Joint State-Federal Mortgage Servicing Settlement FAQs

1. **Q: What is the national mortgage settlement and how does it affect me?**

A: Together with 49 other Attorneys General and state and federal regulators, the Arizona Attorney General has obtained a broad-ranging settlement from five major banks - Bank of America, JPMorgan Chase, Wells Fargo, Citi and GMAC/Ally. If you are a homeowner struggling to pay your mortgage or facing foreclosure, or if you have already lost your home to foreclosure, it is possible that this settlement could help you. Not every homeowner will qualify for relief under this settlement. Those who do qualify may receive various forms of relief depending on their circumstances. Available forms of relief include: payments to borrowers who were wrongly foreclosed upon; reduction of unpaid principal balances; refinancing for borrowers whose homes are worth less than the money they owe; and the opportunity for short sales and other relocation assistance. In addition, the settlement requires the banks to significantly reform their mortgage servicing and foreclosure practices.

2. **Q: What is a mortgage servicer and how do I know who services my loan?**

A: A mortgage servicer administers mortgage loans, including collecting and keeping track of payments from borrowers. A servicer also handles loan defaults and foreclosures, and may offer loss mitigation programs to assist delinquent borrowers.

The company that you make your monthly payment to is your mortgage servicer. Your mortgage servicer may or may not be a lending institution and may or may not own your loan. Many of the loans administered by banks are owned by third-party investors.

This settlement involves the nation's five largest mortgage banks, who are: Ally/GMAC, Bank of America, CitiBank, JPMorgan Chase, and Wells Fargo.

Loans owned by Fannie Mae or Freddie Mac are not impacted by this settlement, except that the five settling banks will have to abide by new servicing guidelines and consumer protections, even for loans owned by Fannie Mae and Freddie Mac. You may visit the following websites to learn if your loan is owned by either Fannie Mae or Freddie Mac:

- www.fanniemae.com/homeaffordable
- www.freddiemac.com/avoidforeclosure

3. **Q: How does this settlement hold the banks accountable?**

A: This is a settlement that primarily addresses the banks' servicing of residential mortgage loans, including their handling of foreclosures. One of the initial areas of attention in the investigation was the practice known as "robo-signing," where the banks submitted foreclosure documents that were not properly reviewed or notarized. This practice primarily affected judicial foreclosure states, which do not include Arizona.

This settlement holds the banks accountable for their servicing violations through substantial financial penalties and a variety of direct and indirect consumer relief.

This is the second largest civil settlement ever obtained by the state attorneys general. It's second only to the tobacco settlement that has spread payments to the states over 25 years. The settlement will cost the nation's five largest mortgage banks, which control about 60 percent of the mortgage servicing market, an estimated $25 to $32 billion.

The settlement will require the banks to accomplish a massive undertaking – changing their broken system of servicing loans into one that is functional. The banks will reduce the principal on many of their loans – something that they have resisted for years – to allow homeowners to keep their homes. They will also refinance loans for certain eligible "underwater" borrowers who have been unable to refinance due to negative equity. The banks will pay billions of dollars to the states, and, most importantly, commit billions more to consumer relief.

The banks will be subject to a federal court order enforceable by a federal judge. In addition, a special independent monitor will have the authority to oversee the banks and require their compliance. Federal agencies and state attorneys general can enforce compliance if there are violations.

The agreement holds the banks accountable for their wrongdoing on robo-signing and mortgage servicing. This settlement does not seek to hold them responsible for all of their wrongs over the past five years.

The agreement preserves legal options for others to pursue. Governmental entities and private parties are aggressively pursuing securities cases against the banks. A joint federal-state task force has been formed to investigate and prosecute those responsible for the collapse of the mortgage lending and investment markets.

4. Q: Did you conduct an investigation?

A: Yes. The investigation began in October of 2010, as an investigation into alleged false affidavits submitted in foreclosure proceedings. Its scope soon broadened to encompass a long list of mortgage servicing issues, such as lost paperwork and long delays and missed deadlines for loan modifications. Long before they announced their investigation, attorneys general and state banking regulators across the country fielded thousands of mortgage servicing complaints. Many states, including Arizona, took part in mortgage-related working groups, launched foreclosure prevention efforts, and took action against subprime and predatory lenders. State attorneys general, including the Arizona Attorney General, have probably had more front-line experience with mortgage servicing than any other governmental entity.

