

Ask Tommy: Your QC Expert



By Tommy A. Duncan, CMT

What were the hot topics at the Mortgage Bankers Association's recent Fraud Issues Conference?

First, I would like to say that the Mortgage Bankers Association (MBA) and its committees that did such a great job in hosting this conference. They featured a great number of panelists and speakers who are quite knowledgeable in the field of technology and fraud issues regarding the mortgage industry. One particular session that really grabbed my attention was a discussion regarding Home Affordable Modification Program (HAMP) loan modifications and short sales. I could not believe the number of problems that plague the federally-mandated HAMP.

There are 300,000 loans currently in their trial period that are expected to go into default. The reasons appear to be income related. The borrower, when applying for the loan modification, is working with the loan specialist and when asked about income, the findings appear the income is temporary or part-time, the borrower has not started yet, immediate loss of income for reason beyond the borrower's control, or the income just insufficient to make the payments even with a full-time or several part-time jobs. Also, there appears to be a question regarding getting the appropriate paperwork to complete the loan modification from the borrower. There are two ideas surrounding this dilemma:

The borrower is not sophisticated enough to know what to do or understand what to do.

The borrower is afraid they will get caught for misrepresentation/fraud once the first loan's income is discovered to be incorrect so the completed paperwork is not sent in due to fear. When the audience was asked which option they felt was the probable reason, option two was recognized by a majority for the reason. Simply put, if the borrower is not sophisticated enough to send in the supporting documents, how did they receive the loan in the first place. Some enemies of brokers may say the loan officer broker did it or made them do it. We know that is not true. It does make sense that the borrower misstated or misrepresented their income on the first loan. We know that there are many honest borrowers who truly disclose their income and not every mortgage loan is fraudulent. We understand many borrowers and brokers made good loans out there and unfortunate things happened to many innocent borrowers. However, this was a fraud conference and the focus was on those loans containing fraud.

Lenders are faced with a moral dilemma ... if the first loan had fraud for housing with overstated income, should the loan modification be made? The servicers are making them. However, what are the statutory limits for reporting a loan officer to authorities for allowing fraud for housing? There is not one yet. However, there are servicers mad as hornets with loan officers and they may unite and submit information to SAR and other organizations that are monitoring mortgage fraud.

Servicers are finding the borrower overstated their income when they received their first loan and understating their income to receive the loan modification. This must be the few hundred thousand who actually received their loan modification. Effective in June, all loan modification will require full documentation and the borrower will be required to sign a general authorization for a vendor or third-party to verify income rather than sending documents to the servicer.

Mortgage fraud is expanded in the servicer's world and it has taken them by surprise. After all this time, they are just now learning how to deal with it. We hope the best for those who are stressed and being stretched, and hope to see America to get through these difficult days.

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