



# OFFICE OF THE ATTORNEY GENERAL STATE OF ILLINOIS

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## Bank Foreclosure Settlement Overview

After months of investigation and negotiations, Attorney General Lisa Madigan, in conjunction with other state attorneys general, the U.S. Department of Justice and the U.S. Department of Housing and Urban Development, secured a national settlement in 2012 with five of the nation's largest mortgage servicers that provided billions of dollars in badly needed assistance to homeowners harmed by fraudulent foreclosure and mortgage servicing practices. The \$25 billion settlement is the second largest settlement ever obtained through joint action of state attorneys general.

Besides providing much needed mortgage relief for homeowners in Illinois, the settlement set tough new mortgage servicing standards to prevent future abuses by banks in the servicing and foreclosure process and to avoid the bureaucratic nightmares many consumers have faced in trying to save their homes through loan modifications.

The settlement was filed in federal court, and the court appointed a monitor to ensure that the banks comply with all aspects of the settlement. The settlement includes a narrow release that covers only servicing, foreclosure and origination conduct. It does not release criminal, securitization, fair lending, MERS or any claims that borrowers choose to bring against the banks.

### Help for Homeowners

The five largest mortgage loan servicers – Bank of America, JPMorgan Chase, Wells Fargo, Citibank, and GMAC/Ally – agreed to a settlement worth a total of \$25 billion. The largest portion of the settlement, \$17 billion, was used to assist borrowers who are struggling to stay in their homes. Much of this money was used for principal reductions on first and second liens.

Another \$3 billion of the settlement was reserved to assist with refinancing for borrowers who are current on their loans but whose mortgages are underwater – the outstanding loan balance exceeds the current appraised value of the home. Typically, such borrowers are unable to secure refinancing.

Additionally, \$1.5 billion was provided as restitution to borrowers who already lost their homes.

A very important part of the settlement set new national mortgage servicing standards that assist and protect distressed borrowers going forward. Attorney General Madigan knows firsthand of far too many borrowers who suffered through massive red tape and bank bureaucracy in attempting to save their homes through a loan modification or other program. Too often, no matter what they were told or how well they complied with the banks' rules, the borrowers ended up facing foreclosure.

The new servicing standards ensure borrowers are given a fair chance to save their homes. Major enhancements include:

- \* Distressed home borrowers are considered for a loan modification rather than automatically referred for foreclosure.
- \* No loan is referred for foreclosure while a loan modification is in the works.
- \* Borrowers can appeal a denial of a loan modification.
- \* Bureaucratic nightmares are diminished when dealing with banks by requiring the mortgage servicers to provide a single point of contact for borrowers as well as easier methods for checking on the progress of their loan modification applications.
- \* Loan servicers are held to strict timelines in dealing with distressed borrowers.

The settlement also ensures a fair and accurate foreclosure process for those borrowers who cannot be assisted any other way.

### Ongoing Legal Action

Fraudulent acts in foreclosure proceedings led to the launch of the "robo-signing" investigation by the attorneys general. The settlement, however, does not mark the beginning or the end of Attorney General Madigan's efforts to take strong legal action against lenders, banks, servicers and others who defraud homeowners. She continues to investigate and prosecute other players in the marketplace who contributed to the housing and economic collapse.