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## MORTGAGE BORROWERS RECEIVING FAULTY LOAN DISCLOSURES

***Flawed redesign of HUD-1 disclosure ignores variable rate limits;  
Each month, 30,000 new borrowers receiving incorrect loan information.***

Up to seven percent of all mortgage borrowers – and nearly all borrowers of adjustable rate mortgages – are receiving faulty loan information. According to a national mortgage software firm, this is the result of a flawed redesign of a key mortgage disclosure.

Lenders are required by federal law to provide every mortgage borrower with a HUD-1 disclosure. The newly redesigned disclosure contains an itemized list of all borrowing costs and a description of any possible future rate and payment changes and is considered one of the most important loan disclosures provided to borrowers. The lengthy redesign process was mandated by the federal government.

However, according to Loantech LLC, the newly redesigned disclosure erroneously presumes that for adjustable rate mortgages, all periodic maximum rate changes are the same, when in fact they are usually different. For example, the first rate increase limit, or cap, after five years might be five percent, with subsequent annual rate caps of just one percent. “This new form clearly misstates future worst case scenario rate increases,” stated David I. Ginsburg, president of Loantech.

Mr. Ginsburg also noted, “This major design defect is certainly ironic considering the main goal of the Real Estate Settlement Procedures Act (RESPA) is providing mortgage borrowers with comprehensive and accurate loan information at the time of settlement. This form is unquestionably a very important mortgage disclosure and because of this design flaw, it is often wrong,” he added.

“While the ARM share of the market is presently only about seven percent, most of the newer ARMs are of the hybrid variety with initial fixed periods of three or five years and these loans typically have different rate increase limits,” said Ginsburg. “These are the loan types that are being inaccurately disclosed,” Ginsburg added.

“This means that at a minimum, seven percent of all mortgage borrowers – and 100% of ARM borrowers – are receiving incorrect closing cost disclosures from their lender because of this design flaw,” Ginsburg added. “Based on current market activity, this suggests 150,000 borrowers have received incorrect HUD-1 disclosures since January 1, 2010,” he added.

“We were surprised to find that this key federal disclosure is misstating possible future rate change scenarios,” Ginsburg noted. For further information, call Mr. Ginsburg at 301.762.7700 or email [DavidG@loantech.com](mailto:DavidG@loantech.com).

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*Loantech LLC ([www.loantech.com](http://www.loantech.com)) was established in 1983 and the Gaithersburg, Maryland-based firm is a provider of mortgage audit software and services. For further information, contact David I. Ginsburg at 301.762.7700 or [DavidG@loantech.com](mailto:DavidG@loantech.com).*