Commonwealth of Kentucky
Public Protection Cabinet

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DFI Joins Historic State-Federal Mortgage Servicing Settlement

FRANKFORT, Ky. – (Feb. 9, 2012) – Today the Department of Financial Institutions (DFI) announced it is participating in the $25 billion national mortgage settlement reached in response to significant and far-reaching problems discovered in the residential mortgage servicing industry.

The $25 billion settlement is between state attorneys general, including Kentucky Attorney General Jack Conway; state financial regulatory agencies including DFI; federal agencies; and the five largest mortgage servicing companies – Bank of America Corp., Wells Fargo & Co., JPMorgan Chase & Co., Citigroup Inc., and Ally Financial Inc.

The investigation began in October 2010 following revelations of widespread use of "robo-signed" affidavits in foreclosure proceedings across the country. During investigation, other servicer-related problems were identified, including deceptive practices in offerings of loan modifications.

"These failures were more than just poor customer service or simple problems with legal paperwork," said DFI Commissioner Charles Vice. "When these mortgage servicers did not process homeowners' requests for modified payment plans, it resulted in unnecessary foreclosures. Further, where foreclosures should have been concluded, shoddy documentation led to protracted delays."

The proposed settlement agreement is extensive in its requirements for the five largest servicers and will impact a significant number of homeowners. Among other things, the settlement:

- Implements stringent standards for affidavits and sworn statements in foreclosure and bankruptcy proceedings;
- Imposes new requirements for accuracy and verification of a borrower's account information;
- Clarifies documentation of note, holder status, and chain of assignment;
- Directs the five servicers to implement quality assurance systems and conduct regular audits of such systems;
- Applies loss mitigation requirements, intended to apply to both government-sponsored and proprietary loss mitigation programs;
- Prohibits the five servicers from initiating a foreclosure while a loan modification is in process;
- Directs the five servicers to provide a single point of contact and single electronic record to a borrower;
- Seeks to enforce protections for military personnel established by the Servicemembers Civil Relief Act;
- Restricts default and foreclosure-related fees the five servicers can charge;
- Addresses force-placed insurance; and
- Outlines general servicer duties and prohibitions.

"It should be noted that not all financial institutions engaged in the types of practices addressed in this settlement," said Vice. "State-chartered banks and mortgage providers in Kentucky continue to follow proper procedures to underwrite and service mortgage loans. And many will work with borrowers who may be facing hardship, so that they are able to repay their loans."

A copy of the settlement is available at www.nationalmortgagesettlement.com/.

DFI, which traces its origin to the Banking Act of 1912, is an agency in the Public Protection Cabinet. For 100 years it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.

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