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Mortgage Settlement Money Is For Homeowners, Housing Secretary Cautions State Governments

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Alarmed by [reports](#) that states may divert mortgage settlement money intended to help homeowners, Housing and Urban Development Secretary Shaun Donovan said Friday that he is calling governors and attorneys general to urge them to "do the right thing with the money."

Under the \$25 billion settlement announced last month, Bank of America, JPMorgan Chase, Wells Fargo, Citigroup and Ally Financial agreed to pay state governments \$2.5 billion in fines. The framers of the settlement intended for states to use the money to fund a range of foreclosure prevention programs, including aid to housing counseling agencies, which have suffered from cuts in federal funding. But the states are ultimately free to do what they want with the money, which has led some to fear that states may use it to patch holes in general revenue, which is where much of the aid earmarked under the massive tobacco settlement for smoking cessation programs ultimately ended up.

In Wisconsin, Governor Scott Walker and state Attorney General J.B. Van Hollen announced plans last month to use \$25.6 million of the settlement money (about 18 percent of the \$140 million Wisconsin will get in total) to plug holes in the state's budget. Meanwhile, in Missouri, state Attorney General Chris Koster said that he plans to put \$40 million of Missouri's settlement money (about 20 percent of the total \$196 million) into the general state fund.

Donovan's comments came in a conference call with reporters. He said that the attorneys general of Illinois and Indiana have told him that they plan to use their shares of the settlement to assist homeowners. He acknowledged that he had no direct control over what states do with the money.

As The Huffington Post [previously reported](#), housing counseling agencies say additional funding is badly needed. Last year, Congress eliminated about 500 agencies' main source of federal funding, an \$88 million grant program administered by HUD, a move that forced some agencies to lay off staff and others to freeze salaries and benefits. Congress later restored about \$45 million for 2012.

During the conference call, which was arranged to announce the disbursement of HUD money to counseling organizations, Donovan described the allocation as "not adequate" and said that President Obama had requested \$55 million for 2013.

In 2010, West Tennessee Legal Services received a \$1.1 million HUD grant to pay its staff and also to support 25 other rural legal aid groups throughout Appalachia and the Mississippi River delta. In 2011 they received nothing, upon Congress' elimination of the grant.

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Steve Xanthopoulos, the executive director, said he was "relieved" to learn that his agency would receive \$672,000 from HUD for 2012 -- enough money, he said, "to preserve core services." But belt-tightening at the nonprofit will continue, he said. Xanthopoulos said he didn't know yet whether his agency would receive funding from Tennessee's cut of the mortgage settlement.

Housing counselors help homeowners navigate the thicket of government loan modification programs, filling out forms and ensuring they are received. They often know who to call at the institutions that service the loans in order to ensure a successful modification. They also know when to involve a foreclosure lawyer. Difficult cases may require dozens of hours of their time. About six million people have received some kind of housing counseling over the past three years.

An unpublished study by the Furman Center for Real Estate Policy from April 2011 found that borrowers who had received counseling in New York City were about 30 percent more likely to receive a modification than homeowners who had not consulted a counselor.

Donovan said other studies had found that 9 in 10 families who got counseling lived in their homes 18 months later, and that homeowners who visited a counselor were twice as likely to get a loan modification than borrowers who did not.

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