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ILLINOIS ATTORNEY GENERAL MADIGAN LEADS \$8.7 BILLION GROUNDBREAKING SETTLEMENT OF LAWSUIT AGAINST MORTGAGE GIANT COUNTRYWIDE

First Mandatory Loan Modification Program to Assist 400,000 Homeowners in Crisis Nationwide

21,000 Illinois borrowers to be considered for loan modifications

Chicago — Attorney General Lisa Madigan today announced a ground-breaking \$8.7 billion settlement in her predatory lending lawsuit against Countrywide, the nation's largest mortgage lender and servicer. Madigan led the national settlement with California Attorney General Jerry Brown. Nine other states joined the settlement.

This settlement establishes the first mandatory loan modification program in the country and will serve as a model for other lenders and the federal government for how to help homeowners on the verge of foreclosure.

"The primary goal of this lawsuit was to keep as many Illinois homeowners in their homes as possible," Madigan said. "As a result of this settlement, thousands of Countrywide borrowers in Illinois, and hundreds of thousands nationwide, now will be able to modify their loans and remain in their homes."

Madigan negotiated the settlement with Bank of America, which acquired Countrywide shortly after she filed suit in June 2008. Madigan's lawsuit alleged that Countrywide engaged in unfair and deceptive conduct by marketing and originating unnecessarily risky and costly mortgage loans for Illinois homeowners.

Under the settlement, which is the largest predatory lending settlement in history, the mandatory loan modification program will provide immediate relief to homeowners who were put into the riskiest types of loans. Nationwide, approximately 400,000 borrowers are expected to receive modifications of their loan at a total cost of \$8.4 billion. Approximately 21,000 Illinois borrowers will be considered for a loan adjustment, representing an expected \$185 million in modifications. This is the first mandatory initiative of its kind, contrasting drastically with the voluntary "Hope Now" program operated by the federal government.

"This program will serve as a model for other lenders and the federal government because of its immediate and far-ranging impact," Madigan said. "Not only will thousands of Illinois borrowers be able to stay in their homes, but our communities and local governments will benefit by reducing the devastating impact that foreclosures have on local real estate values and taxes."

The Countrywide program will cover borrowers with subprime loans, including hybrid loans with teaser interest rates, and the toxic prime loan product known as the pay-option ARM. For eligible borrowers, the interest rates on the loan modifications could go as low as low as 2.5 percent for five years. Pay-option ARM loans will no longer contain the negative amortization feature and their principal and interest rates will be reduced.

As part of this landmark agreement, Countrywide agreed to implement a range of homeowner relief programs and to drastically modify its future lending practices. Specifically, Countrywide agreed to:

- Suspend foreclosures on the riskiest loans to determine if borrowers qualify for modification.
- Establish a Foreclosure Relief Fund of \$8.5 million for borrowers in subprime and pay option ARM loans who lost their homes due to early payment default or default at the time the interest rate reset. Early payment default is a strong indication that the loan was not underwritten properly and that the homeowner couldn't afford the loan from the beginning.

- Help homeowners through a \$1 million relocation assistance program, which will provide payments to homeowners who cannot qualify for a loan modification. The funds will help borrowers relocate if necessary.
- Waive loan modification fees and late fees.
- Waive prepayment penalties on subprime and pay option arm loans owned by Countrywide.
- Pay \$1.7 million for the costs incurred in Madigan's investigation, eliminating taxpayer expense.

The settlement comes in the midst of the unprecedented economic crisis caused by the collapse of the housing market. In July 2008, there were 8,915 foreclosure filings reported in Illinois, up 61 percent from July 2007. The delinquency rates on Countrywide loans in Illinois from 2005 through the first half of 2007 are even higher than Countrywide's national rates.

Countrywide's delinquency rates have been devastating for Illinois homeowners and across the country because of the company's massive presence in the market:

- By 2007, Countrywide was both the nation's largest originator of prime and subprime mortgage loans.
- In the first quarter of 2008, Countrywide originated \$73 billion in mortgage loans nationally.
- At its peak, Countrywide operated approximately 100 retail branches in Illinois and was the largest mortgage lender in the state from 2004-2006, selling approximately 94,000 loans to Illinois consumers in that period.
- Countrywide also was the largest seller of high-cost, or subprime, home loans in the Chicago area in 2006, according to a 2007 *Chicago Reporter* study.

"This settlement holds the number-one mortgage lender in the country accountable for deceptively putting borrowers into loans they didn't understand, couldn't afford and couldn't get out of. These are the very practices that have created the economic crisis we're currently experiencing," Madigan said. "I am pleased that Bank of America has worked with us to reach this important settlement. It is incumbent upon all lenders and servicers to continue to look for ways to help homeowners in trouble. At the same time, we must demand that Congress put tighter rules and regulations into place to prevent future crises."

Madigan said homeowners who have questions about the settlement and how it may affect them can call Bank of America 1-800-669-6607 or Madigan's Homeowners Referral Hotline at 1-866-544-7151 from 8 a.m. to 8 p.m. Monday to Friday.

This national settlement, led by Madigan and California Attorney General Jerry Brown, also includes Attorneys General representing Arizona, Connecticut, Florida, Iowa, Michigan, North Carolina, Ohio, Texas and Washington.

Madigan's Consumer Fraud Bureau Division Chief Deborah Hagan handled the case with Assistant Attorneys General Susan Ellis, Veronica Spicer, Brenda Grauer, Tom James, Shantanu Singh, Michelle Garcia, Jennifer Franklin and Cecilia Abundis.

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