After the states began their investigation in this case, they partnered with the U.S. Justice Department, the U.S. Treasury Department, and the U.S. Department of Housing and Urban Development. These federal agencies provided the joint state-federal legal team with strong and detailed evidence of robo-signing and other servicing abuses. The state attorneys general also partnered with state banking commissioners who conducted thorough examinations of mortgage banks under their jurisdiction. The level of cooperation among the states and between the states and federal government was unprecedented, and gave the joint state-federal negotiating team substantial leverage in this extraordinary settlement.

5. Q: Will this settlement fix the entire mortgage industry breakdown?

A: No. This is a mortgage <u>servicing</u> settlement that addresses only a portion of the mortgage lending system. However, the settlement's tough, new mortgage servicing standards will have a widespread impact on future mortgage loan servicing.

States and federal agencies that sign on to the agreement are not restricted from investigating and pursuing many other mortgage-related issues, including securities-related cases, criminal cases, and other matters connected to the mortgage crisis.

6. Q: Why don't you sue the banks and try to get even more money?

A: Litigation takes time, carries substantial risks, and consumes significant resources. While legal cases dragged on, homeowners in desperate need of relief would be left to watch and wait for years for an uncertain outcome, and the housing market and economy would continue to suffer.

Millions more homeowners would likely lose their homes long before the court battles ended. The outcomes of litigation cases, win or lose, are anything but certain. Even if the cases were successful, it is unlikely that the recovery would exceed $25 billion and produce the major servicing reforms obtained in this settlement.

And a money judgment could not realistically include principal reduction requirements, refinancing for underwater borrowers, and many of the other significant components of this agreement.

7. Q: A majority of mortgages are unaffected by this settlement. When will you work to obtain relief for the vast majority of homeowners?

A: This settlement primarily affects mortgages that are owned and held by the nation's largest banks. Those homeowners may receive benefits such as modifications or principal reductions. Two government-sponsored enterprises ("GSEs"), Fannie Mae and Freddie Mac, control a majority of the nation's mortgage loans. GSE loans are not eligible for parts of this settlement because of positions that the Federal Finance Housing Agency (FHFA), their regulator, has taken.

Although most homeowners with GSE-owned mortgages won't benefit from all components of the settlement, everyone will see benefits through fewer foreclosures, stabilization of home values and neighborhoods, and significant new mortgage servicing standards and consumer protections. Further, people who were foreclosed upon by one of the five settling banks and suffered servicing abuse may be eligible for a small direct payment, even if their mortgage was GSE-owned.

In addition to the programs provided by this settlement, the federal government has recently made efforts to modify or provide refinancing for Freddie and Fannie loans. The intent is to provide some level of help for the majority of distressed borrowers.

8. **Q: What about those of us who keep making our mortgage payments?**

A: Borrowers who are current in their payments but are "underwater" on their mortgages may qualify for refinancing relief under the settlement. To find out if you qualify, please contact your servicer.

9. Q: Why force banks to forgive large portions of peoples' loans?

A: The states and federal agencies established that the banks have done wrong – through improper lending practices, improper foreclosures, etc. – and in response the banks have agreed to a settlement that helps many homeowners who have been hurt by misconduct in the marketplace.

Some banks have already acknowledged that principal reduction can be an effective tool in stabilizing the housing market and have already been forgiving portions of some loans. The idea is to keep people in their homes. The banks lose, on a national average, about $60,000 on each foreclosure. It is a win-win proposition for the banks to give up some principal – instead of that $60,000 cost of each foreclosure – and allow people to remain in their homes. As a matter of pure economics, principal foreclosure is often better for the bank than the massive losses associated with foreclosure. Principal reduction is one of the tools we've negotiated to help keep more people in their homes and help stabilize the housing market — which helps everyone.

10. Q: Will investors in mortgage-backed securities ultimately pay for part of this settlement?

A: The participating banks own the vast majority of the mortgage loans that this settlement is expected to affect. The settlement could affect some investor-owned loans, depending on existing agreements banks have with those investors.

