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CONSUMER MORTGAGE AUDIT CENTER REVEALS THE FIVE MOST COMMON MORTGAGE VIOLATIONS

Ninety-eight percent of mortgages reviewed have missing paperwork making them potentially eligible for renegotiation

FORT LAUDERDALE, Fla., July 16, 2009 – Ninety-eight percent of all mortgages are potentially eligible to be renegotiated due to Truth in Lending Act violations according to a review of thousands of mortgage documents undertaken by the Consumer Mortgage Audit Center (CMAC). The vast majority of the violations tend to take the form of missing paperwork, bad “good-faith” estimates, hidden and misrepresented payments, double-dipping brokers, and the lack of documentation of income for borrowers.

“Every day, the Consumer Mortgage Audit Center conducts comprehensive audits of mortgage documentation, and every day we find egregious and occasionally intentional mortgage violations,” said Sylvia Alayon, vice president of operations for CMAC. “While not all mortgage violations are necessarily malicious acts on the part of financial institutions, there are some basic areas every consumer should look at before signing a mortgage.”

According to CMAC, the five most common mortgage violations that break laws within the Truth in Lending Act and Real Estate Settlement Procedure Act are:

--**Missing paperwork.** The federal Truth in Lending Act states that lenders must clearly disclose key loan terms and costs at time of mortgage application and home closing; however, if paperwork is missing, buyers may never see the final mortgage terms and costs. Ninety-eight percent of mortgages CMAC reviews include this violation.

--**Bad “good-faith” estimates.** Good faith estimates are supposed to be documentation of mortgages and costs for buyers to compare and contrast one mortgage offer to another. However, some brokers write low-ball good faith estimates as a “bait and switch” by showing homeowners they’ll offer lower costs and mortgage terms, then later inserting higher interest rates, higher closing costs or mortgages that some homeowners can’t afford. CMAC sees 21 percent of this violation in its mortgage reviews.

--**Incorrect payment representations that drive up APRs.** Unscrupulous lenders play a bit of a shell game with Truth In Lending Disclosure Statements, which are estimations

of the cost of borrowing money to buy a home, the expected payments for a mortgage and other related details. When lenders fill out these documents with incorrect information—particularly in the payment section—the Annual Percentage Rate for the loan changes with each error, leaving homeowners with unexpected payment increases that can lead to foreclosures, if not paid. One-quarter (26 percent) of mortgages CMAC reviews include this violation.

--Double-dipping brokers. Within three days of offering a good faith mortgage estimate, brokers are supposed to reveal income to be paid outside closing, often referred to as the yield-spread premium. Unsavory brokers do not disclose the income to the borrower on the GFE. The borrower finds out about the YSP at closing on the HUD-1, which he/she is paying for indirectly in the form of a higher interest rate

--No documentation of income. Initially designed to help the self-employed who don't often have a paper trail to show income history, mortgages written with little—if any—documentation of the buyer's income enable deceitful brokers to fill in false income data that allows borrowers to qualify for larger loans and brokers to make higher commissions. One third (33 percent) of mortgages reviewed by CMAC include this violation.

“Paperwork is never fun to deal with, but there are ways homeowners can tell if they've been victim to a mortgage violation,” continued Alayon. “Comparing the HUD-1 document, which buyers get at settlement to outline most costs, with the same lender's good faith estimate is a great first step. If the figures on your HUD-1 and your good faith estimate look different, it may be time to call an attorney.”

The Consumer Mortgage Audit Center (CMAC; www.truthinaudits.com) is a due diligence and consulting company specializing in the field of mortgage forensic research and analysis. CMAC boasts a highly specialized team of mortgage experts who are also members of the American College of Forensic Examiners Institute and represent a combined experience of over 80 years in mortgage finance and law.

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