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ATTORNEY GENERAL MADIGAN: NEW GOLD STANDARD FOR HOME LOANS MUST HOLD BANKS ACCOUNTABLE TO HOMEOWNERS AND INVESTORS

Chicago — Attorney General Lisa Madigan today sent a letter to federal financial regulators, urging them to include a critical step in an upcoming rulemaking process that will establish safety standards for residential mortgage loans sold on Wall Street in the aftermath of the mortgage meltdown.

Attorney General Madigan's letter to the Federal Deposit Insurance Corporation, U.S. Treasury and other federal financial regulators was also signed by her counterparts in 10 other states. Madigan calls on the regulators to demand tighter mortgage servicing standards as they implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Act was passed by Congress last year to prevent risky home loans from being bundled and sold to investors – a leading cause of the housing market's crash in 2008.

The Act requires banks and lenders to maintain at least a 5 percent ownership interest in a home loan unless it meets a high safety standard. This requirement is designed to ensure banks and lenders make safe, high quality loans (and avoid the risky loans that led to the housing crisis) because they have a financial interest in the loans or, in other words, because they have "skin in the game." Under the Act, there is an exception to the requirement that banks and lenders have this 5 percent ownership interest in a home loan: If a mortgage loan is considered a safe investment and deemed a "qualified residential mortgage," the bank or lender does not have to keep an ownership interest in it. In other words, banks and lenders do not need to have a financial stake in mortgages that meet a "gold standard" for safe investments.

Federal regulators are now writing rules to implement the Act. The rules will define the kind of mortgages that meet the gold standard and are considered to be "qualified residential mortgages."

In the letter to the regulators, Madigan and the attorneys general are asking that standards for servicing a loan – the act of managing homeowners' payments for the life of the loan – be included in the rules defining when a loan meets the "qualified residential mortgage" safety standard and could be exempted from the ownership stake.

"Federal regulators are in the process of setting the gold standard for home loans. If a loan meets that standard, banks and lenders won't have to keep any skin in the game for that loan," Attorney General Madigan said. "Regulators must ensure that banks and lenders aren't allowed to again create risky products then sell them off as safe investments without any consequences. By requiring rigorous underwriting and servicing standards, regulators can protect both the homeowner and the investor."

Madigan said including servicing standards in defining what loans are deemed qualified residential mortgages will give potential investors a better idea of how a loan will perform down the road. How a loan is serviced over its lifetime, and a servicer's willingness to help a struggling homeowner, go hand-in-hand with a homeowner's ability to stay in their home – an important factor for homeowners but also for mortgage investors who suffer substantial losses when homes enter foreclosure.

Signing on to Attorney General Madigan's letter today were attorneys general from Arizona, California, Colorado, Connecticut, Delaware, Iowa, Maryland, North Carolina, Tennessee and Vermont.

Attorney General Madigan has been at the forefront of protecting Illinois homeowners during the mortgage foreclosure crisis and holding Wall Street banks and mortgage lenders accountable. Madigan is currently serving on the executive committee in the ongoing 50-state investigation into the nation's largest mortgage servicers for alleged widespread abuses in the foreclosure process.

In 2008, the Attorney General led a nationwide \$8.7 billion settlement with Countrywide over its predatory lending practices. Madigan has also filed suit against both Wells Fargo and Countrywide alleging widespread discrimination against African American and Latino borrowers, which caused them to pay disproportionately more for their mortgages than other borrowers.

Madigan urged homeowners to visit her website, www.IllinoisAttorneyGeneral.gov, for resources available to assist homeowners in crisis. Included on the site is her Illinois Mortgage Lending Guide, a resource manual containing step-by-step instructions for those struggling to make their loan payments and a list of HUD-certified counseling agencies that offer default counseling services. Homeowners who do not have easy access to the Internet should call the Attorney General's Homeowner Helpline at 1-866-544-7151 to receive the guide by mail.

-30-

[Return to January 2011 Press Releases](#)

