Foreclosure abuses case settled: $25B aids 1 million homowners

By Derek Kravitz
The Associated Press

WASHINGTON — A landmark $25 billion settlement with the nation's top mortgage lenders was hailed by government officials Thursday as long-overdue relief for victims of foreclosure abuses. But consumer advocates countered that far too few people will benefit.

The deal will reduce loans for only a fraction of those Americans who owe more than their homes are worth. It will also send checks to others who were improperly foreclosed upon. But the amounts are modest.

It's unclear how much the deal will help struggling homeowners keep their homes or benefit those who have already lost theirs.

About 11 million households are underwater, meaning they owe more than their homes are worth. The settlement would help 1 million of them.

"The total number of dollars is still small compared to the value of the mortgages that are underwater," said Richard Green, director of the University of Southern California's Lusk Center for Real Estate.

Federal and state officials announced that 49 states joined the settlement with five of the nation's biggest lenders. Oklahoma struck a separate deal with the five banks. Government officials are still negotiating with 14 other lenders to join.

The bulk of the money will go to California and Florida, two of the states hardest hit by the housing crisis and the ones with the most underwater homeowners. The two states stand to receive roughly 75 percent of the settlement funds.

Of the five major lenders, Bank of America will pay the most to borrowers: nearly $8.6 billion. Wells Fargo will pay about $4.3 billion, JPMorgan Chase roughly $4.2 billion, Citigroup about $1.8 billion and Ally Financial $200 million. The banks will also pay state and federal governments about $5.5 billion.

The settlement ends a painful chapter of the financial crisis, when home values sank, and millions edged toward foreclosure. Many companies processed foreclosures without verifying documents. Some employees signed papers they hadn't read or used fake signatures to speed foreclosures — an action known as robo-signing.