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Foreclosure Talks Said to Yield Some Agreements With Banks (1)
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(Updates with statement from Florida attorney general in eighth and ninth paragraphs.)

By David McLaughlin

April 18 (Bloomberg) -- Attorneys general negotiating a settlement of a 50-state investigation of foreclosure practices have reached agreements with lenders on some terms while failing so far to reach an accord on potential monetary payments by the banks, said a person familiar with the talks.

The probe was triggered by claims of faulty foreclosure practices following the housing collapse which law enforcement officials said may violate state law. Significant progress has been made on a deal with lenders, which include Bank of America Corp. and JPMorgan Chase & Co., with agreements in principle reached on several issues, said the person, who didn't specify the areas of accord as they may change as talks proceed.

It may take at least two months to reach a final agreement, said the person, who declined to be identified because the talks are private. An accord remains out of reach because states want principal reductions for borrowers, which is more than banks agreed to in deals reached with U.S. regulators last week, said Allison Schoenthal, a lawyer at Hogan Lovells in New York.

"Principal reductions I don't think are going to be agreed to by banks, and I don't think the banks see a need for a penalty when, in their view, they haven't done anything wrong," said Schoenthal, who represents lenders and servicers and isn't involved in the talks.

Set Requirements

Geoff Greenwood, a spokesman for Iowa Attorney General Tom Miller, who leads the negotiations for the states, declined to comment. Dan Frahm, a spokesman for Charlotte, North Carolina-based Bank of America, declined to comment. Thomas Kelly, a spokesman for New York-based JPMorgan, didn't respond to an e-mail seeking comment.

The 50 states, along with federal agencies including the Justice Department, seek to set requirements for how banks service loans and conduct home foreclosures.

Last month, the states submitted proposed settlement terms to five mortgage servicers, and have been meeting with bank officials to reach a final settlement.

The proposal called in part for monetary payments by banks to go toward a loan modification program that includes loan principal reductions for borrowers.

Several attorneys general, including Florida's Pam Bondi, criticized the proposal for principal reductions in letters written to Miller last month. Jennifer Meale, a spokeswoman for Bondi, said the office has had "constructive and meaningful dialogue" with attorney generals leading the talks.

Addressing Misconduct

"The group has thoroughly discussed our concerns with the term sheet and continues to work toward its goal of addressing misconduct in the mortgage loan industry," Meale said in an e-mailed statement April 15.

In a speech to a group of attorneys general earlier this month, Bank of America Chief Executive Officer Brian Moynihan said "broad-based" principal reductions aren't "a sound policy decision for America."

"Fairness is a major concern," he said, according to the prepared text of the speech. "It's hard to see how we could justify reducing principal for many delinquent customers who represent a small portion of borrowers, but not for the vast majority of our customers who have stayed current on their loans."

Principal Reductions

Any agreement on principal reductions will depend on the size of the writedowns, the incentives for the servicers built into the settlement and other details, which continue to be sorted out, said the person close to the negotiations.

Miller said last month after a meeting between banks and state and federal officials that the two sides had "a long way to go" to reach an agreement.

The 14 mortgage servicing companies who reached deals with U.S. banking regulators, including the Office of the Comptroller of the Currency, agreed to conduct a review of loans that went into foreclosure in 2009 and 2010, and improve their procedures for modifying loans and seizing homes.

They also agreed to stop foreclosing on homes while negotiating lower mortgage payments for borrowers.

In addition to Bank of America and JPMorgan, also taking part in the regulator agreements were Wells Fargo & Co., Citigroup Inc., the GMAC unit of Ally Financial Inc., Aurora Bank FSB, EverBank Financial Corp., HSBC Holdings Plc, OneWest, MetLife Inc., PNC Financial Services Group Inc., Sovereign Bank, SunTrust Banks Inc., and US Bancorp.

Global Settlement

Bank of America, JPMorgan, San Francisco-based Wells Fargo, New York-based Citigroup and Detroit-based Ally are the five companies involved in the talks with the 50 states.

The federal regulators said their agreements with the servicers are designed as a tool for state and federal law enforcement agencies as they seek a global settlement. Iowa's Miller said the effort of states to reach a nationwide agreement would continue "unabated."

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