



This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your

colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit www.nytreprints.com for

samples and additional information. [Order a reprint of this article now.](#)

March 8, 2011

Bank Chief Rejects Idea of Reducing Home Loans

By NELSON D. SCHWARTZ

Showing resistance for the first time against government pressure to write off tens of billions worth of mortgage debt, [Bank of America](#) executives said on Tuesday that the idea was unworkable and warned that it would be unfair to borrowers who had managed to stay current on their loans.

“There’s a core problem that if you start to help certain people and don’t help other people, it’s going to be very hard to explain the difference,” said [Brian T. Moynihan](#), the chief executive of Bank of America.

“Our duty is to have a fair modification process.”

All 50 state attorneys general, as well as a host of federal agencies, are pushing for a settlement over investigations into foreclosure abuses by major mortgage servicers that could cost the industry \$20 billion or more. Much of that money would be earmarked to reduce principal owed by homeowners facing foreclosure.

But picking just who to help is among the thorniest questions facing government regulators, as well as the banks themselves. Even the most outspoken attorney general on the issue, Tom Miller of Iowa, acknowledged on Monday that too generous a program might encourage homeowners to walk away from properties where the value of the loan exceeded how much the underlying property was worth.

Indeed, industry experts estimate that nearly a trillion dollars worth of mortgage debt is “underwater,” a result of house prices having fallen since the original loans were made. Federal officials hope a settlement with the servicers will help individual borrowers and provide a cushion for the weak housing market.

Officials of Bank of America, the nation’s biggest mortgage servicer, argue that any effort to help troubled borrowers should not penalize borrowers who are underwater but have managed to make their monthly payments.

“There may be as much as \$1 trillion worth of mortgages that are underwater,” said Terry Laughlin, the Bank of America executive whose unit, Legacy Asset Servicing, handles mortgages that are delinquent or in default. “What do you do for those borrowers that have a job but have negative equity and have paid on time and honored their obligations?”

“This is an unsolvable question,” he said. “It’s a very slippery slope.”

The comments by Mr. Moynihan and Mr. Laughlin came at a daylong meeting with investors and analysts in New York, the first of its kind for Bank of America since 2007.

Despite fierce criticism by regulators and political leaders that its efforts to help troubled borrowers have fallen short, Bank of America executives insist that the number of successful modifications the bank has completed is on the rise. The bank says more than 800,000 mortgages have been modified in the last three years.

Writing down billions of principal now could actually retard the recovery by encouraging borrowers to default, they argue. “It’s not that we don’t want to help troubled borrowers,” Mr. Laughlin said. “It’s a moral hazard issue.”

Late last week, the attorneys general presented the five biggest mortgage servicers, including Bank of America, with a 27-page proposal that would drastically reshape how they deal with homeowners facing foreclosure. It did not include a specific dollar figure, but government officials say they want to

combine any overhaul of the foreclosure process with a monetary settlement that could finance more modifications for troubled borrowers.

The existing modification program created by the Obama administration, known as HAMP, has helped far fewer borrowers than originally promised. It also faces fierce opposition from Republicans in the House of Representatives, who voted last week to kill the program.

Mr. Moynihan believes investors who hold trillions in mortgage securities have to be involved in any settlement. It is not exactly clear what role they would play as part of the settlement with the federal government.

Officials at Bank of America, as well as other large servicers, declined to comment on the specifics of the 27-page proposal, and the industry has been cautious about fighting back too aggressively, mindful of the tales of robo-signing and other abuses that prompted the investigation by the attorneys general and federal regulators last fall.

What's more, consumers and politicians are keenly aware that Bank of America and other financial giants have staged a remarkable turnaround since the government bailed out the industry after the collapse of [Lehman Brothers](#) in 2008.

"I think reasonable minds will prevail on this," Mr. Moynihan said. "We do push back and we get to reasonableness."

Still, the comments at Tuesday's investor meeting are a preview of the arguments the industry is poised to make more forcefully in the weeks ahead as it negotiates with the attorneys general and other regulators behind closed doors. On Monday, Mr. Miller said he hoped a settlement could be reached within two months.

As the huge volume of loan losses recedes and the economy improves, Mr. Moynihan said his company had the power to earn \$35 billion to \$40 billion a year. Bank of America lost \$2.2 billion in 2010,

weighed down by special charges and the lingering effects of the housing bust and the recession on consumers.

He also reiterated his position that the long wave of acquisitions undertaken by his predecessors was over. “I can’t stress enough to you how much of a peace dividend we’ll get without mergers,” Mr. Moynihan said. “That peace dividend is effectively a permanent dividend.” The bank intends to resume payouts to shareholders in the second half of 2011.



More in Business Day (8 of 31 articles)

OPEN

Even a Wealthy Suburb Faces Pressure to Curb School Taxes

[Read More »](#)