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Department of Justice

Office of Public Affairs

FOR IMMEDIATE RELEASE

Tuesday, June 17, 2014

Federal Government and State Attorneys General Reach Nearly \$1 Billion Agreement with SunTrust to Address Mortgage Loan Origination as Well as Servicing and Foreclosure Abuses

Agreement Provides Homeowner Relief and New Protections, Stops Abuses

The Justice Department, Department of Housing and Urban Development (HUD), and the Consumer Financial Protection Bureau (CFPB), along with 49 state attorneys general and the District of Columbia's attorney general have reached a \$968 million agreement with SunTrust Mortgage Inc. (SunTrust) to address mortgage origination, servicing, and foreclosure abuses.

The joint agreement is the result of extensive investigations by federal agencies, including the Department of Justice, HUD and the HUD Office of the Inspector General (HUD-OIG), CFPB and state attorneys general across the country, and includes recoveries for both improper mortgage origination and servicing practices.

"SunTrust's conduct is a prime example of the widespread underwriting failures that helped bring about the financial crisis," Attorney General Eric Holder said. "From mortgage origination to servicing to securitization, the Department of Justice is attacking every facet of conduct that led to the Great Recession. We will continue to hold accountable financial institutions that, in the pursuit of their own financial interests, misuse public funds and cause harm to hardworking Americans. We expect that there will be more cases like this to come."

"This agreement, which totals nearly \$1 billion, not only holds SunTrust accountable for years of abusive practices mortgage origination practices; it also provides for restoration," said Associate Attorney General Tony West. "By the terms of this resolution, SunTrust is required to provide \$500 million in consumer relief for homeowners as well as abide by terms that will help to prevent the abuses of the past from being repeated. It's a result attained thanks to the close coordination among our enforcement agency partners throughout the government."

As part of the settlement, SunTrust has agreed to pay \$418 million to resolve its potential liability under the federal False Claims Act for originating and underwriting loans that violated its obligations as a participant in the Federal Housing Administration (FHA) insurance program. As a participant in that program, SunTrust had the authority to originate, underwrite and certify mortgages for FHA insurance.

SunTrust admitted that between January 2006 and March 2012, it originated and underwrote FHA-insured mortgages that did not meet FHA requirements, that it failed to carry out an effective quality control program to identify non-compliant loans, and that it failed to self-report to HUD even the defective loans it did identify. SunTrust also admitted that numerous audits and other documents disseminated to its management between 2009 and 2012 described significant flaws and inadequacies in SunTrust's origination, underwriting, and quality control processes, and notified SunTrust management that as many as 50 percent or more of SunTrust's FHA-insured mortgages did not comply with FHA requirements. For example, a 2012 internal SunTrust document noted two "significant" issues that had been plaguing the company for years – a "Broken Loan Origination Process" coupled with a "Deficient Government Insuring Process." Other reports received by SunTrust management described its quality control program as "severely flawed" and "ineffective." These reports described to management that the volume of problems in the program was "excessive," and that the error rates were "elevated" and at an "unacceptable level."

"SunTrust's irresponsible FHA lending practices caused grievous harm to homeowners and the housing market, as well as wasting hundreds of millions of dollars in taxpayer funds," said Assistant Attorney General for the Justice Department's Civil Division Stuart F. Delery. "As this settlement demonstrates, we will continue to hold accountable financial institutions that misuse



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public funds and ruin the lives of hardworking Americans in the pursuit of their own financial interests.”

The servicing portion of the agreement parallels the \$25 billion National Mortgage Settlement (NMS) reached in February 2012 between the federal government, 49 state attorneys general and the District of Columbia’s attorney general and the five largest national mortgage servicers. Under the agreement announced today, SunTrust has agreed to provide \$500 million in additional relief in the next three years directly to borrowers and homeowners in the form of reducing the principal on mortgages for borrowers who are at risk of default, reducing mortgage interest rates for homeowners who are current but underwater on their mortgages, and other relief. The settlement will likely provide direct benefits to borrowers far in excess of \$500 million because SunTrust will not be permitted to claim credit for every dollar spent on the required consumer relief. SunTrust has also agreed to pay \$50 million in cash to redress its servicing practices, \$40 million of which will be distributed to borrowers and homeowners through the Borrower Payment Fund established by the NMS and administered by the states. “This agreement with SunTrust is another step forward in the Obama Administration’s ongoing effort to hold mortgage lenders accountable,” said HUD Acting Deputy Secretary Helen Kanovsky. “By using the framework of the National Mortgage Settlement, we will ensure that SunTrust provides mortgage relief to struggling homeowners in the hardest hit communities and changes their worst practices. HUD will continue working with the Department of Justice, CFPB and state attorneys general to hold lenders accountable and require them to institute practices that are beneficial to borrowers and the FHA fund.”

