

JANUARY 17, 2013, 9:03 PM

Mortgage Crisis Lingers On at Citigroup and Bank of America

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More than four years after the financial crisis, many big banks have regained their footing. But [Bank of America](#) and [Citigroup](#) remain dogged by the past.

On Thursday, the two banks disclosed that substantial legal costs undercut their fourth-quarter earnings. The expenses, the banks said, stemmed from huge settlements involving their mortgage businesses.

While the settlements lifted a dark cloud that hung over the banks, other legal problems will persist. Both banks continue to wrestle with federal authorities over claims they wrongfully evicted homeowners after using shoddy, flawed or inaccurate documents in foreclosure proceedings. Bank of America and Citigroup also face a torrent of private lawsuits asserting that the banks duped investors into buying troubled mortgage securities that later blew up.

"The 2008 collapse was not the flu - it was a major debilitating disease," said Lawrence Rimmel, a partner at the law firm Pryor Cashman. "It takes time rebuilding your strength," he said, and it is "unpredictable when some of the institutions will fully recover."

The mortgage overhang weighed on the banks' quarterly earnings.

While [Bank of America](#) notched strong quarterly gains across several divisions, the mortgage settlements drained the bank's profit, which plunged 63 percent to \$732 million, or 3 cents a share. All told, one-time expenses wiped out \$5.9 billion, or 34 cents a share, from the bank's quarterly earnings.

At [Citigroup](#), a \$1.3 billion legal bill dragged down profits. The bank reported a fourth-quarter profit of \$1.2 billion, or 38 cents a share, significantly below analysts' estimates.

On Thursday, Bank of America's shares dropped 4.2 percent to \$11.28. Citigroup's stock fell 2.9 percent to \$41.24.

"Litigation expenses have taken a huge toll," said James Sinegal, an analyst with the research firm [Morningstar](#).

The results come in contrast to those of competitors like [Wells Fargo](#) and [JPMorgan](#). The two banks reported banner profits in recent days, with strong gains in their mortgage businesses. Those banks face their own legal costs, but the damage has been less severe.

For Bank of America and Citigroup, the recent mortgage settlements are a reminder of past mistakes. During the housing boom, Citigroup, like other Wall Street firms, sold to investors billions of dollars of securities backed by subprime mortgages that later hurt its balance sheet. Bank of America largely inherited its mortgage woes through [Countrywide Financial](#), the subprime lending giant it bought in the depths of the financial crisis.

Now, the banks are hoping to close a dark chapter in their histories. This month, Bank of America and Citigroup, along with eight other banks, [signed a sweeping \\$8.5 billion settlement](#) with the Federal Reserve and the [Office of the Comptroller of the Currency](#) over foreclosure abuses like erroneous fees and flawed paperwork.

The settlement allowed them to halt an expensive review of millions of loans in foreclosure. The pact follows [a \\$26 billion deal in February](#) involving the five largest mortgage servicers and 49 state attorneys general, an agreement to resolve accusations that bank employees were blowing through mountains of documents used in foreclosures without checking for accuracy.

Bank of America last week also struck an agreement to resolve claims that it had sold troubled mortgages to the government-controlled housing finance giant [Fannie Mae](#), which suffered deep losses from the loans. The deal put to rest a bitter battle with Fannie Mae that had lingered since the housing bubble burst.

"We put a lot of risk behind us in 2012," Bruce R. Thompson, the company's chief financial officer, said in a conference call on Thursday. "We just feel like we're in a much better place going into 2013."

Despite the huge payouts, the mortgage headaches will take a while to fully dissipate. On an earnings call on Thursday, John C. Gerspach, Citigroup's chief financial officer, hinted at the banking industry's continuing legal woes. "I think that the entire industry is still looking at some additional settlements that are still yet to appear," he said.

Even if they can reach an understanding with regulators, the banks still face dozens of claims from prosecutors, investors and insurers related to more than \$1 trillion worth of securities backed by residential mortgages. "Mortgage-related litigation is at an unprecedented high," said Christopher J. Willis, a lawyer with Ballard Spahr, which handles securities and consumer litigation.

In October, for example, federal prosecutors in New York [accused Bank of America of perpetrating a fraud](#) through Countrywide by churning out loans at such a pace that quality controls were, for the most part, ignored.

A high-stakes lawsuit under way in federal court could also crimp the banks' future profits. The Federal Housing Finance Agency, which oversees Fannie Mae and [Freddie Mac](#), sued [Bank of America and Citigroup](#), along with 15 other banks, in 2011, claiming that the banks sold securities backed by shaky mortgages.

Beneath the jarring settlements and the headline numbers, Bank of America and Citigroup both reported improvements across their varied divisions. Bank of America reported that fewer homeowners were falling behind on their bills, with the number of home loans delinquent for more than 60 days falling 17 percent in the fourth quarter. And Bank of America's wealth management unit recorded quarterly profits of \$578 million, up 79 percent.

Citigroup was buoyed by gains in its securities and banking group, helped by investment banking, equities and fixed income. The unit reported net income of \$629 million for the quarter, in contrast to a \$158 million loss in the period a year earlier. Citigroup, which is focused on expanding in markets like Mexico and Asia, reported that revenue within the global consumer banking group increased 4 percent to \$4.9 billion in the fourth quarter.

Both banks are also ruthlessly whittling down their expenses to help bolster their profitability. At the end of 2012, Bank of America had 14,601 fewer employees than it had at the end of 2011. Also looking to be leaner, Citigroup said in December that it would eliminate 11,000 jobs worldwide, part of a much larger contraction.

Still, Mr. Gerspach, Citigroup's chief financial officer, struck a cautious tone on Wednesday during an earnings call. "I don't think we are alone in still working through some of these legacy issues," he said.