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Main Street Cashes $3.1 Billion in Checks from Wall Street

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With the **mortgage crisis** almost a decade in the rear-view mirror, some harmed homeowners are just now starting to see reparations for the transgressions of the country's largest financial institutions.

Beginning in January 2013, thirteen banks—including Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo—settled 2011 and 2012 actions instituted by the **Office of the Comptroller of the Currency** (OCC) and the **Federal Reserve** alleging misconduct and negligence in processing loans. Included among the alleged improprieties were "robo-signing" that led to baseless foreclosures, the charging of inflated interest rates and the improper denial of loan modifications.

From November 2010 to January 2011, regulators conducted on-site reviews of foreclosure processing at several of the country's large banks. When the reviews found significant and pervasive deficiencies in the banks' foreclosure practices, formal enforcement actions, or Consent Orders, were issued against the banks. The Consent Orders required the banks to retain independent consultants to conduct file-by-file reviews to determine if borrowers were harmed by their deficient practices. Two years into the reviews, the consultants had not made a dent. To get cash in the hands of borrowers more quickly, the regulators jettisoned the reviews in favor of a comprehensive settlement agreement with the banks.

The $9.3 billion settlement requires $3.6 billion in cash payments to homeowners, and $5.7 billion in foreclosure prevention assistance, which will come primarily in the form of mortgage reductions and forgiveness of deficiency judgments.

The settlement covered 4.2 million affected borrowers whose homes were in foreclosure in 2009 and 2010. The Federal Reserve reported that, as of last month, 83% of the 4.2 million borrowers (3.4 million homeowners) have been paid approximately $3.1 billion. Payment amounts range from several hundred dollars to $125,000, with the largest payments going to those homeowners whose homes were improperly foreclosed on. Of the $3.1 billion paid so far, Florida homeowners received over $300 million.

Despite its $9 billion price tag, the settlement is being criticized by many advocacy groups as offering inadequate compensation to homeowners, given the nature and scope of the alleged misconduct.

The 2013 settlement came on the heels of several other blockbuster settlements involving Wall Street's biggest banks, including a $25 billion settlement in 2012 resolving an action instituted by the states' attorneys' general against Wells Fargo and others for improper foreclosure practices.

The Federal Reserve's recent report comes as a sober reminder that the aftershocks of the housing market collapse continue to be felt to this day. For originating banks that continue to be embroiled in repurchase and indemnification litigation initiated by some of Wall Street's biggest offenders, the lawsuit highlights the need to scrutinize causation particularly carefully, with a solid focus on the banks' own accountability for the injuries that their deficient practices in residential mortgage loan servicing and foreclosure processing caused.

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