"Another Gift to the Banks"

By Mel Lavine

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Several years ago during the financial meltdown I happened to get into a conversation with a lawyer who worked for a bank in a town I was visiting. He excused the banks from blame in the crisis, saying it was the fault of people who lied and cheated, claiming an income and net worth they didn't have.

I wonder what he would say today with the banks accepting responsibility in billions for foreclosure abuses including flawed paperwork and botched loan modifications.

But as Gretchen Morgenson, a financial columnist, for the New York Times, said Sunday, "If you were hoping that things might be different in 2013 – you know, that bankers would be held responsible for bad behavior or that the government might actually assist troubled homeowners – you can forget it." A settlement announced Monday does not end foreclosure abuses but

“more of the same: no accountability for financial institutions and little help for borrowers.”

In 201l regulators began moving against 14 banks including JP Morgan Chase, Bank of America and Citigroup, after the foreclosure process was found to be “rampant” with “misdeeds.” People who borrowed believed they had been ripped off by the way their banks did business. Borrowers suspected that they had been swindled by bank practices: “levying excessive and improper fees, or foreclosing when a borrower was undergoing a loan modification.”

About 4.4 million borrowers were caught up in the foreclosure net during that time.

In the settlement people who had lost their homes “because of improprieties” would get a total of $3.75 billion in cash. An additional $6.25 billion “would be put toward principal reduction for homeowners in distress.”

Morgenson says the deal is “your first clue that it is another gift to the banks.” She writes, “It’s not clear which borrowers will receive what money, but divvying up $3.75 billion among millions of people doesn’t amount to much per person. If, say, half of the 4.4 million borrowers were subject to foreclosure abuses, they would each receive less than $2,000, on average. If 10 percent of the 4.4 million were harmed, each would get roughly $8,500.”

She pointed out that last year federal regulators outlined possible penalties: “if a bank had foreclosed while a borrower was making payments under a loan modification, it might have to pay $15,000 and rescind the foreclosure. And if it couldn’t be rescinded because the house had been sold, the bank could have had to pay the borrower $125,000 and any accrued equity.” But, as she says, that was last year.

Alys Cohen, an attorney at the National Consumer Law Center, remarked: “We think if the reviews were done right, the payouts would have been significantly higher than they appear to be under this settlement. The regulators will have abandoned their responsibility if the banks end up getting off the hook easily and cheaply.”

In other words the banks would be paying pennies for every dollar they’ve ripped off from the working and middle classes.

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