



FOR IMMEDIATE RELEASE: Forensic Mortgage Audits Uncover Violations and Predatory Lending

Survey: Over one half of mortgages were predatory or contained disclosure violations

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Over one half – 53 percent – of mortgage borrowers who obtained loans during 2003 to 2008 received an illegal loan or inaccurate disclosures in violation of federal law. That is the conclusion based on a sample of loan audits completed by a national mortgage software firm.

Loantech LLC analyzed the results of a random sample of 100 forensic loan audits completed by the firm this year. This type of audit identifies lender disclosure errors and other violations of federal lending laws based on the documents provided to the borrower on the day of settlement.

Federal lending laws such as the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) require lenders to provide borrowers with accurate disclosures regarding such information as the annual percentage rate, finance charge and loan features.

Of the loans reviewed, 24 percent contained disclosures with inaccurate annual percentage rates or finance charge figures. “Noteworthy is the fact that an error of just one eighth of one percent in the APR or \$35 in the finance charge can be a violation of federal law,” stated David I. Ginsburg, president of Loantech LLC, a Maryland-based mortgage software firm.

Nearly half of the loans – 47 percent – had one or more predatory feature such as negative amortization, balloon payment, prepayment penalty or a high debt-to-income ratio. A high debt-to-income ratio indicates an increased likelihood that borrowers will be unable to repay the loan. The survey also revealed that half of those borrowers did not receive the required disclosures.

The direct closing costs paid by or on behalf of the borrower were often high. Indeed, lender fees, broker fees and yield spread premium fees together exceeded three percent of the loan in 37 percent of the cases.

“These results clearly reflect a high incidence of mortgage violations. Does it reflect accurately the general mortgage market during that time? I think so,” stated Ginsburg. “That’s one of the reasons the housing market is in such a mess now,” Ginsburg added.

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