National Mortgage Settlement

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Beginning in 2006, the United States experienced a severe housing crisis marked by record-breaking foreclosure rates and depreciated home values. At the peak of the housing crisis in 2008, accusations of banking misconduct began to surface. Consumers charged banks of several servicer-related problems such as improperly reviewing foreclosure documents, a process that came to be known as "robo-signing." Consumers also complained about servicers using deceptive practices when offering loan modifications. For example, telling a homeowner that a loan modification was in the process while at the same time foreclosing on the property.

In direct response to these consumer complaints, state attorneys general formed a working group to investigate the complaints and confront the banks involved. Five banks were identified as the major problem banks: Ally Financial, Bank of America, Citigroup, J.P. Morgan Chase, and Wells Fargo. Ten months of negotiations between the five banks and a coalition of state attorneys general and federal agencies ensued; the result of these negotiations is the National Mortgage Settlement (NMS).

The NMS was designed to meet the coalition's four major goals: to provide immediate relief to homeowners in order to avoid foreclosure; to bring reform to the mortgage servicing industry; to ensure foreclosure laws are lawfully enforced; and to penalize the banks. The settlement does not resolve all potential claims against the five banks; the federal government and states may still pursue prosecutions for criminal violations, and parties may still pursue securitization claims.

The total settlement will result in approximately $25 billion dollars in monetary sanctions divided among the 49 participating states. Oklahoma did not sign the settlement and instead made their agreement with the banks. Each state will receive a portion of the settlement money according to a formula that accounts for the states' size and the impact of the housing crisis on the state.

Immediate Relief to Homeowners
In order to bring relief for struggling homeowners, the five banks must allocate $17 billion in assistance to borrowers who have the intent and ability to stay in their homes. At least 60 percent of that money must be allocated to reduce the principal balance of home loans for borrowers who are in default or in risk of default on their loan payments.

Banks must also allocate $5.2 million for other forms of homeowner assistance such as short sales facilitation, unemployed payment forbearance, relocation assistance for homeowners facing foreclosure, waiving of deficiency balances, and funding for remediation of blighted properties.

Homeowners must contact their loan servicer to determine their eligibility under this portion of the settlement. Georgia is estimated to receive $526 million for homeowner assistance.

Banks must also provide aid to borrowers who are current on their payments but cannot refinance to lower rates because of negative equity, known as being underwater. The banks must offer refinance programs totaling at least $3 billion. Borrowers must meet certain eligibility requirements, and the banks are required to notify all eligible homeowners of the availability of this particular program. Georgia's estimated settlement share for underwater loans is $101.8 million.

Reform to the Mortgage Servicing Industry
The settlement includes comprehensive reform of mortgage servicing practices which specifically prevent mortgage servicers from engaging in robo-sigining and other improper foreclosure practices. The settlement standardized the notice requirement and disclosure statements sent to borrowers, thereby increasing the transparency of the loss mitigation process. The new standards also impose time lines to respond to borrowers, and restrict the practice of "dual tracking", where foreclosure is initiated despite the borrower's engagement in a loss mitigation process.

Specific new servicing standards include thoroughly evaluating borrowers for all available loss mitigation options before referring for foreclosure and requiring bank action on loss mitigation applications before referral of loans to foreclosure. Banks are required to adopt procedures to oversee foreclosure firms, trustees and other agents. Banks must designate an employee as a single point of contact to assist borrowers seeking loss mitigation assistance and must maintain adequate trained staff to handle the demand for loss mitigation relief. In addition, servicers are required to expedite and facilitate the short sales of distressed properties.

Ensure Foreclosure Laws are Lawfully Enforced
Each bank's settlement is incorporated into a Consent Judgment that will be submitted to a federal judge for approval and which will be enforceable through court process. An independent Monitor (Joseph A. Smith) and his staff will oversee each banks' performance of obligations under the settlement. Additionally, the banks will self-report on their compliance in the form of agreed-upon metrics and outcome measures. The Monitor issues periodic reports to the attorneys general, and each bank remains subject to civil penalties of up to $5 million from the court.

Penalize the Banks
Compensatory funds in the amount of $1.5 billion are allocated to borrowers who were foreclosed on after January 1, 2008. Borrowers seeking relief under this portion of the settlement will be notified of their right to file a claim. These funds are allocated for foreclosure victims who were not properly offered loss mitigation or who were otherwise improperly foreclosed on. These borrowers are eligible for a uniform payment of approximately $2,000. Georgia's settlement share for compensatory funds is estimated at $82.7 million, and the uniform payment is estimated at $1,800 to $2,000 for each eligible borrower.

The remaining $2.5 billion in settlement funds must be paid to the participating states. The payments to the states may be distributed by the attorneys general for foreclosure relief and housing programs or designated as civil penalties for the banks' robo-signing misconduct, but ultimately, these funds are discretionary funds, and each state may decide how the funds are best used in their state.

In fact, Iowa Attorney General Tom Miller, the leader of the coalition that negotiated the deal argued that only a small portion of money was going to states' funds. Furthermore, he stated it was always expected that the states would divert some of the money to their general expenditures. Georgia's estimated state payment is $104 million.

Timeline and Process
Administration of the claims began in June of 2012 and concludes in early 2013. Notification to eligible borrowers under certain programs is handled by the banks, and banks will likely begin making determinations in fall of 2012; all other programs require borrowers to contact their lenders to determine eligibility. The full settlement will be executed over the period of three years.

The General Assembly appropriated the state payment into the FY13 General Budget at the end of 2012 legislative session. The $104 million allotted to Georgia was added to approximately $8 million in other revenues, and the resulting $112 million dollars was used to fund the following: $44,806,042 for the OneGeorgia Authority to assist in rural economic development and $67,059,063 for Regional Economic Business Assistance in the State Economic Development program to assist with recruiting new businesses to the state. Governor Deal's spokesperson has stated that the governor believes, "The best way to prevent foreclosures amongst honest homeowners who have experienced hard times is to create jobs here in our state."

Category	Georgia's Estimate
Aid to homeowners needing loan modifications.	$526 million
Aid to borrowers who are underwater on their homes.	$101.8 million
Payments to borrowers who lost their homes to foreclosure.	$82.7 million
Payments to signing states.	$104 million
Total amount	**$814.5 million**
Total amount going to assist Georgia homeowners	$710.5 million
Total amount going to Georgia's General Budget	$104 million