When banks weigh which mortgage loans to modify as part of this settlement, they will do so based on first analyzing the costs and the benefits of minimizing their losses. If a loan modification, including principal reduction, is projected to cost the creditor or investor less than foreclosure, the creditor will earn more on that loan.

In other words, this settlement will not force investors to incur losses. That's because any loan modification tied to this settlement will result in more of a financial return for an investor than a foreclosure.

11. Q: Will taxpayers ultimately pay for this settlement?

A: No, the settlement is not funded by taxpayers. It is funded by the five banks.

12. Q: Why are you releasing the banks from some claims?

A: To participate in the settlement, states had to release and promise not to pursue certain legal claims. The release is narrow and is limited to mortgage servicing and origination claims. States that joined the settlement may still pursue other claims against the banks, such as securities and securitization claims. States could also sue financial institutions that are not part of the settlement.

If Arizona had decided not to sign the agreement, the State would have been free to pursue its own legal actions. However, the State would also have given up most of the benefits and programs designated specifically for homeowners in Arizona as part of the settlement. Arizona is expected to receive the third highest amount of benefits nationwide, behind only California and Florida.

The agreement does not affect any individual's rights. A consumer may still bring an individual action, be a part of a class action, or seek further review/relief from the Office of the Comptroller of the Currency ("OCC"). For further information about the OCC review, call (888) 952-9105 or see www. independentforeclosurereview.com/.

13. Q: Does this settlement immunize banks from prosecution?

A: No. There's no criminal immunity whatsoever. State attorneys general are using their civil law enforcement authority to fight for homeowners. They are not immunizing any individuals or institutions from prosecution. Criminal prosecutions are an entirely separate matter from a civil legal matter. This is a civil, not a criminal, settlement, and this settlement does not prevent state or federal prosecutions.

14. Q: How will this settlement protect consumers in the future?

A: The banks have agreed to significantly reform how they service mortgage loans. These new servicing standards require lenders and servicers to adhere to a long list of rights for those facing foreclosure. For example, borrowers will have the right to see all of their loan documents to make sure any potential foreclosure is legal; they will be given every opportunity to first modify their loan before facing foreclosure; lenders and servicers will be required to have an appropriate number of well-trained staff members to promptly respond to the needs of distressed borrowers; and finally, borrowers will have the right to deal with a reliable, single point of contact so they have access to a person from whom to obtain information throughout the process. This is very important because, throughout the foreclosure crisis, borrowers have lodged widespread complaints about their frustrations in trying to work with their lenders. They've complained about unresponsive employees, lost documents, and conflicting information. A summary of the new servicing standards is published on our website at http://www.azag.gov.

15. Q: How can we be assured that the banks will comply with the new servicing standards?

A: This settlement is backed by a federal court order. State attorneys general and the U.S. Department of Justice can seek redress if the banks don't follow the settlement terms.

The settlement also includes an independent monitor. The monitor, who will work from a strict set of objective measuring standards, will oversee the carrying out of this agreement and will report to the states and federal agencies on the banks' compliance. There are significant penalties if the banks violate the court judgment. A court ordered settlement is very different from the voluntary foreclosure prevention efforts that have been tried to date.

16. Q: How does this settlement affect members of the military?

A: The Servicemembers Civil Relief Act (SCRA) provides specific protections for active service members, including postponing or suspending certain civil obligations, such as mortgage payments and foreclosure. This settlement provides enhanced safeguards for military personnel that go beyond SCRA protections, including extending the window of protections for qualified service members, and not requiring service members to be delinquent to qualify for a short sale, loan modification, or other loss mitigation relief if the service member suffers financial hardship and is otherwise eligible for such loss mitigation.

17. Q: How will I know whether this settlement affects me?

A: Due to the complexity of the mortgage market and this agreement, which will be performed over a three year period, borrowers will not immediately know if they are eligible for relief. For loan modifications and refinance options, borrowers may be contacted directly by one of the five participating mortgage banks. Even if you are not contacted, if your loan is serviced by one of the five settling banks, you are encouraged to contact your servicer to see if you are eligible.

