

What Mortgage Settlement Will and Won't Do for Homeowners

Most money will go to those who are "underwater" and those with Freddie, Fannie contracts don't qualify

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AP Real Estate Writer

WASHINGTON (AP) — The mortgage settlement that government officials announced Thursday is intended to help victims of foreclosure abuses that followed the housing bust.

Many companies that process foreclosures failed to verify documents. Some employees signed papers they hadn't read. Or they used fake signatures to speed foreclosures - a step called "robo-signing." As a result, some homes were seized improperly.

Here's a look at what the settlement will and won't do for current and former homeowners:

Q: Who stands to benefit?

A: Most of the money would go to some homeowners who are "underwater." That means they owe more on their loan than their home is worth. Many are struggling to make their payments and are at risk of foreclosure. Yet because they have no home equity, they've been unable to refinance into a lower-rate loan. For about 1 million underwater homeowners, their loan principal will be reduced by an average of \$20,000. But more than 90 percent of underwater homeowners won't be helped. Some, however, might be eligible to refinance at a rate of 5.25 percent.

Q: How might the settlement help people avoid foreclosures?

A: It requires that banks make foreclosure a last resort. And it bars lenders from foreclosing on a homeowner who is being considered for a loan modification. If this worked effectively, "it would help borrowers, lenders, the entire country," said Ray Brescia, a visiting law professor at , who has tracked the housing crisis. But he cautioned that it would help only if diligently enforced.

Q: Who's eligible for relief?

A: Those whose loans are owned or guaranteed by private lenders. Roughly half the mortgages in the - about 30 million loans - are owned by private lenders. The other half are owned by government-controlled mort-

gage giants Fannie Mae and Freddie Mac. Homeowners with these mortgages aren't eligible.

Q: How will the deal help those who unfairly lost their home to foreclosure due to robo-signing?

A: Roughly 750,000 households - about half who are eligible for aid under the deal - could get checks for \$2,000 if they lost their homes between 2008 and 2011. Critics note that that's not much relief for people who lost their homes when they were improperly foreclosed upon.



Q: Will homeowners and states still be able to take action against lenders on their own?

A: Homeowners who get checks will not lose their rights to sue lenders in court. And states will still be able to criminally charge lenders and servicers who engaged in deceptive or illegal foreclosure practices. , for example, charged a Georgia-based mortgage servicer and its founder last week on charges of falsifying 68 notarized deeds on behalf of mortgage lenders.

Q: Could the settlement help repair the troubled housing market?

A: Possibly, but only in the long run. banks will likely process foreclosures faster now that a deal has been finalized. Foreclosure filings have slowed because of backlogged courts, judges skeptical of foreclosure documents and lenders awaiting a final government-backed deal. "If it helps 1 million homeowners over the next few years, it should help housing prices stabilize and start rising again," said Mark Zandi, economist at Moody's Analytics. "And this should unclog the foreclosure process."

Q: Is the settlement fair?

A: The deal forces the five largest mortgage lenders to reduce loans or send checks to nearly 2 million American households. But considering the range and depth of the housing crisis, the payout amounts to small change for the banks. And only a fraction of people who likely need help will get it.

Q: Who will enforce the terms of the deal?

A: 's banking commissioner, Joseph A. Smith Jr., will monitor enforcement. Lenders that violate the deal could face \$1 million penalties per violation and up to \$5 million for repeat violators. The banks will also have to pay fines to the federal government if they don't use the funds to help mortgage holders.

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