

SunTrust Settlement FACT SHEET

The Federal Housing Administration Insurance Program

- The FHA insurance program provides lenders with mortgage insurance when they provide mortgages to qualified borrowers (i.e. when they “underwrite” a loan) and also allows a homebuyer to make a reduced down-payment. If the borrower defaults on an FHA-insured mortgage, the lender can submit a claim to the FHA to reimburse the lender for its loss on the mortgage.

- This program has been critical in extending the opportunity for homeownership to first-time homebuyers and others who would otherwise be unable to secure conventional mortgage financing.

- Between January 2006 and March 2012, SunTrust was one of the largest originators and underwriters of FHA-insured mortgages and was approved by FHA to act as a “Direct Endorsement Lender.”

- If a Direct Endorsement Lender such as SunTrust approves a mortgage loan for FHA insurance and the loan later defaults, the holder of the loan may submit an insurance claim to the U.S. Department of Housing and Urban Development (HUD), FHA’s parent agency, for the losses resulting from the defaulted loan.

- Under the Direct Endorsement Lender program, neither FHA nor HUD reviews a loan before it is endorsed for FHA insurance. Approved lenders such as SunTrust are therefore required to certify that they are in compliance with all FHA underwriting requirements and that they are maintaining a quality control program to prevent and correct any deficiencies in their underwriting practices.

The SunTrust Settlement

- The United States and 49 state Attorneys General and the Attorney General for the District of Columbia have reached a \$968 million settlement with SunTrust Mortgage, Inc. (SunTrust) to address mortgage origination, servicing, and foreclosure abuses.
- The settlement includes both origination, and servicing and foreclosure components:

The Origination Portion of the Settlement

- Pursuant to the origination portion of the settlement, SunTrust will pay \$418 million to resolve its liability under the False Claims Act for improper origination, underwriting, and quality control of Federal Housing Administration (FHA)-insured mortgages between January 2006 and March 2012 that resulted in claims submitted to FHA on or before September 30, 2013.
- As part of the settlement, SunTrust acknowledged that materials provided to management stated in 2009 that “the system of internal control is ineffective.”
- Despite repeated warnings, the problems persisted for several years, with internal SunTrust documents in 2012 noting that “the volume of technical defects, procedural errors, and noncompliance with standards remains excessive” when it came to the government insuring process.
- SunTrust also admitted, in a 2012 audit, that, “There has been no improvement in processes and controls” since a prior audit performed in 2011 and that up to 56% of SunTrust’s FHA mortgages originated between January and March 2012 failed to comply with FHA requirements.

The Servicing Portion of the Settlement

- Pursuant to the servicing and foreclosure portion of the settlement, which parallels the National Mortgage Settlement reached with the nation’s top five mortgage servicers in February 2012, SunTrust will provide \$500 million in consumer relief directly to borrowers and homeowners in a variety of forms.
 - Because SunTrust will receive only partial credit for each dollar spent on the required consumer relief, the settlement will provide direct benefits to borrowers far in excess of \$500 million.

- In addition to the \$500 million in consumer relief, SunTrust will pay \$50 million to the federal government and participating states, of which \$40 million will be distributed to borrowers and homeowners through the Borrower Payment Fund established by the National Mortgage Settlement and administered by the States.