For payments to foreclosure victims, a settlement administrator designated by the attorneys general will send claim forms to eligible persons. If your Arizona home was foreclosed by one of the five settling banks between January 1, 2008 and December 31, 2011, you can send your name, contact information, name of servicer, and date of foreclosure by email to: mortgagefraud@azag.gov, and we will attempt to provide that information to the settlement administrator when appointed. Be sure to let us know if your contact information changes.

Borrowers may also contact their mortgage servicer to obtain more information about specific loan modification programs and whether the borrower may be impacted by this settlement. Be patient—not all information is known at this time. Keep checking the websites, as more information will be made available as the settlement programs are implemented.

For more information on the proposed agreement, continue to check the following websites:

http://www.azag.gov
www.NationalMortgageSettlement.com
www.HUD.gov
www.DOJ.gov

Office of Comptroller of Currency's Independent Foreclosure Review:
http://independentforeclosurereview.com/ or
(888) 952-9105.

GMAC / Ally (800) 766-4622
Bank of America (877) 488-7814
CitiGroup / CitiBank (866) 272-4749
JPMorgan Chase (866) 372-6901
Wells Fargo (800) 288-3212

18. Is the Arizona Attorney General's settlement with Bank of America part of the national mortgage settlement?

A: No. The settlement with Bank of America is separate from, and in addition to, the benefits obtained under the national settlement. In December 2010, the Arizona Attorney General filed suit against Bank of America and related entities for violations of a prior Consent Judgment and violations of the Consumer Fraud Act. The settlement with the Bank of America resolves that lawsuit. As part of the settlement, Bank of America has agreed to pay $10 million to the Arizona Attorney General's Office to be used for certain purposes, such as mitigating the effects of the foreclosure crisis in Arizona and providing compensation for harm resulting from conduct alleged in the lawsuit, plus offer additional programs to Arizona borrowers. More information about this settlement will be provided as it becomes available.

19. Q: How is the national mortgage settlement different from the OCC Independent Foreclosure Review?

A: The Independent Foreclosure Review is being conducted by the Office of Comptroller of Currency ("OCC") and the Board of Governors of the Federal Reserve System. As part of this review, several mortgage service providers (including the five banks participating in the national mortgage settlement) began sending out notices to eligible borrowers on November 1, 2011, for borrowers who were in active foreclosure on their primary residence between January 1, 2009, and December 1, 2010. This action is being conducted as part of the consent order with the federal bank regulators and federal agencies to determine if errors, misrepresentations or other deficiencies occurred during the foreclosure process of the borrower's primary residence. Compensation may be available to certain eligible borrowers.

Eligible borrowers will receive notification from the OCC including a Request for Review form that needs to be submitted by July 31, 2012.

Borrowers who have questions about this review can use the following resources:

- OCC News Release: http://www.occ.treas.gov/news-issuances/news-releases/2011/nr-occ-2011-133.html
- OCC Independent Foreclosure Review: http://www.independentforeclosurereview.com/
- Frequently Asked Questions: http://independentforeclosurereview.com/faq.aspx#FAQ4

If you have been foreclosed upon and are otherwise eligible, you could potentially receive payments under both the OCC foreclosure review process and as part of the national mortgage settlement.

20. Q: I have not filed a consumer complaint with the Arizona Attorney General's Office about my mortgage servicer. What should I do?

A: You are not required to file a consumer complaint with the Arizona Attorney General's Office to be eligible for benefits under the national mortgage settlement and filing a consumer complaint will not affect your eligibility. We do, however, encourage you to file a consumer complaint if:

- You have a loan serviced by one of the five banks and are experiencing ongoing concerns or issues;
- You had a loan serviced by one of the five banks and have been transferred to a different servicer (even if the transfer was to a servicer not mentioned in the settlement) and believe you have been a victim of consumer fraud;
- You have lost your property to foreclosure and believe you have been a victim of consumer fraud;
- Feel you've been a victim of deceptive mortgage servicing practices or any other type of consumer fraud or would like to report consumer fraud.

To file a complaint online, consumers can visit: http://www.azag.gov/consumer/complaintform.html. Consumers can also contact the Arizona Attorney General's Office Consumer Information & Complaints Unit at (602) 542-5763 / (520) 628-6504 / (800) 352-8431