.

The settlement is with Bank of America, JPMorgan Chase, Wells Fargo, Citigroup and Ally Financial.

But mortgages owned by Fannie Mae and Freddie Mac, the government's housing finance agencies, will not be included, thus excluding more than half of the mortgages in the country.

California Attorney General Kamala Harris, who had refused to join in the settlement earlier, claims California may get up to \$18 billion.

"California families will finally see substantial relief after experiencing so much pain from the mortgage crisis," says Ms. Harris. "Hundreds of thousands of homeowners will directly benefit from this California commitment."

She says California preserved the ability "to investigate banker crime and predatory lending."

California secured the \$18 billion agreement as part of a national multistate settlement to penalize robo-signing and other bank servicing and foreclosure misconduct. The agreement comes after California departed from the multistate negotiations last September when the estimated relief to California was \$4 billion.

As part of the separate California guarantee, banks must enact a minimum of \$12 billion in principal reductions for California homeowners. Failure to achieve this minimum level of reductions will result in substantial cash payments of up to \$800 million that the banks will have to pay to the state, the attorney general's office says.

Congressman Dennis Cardoza, D-Merced, who has been trying to get either Congress or the Obama Administration to take more extensive actions to help solve the housing crisis, likes the settlement.

"This is huge step for the state and will help hundreds of thousands of homeowners who have been devastated by the housing crisis," Mr. Cardoza says. "\$18 billion in funding will go a long way toward stabilizing the housing market, and I am extremely pleased that Stanislaus County and the Central Valley were directly compensated as part of the settlement."

The deal includes the following provisions for California homeowners:

- More than \$12 billion is guaranteed to reduce the principal on loans or offer short sales to approximately 250,000 California homeowners who are underwater on their loans and behind or almost behind in their payments.
- \$849 million is estimated to be dedicated to refinancing the loans of 28,000 homeowners who are current on their payments but underwater on their loans.
- \$279 million will be dedicated to offering restitution to approximately 140,000 California homeowners who were foreclosed upon between 2008 and Dec. 31, 2011.
- \$1.1 billion is estimated to be distributed to homeowners for unemployed payment forbearance and transition assistance as well as to communities to repair the blight and devastation left by waves of foreclosures, targeted at 16,000 recent foreclosures.
- \$3.5 billion will be dedicated to relieving 32,000 homeowners of unpaid balances remaining when their homes are foreclosed.
- \$430 million in costs, fees and penalty payments.

County-specific payments are based on the number of homeowners and the depth of the foreclosure crisis. Mr. Cardoza says it is estimated that Stanislaus County homeowners will accrue \$368 million in benefits over the three-year life of the commitment.

Rep. Jerry McNerney, D-Pleasanton, whose district includes much of San Joaquin County

where the mortgage meltdown was among the most severe in the nation, says the settlement is a start.

“For too long, homeowners have heard a lot of talk and seen very little action. Far too many families have been forced out of their homes, and millions more remain at risk of foreclosure or underwater in their homes,” says Mr. McNerney.

“I am hopeful that people in our region will be helped by this settlement, but we must be vigilant in monitoring how effectively this settlement is carried out and make sure the banks live up to their commitments. I am interested to find out exactly how the promise that folks in the hardest-hit areas — like Northern California — will be made a priority for assistance, and how we can make sure the maximum amount of homeowners are being helped,” Mr. McNerney says.

He says not enough homeowners will be served by the settlement.

“This settlement is a big win for hundreds of thousands of struggling homeowners across the state and especially in the San Joaquin Valley,” says Rep. Jim Costa, D-Fresno. “However, this is no silver bullet, and there is far more that must be done to connect the dots and stabilize our housing market....”

“While our communities are being torn apart by foreclosures, some in Congress refuse to pass legislation that would put thousands of dollars in the pockets of millions of homeowners by allowing them to refinance at historically low rates,” Mr. Costa says.

Small businesses may also benefit, says a small business advocacy group.

“Entrepreneurs who have used their homes as collateral especially stand to benefit. A full quarter of small business owners have used their home as an equity line of credit in order to finance their business,” says John Arensmeyer, founder and CEO of Small Business Majority.

“Many of them can now re-pocket money they lost when the market crashed and use it to grow their business, in turn stimulating the economy,” he says.

More must still be done to help struggling families and stabilize the housing market, say policy experts at The Greenlining Institute, a Berkeley-based public policy advocacy group.

“We’re pleased that California homeowners facing foreclosure and those who have lost homes will get meaningful help without the banks getting a complete get-out-of-jail-free card,” says Greenlining Institute Executive Director Orson Aguilar.

Unlike the larger multistate agreement, which is enforceable in a federal court in Washington, D.C., this payment provision empowers the Attorney General to summon the banks to California state court.

California's separate guarantee also creates incentives to ensure that banks will reduce the principal mortgage balance of underwater homeowners in California's hardest-hit counties and that the principal reductions in these communities will occur within the first year of the settlement, says Ms. Harris.

To speed investigations and strengthen prosecutions of these mortgage cases, California will expand its Mortgage Fraud Strike Force, adding to the more than 42 members already working on the team. The state will continue its investigative alliance with Nevada, that allows the sharing of resources, information and strategies, and will look to collaborate with additional states focused on a law enforcement response to the wave of mortgage fraud.

In much of the Central Valley, the epicenter of the mortgage meltdown, as many as six out ten homes with mortgages are underwater – worth less than their mortgages.

The settlement is valued at about \$26 billion. How much are homeowners underwater? Negative equity adds up to almost \$700 billion nationwide.

Attorney General Harris also says she will propose a comprehensive legislative agenda to protect homeowners in the mortgage market. This legislation would include a single point of contact for mortgage-holders and an end to dual-track foreclosures.