

Last week, federal banking regulators announced an \$8.5 billion settlement with banks and touted the deal as providing quick relief for aggrieved homeowners. Critics, however, charged that the deal was actually a means to quietly end a deeply flawed review of foreclosed loans. The settlement brought to an end an effort led by the Office of the Comptroller of the Currency to review any loan in foreclosure in 2009 and 2010, a process that proved to be time-consuming and costly as reviewers collected more than \$1 billion in fees.

The review was plagued by issues from its beginning in November 2011, according to regulators and bank officials who spoke about the process on condition of anonymity. Some employees of a consulting firm conducting reviews said their managers showed a bias toward the bank that hired them. Other reviewers criticized the test questions as indecipherable and noted that the process failed to detect serious harm. Many borrowers never heard of the review or were so baffled by the process they simply gave up on it or dismissed it as another empty promise. The review was intended to cover any loan in foreclosure in 2009 and 2010, regardless of whether there was any evidence of questionable practices. The Federal Reserve and the Comptroller directed banks to hire consultants for the review and also solicited claims from borrowers. At the time the process was stopped, consultants had only fully reviewed a third of the foreclosure files. Critics pointed out one failing of federal regulators in contracting the work out to several consulting firms that charged as much as \$250 per hour and who hired many contract employees who had no experience reviewing mortgages. Reviewers lamented that a single review could take them up to 20 hours per file, more than double the eight hours the consultants originally promised regulators.

As a result of the flawed and incomplete review, federal regulators do not have accurate information regarding which homeowners were actually harmed by arbitrary or unfair practices. \$3.3 billion of the \$8.5 billion settlement will be shared among the 3.8 million borrowers who went through foreclosure. The rest of the settlement funds come from banks' lowering of interest payments or loan amounts for homeowners.