“The culmination of this case today represents the long hours dedicated by auditors, investigators, counsel and the data analytics team in the Office of Inspector General to address the significant problems we identified in SunTrust’s underwriting,” said HUD Inspector General David A. Montoya. “The case begins and ends with the crucial work produced by this office and the commitment by my staff to work with the Department of Justice, HUD and others in a concerted effort to combat misrepresentation and fraud against vital government programs. My office will continue to aggressively seek out instances in which the FHA, and by extension the American taxpayer, are harmed by misconduct that should not be tolerated.”

“Deceptive and illegal mortgage servicing practices have pushed families into foreclosure and devastated communities across the nation,” said CFPB Director Richard Cordray. “Today’s action will help homeowners and consumers harmed by SunTrust’s unlawful foreclosure practices. The Consumer Bureau will continue to investigate mortgage servicers that mistreat consumers, and we will not hesitate to take action against any company that violates our new servicing rules.”

“Homeownership is the bedrock of the American dream, and we continue to address the many mortgage servicing nightmares that homeowners across the country experienced for years,” said Iowa state Attorney General Tom Miller. “State attorneys general are working across party lines with our federal partners to address past practices, and we’re trying to ensure that borrowers are treated more fairly in the future.”

The joint federal-state agreement also requires SunTrust to implement significant changes in how they service mortgage loans, handle foreclosures, and ensure the accuracy of information provided in federal bankruptcy court. The agreement requires new servicing standards which will prevent foreclosure abuses of the past, such as robo-signing, improper documentation and lost paperwork, and create dozens of new consumer protections. The new standards provide for strict oversight of foreclosure processing, including third-party vendors, and new requirements to undertake pre-filing reviews of certain documents filed in bankruptcy court.

The new servicing standards ensure that foreclosure is a last resort by requiring SunTrust to evaluate homeowners for other loss mitigation options first. In addition, SunTrust is restricted from foreclosing while the homeowner is being considered for a loan modification. The new standards also include procedures and timelines for reviewing loan modification applications and give homeowners the right to appeal denials. SunTrust will also be required to simplify the process for homeowners needing help by creating a single point of contact for borrowers seeking information about their loans and—importantly—maintaining adequate staff to handle calls.

The agreement will be filed as a consent judgment in the U.S. District Court for the District of Columbia. Compliance with the agreement will be overseen by an independent monitor, Joseph A. Smith Jr., who is also the monitor for the NMS. Smith has served as the North Carolina Commissioner of Banks since 2002, and is also the former Chairman of the Conference of State Banks Supervisors (CSBS). The monitor will oversee implementation of the servicing standards required by the agreement; impose penalties of up to \$1 million per violation (or up to \$5 million for certain repeat violations); and publish regular public reports that identify any quarter in which a servicer fell short of the standards imposed in the settlement.

The agreement resolves potential violations of civil law based on SunTrust’s deficient mortgage loan origination and servicing activities. The agreement does not prevent state and federal authorities from pursuing criminal enforcement actions related to this or other conduct by SunTrust, or from punishing wrongful securitization conduct that is the focus of the Residential Mortgage-Backed Securities Working Group of President Barack Obama’s Financial Fraud



Enforcement Task Force. The agreement does not prevent the CFPB from pursuing civil enforcement actions against SunTrust for violations of the CFPB's new mortgage servicing rules that took effect on Jan. 10, 2014. State attorneys general also preserved, among other things, all claims against the Mortgage Electronic Registration Systems (MERS), and all claims brought by borrowers. Additionally, the agreement does not prevent any action by individual borrowers who wish to bring their own lawsuits.

SunTrust is a mortgage lender and servicer headquartered in Richmond, Virginia, and is a wholly-owned subsidiary of SunTrust Banks Inc., a bank and financial services company headquartered in Atlanta, Georgia.

The settlement announced today was the result of investigations conducted by the Civil Division and the U.S. Trustee Program of the Department of Justice, state attorney general offices throughout the country, HUD-OIG and HUD's FHA, and the CFPB. The Department of the Treasury, the Federal Trade Commission, the Federal Deposit Insurance Corporation, the Department of Veterans Affairs and the U.S. Department of Agriculture also made critical contributions.

The joint federal-state agreement is part of enforcement efforts by President Barack Obama's Financial Fraud Enforcement Task Force. President Obama established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets and recover proceeds for victims of financial crimes. For more information about the task force, visit: www.stopfraud.gov.

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Civil Division

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