

At Last, Colorado Is Taking Action vs. Mortgage Fraud

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Approximately once each year, I have written about the need to license mortgage brokers in Colorado. We are currently one of only two states which does not regulate or license mortgage brokers, and as a result Colorado ranks fifth nationally in the extent

of mortgage fraud. At last, the stars have aligned properly and the General Assembly will soon pass (so we are told) and our governor will sign a law mandating the registration of all mortgage brokers. They will be fingerprinted and can be denied registration if they have a criminal history or if they have had a license revoked in another state.

I had an interesting experience this month which reminded me of this topic. I received an offer on one of my listings at full price (\$275,000) with a provision that my seller pay \$10,000 of the buyer's closing costs and prepaids. The contract specified an 80% first mortgage not to exceed 7.5%, and a 20% second mortgage not to exceed 10%. A lender letter accompanied the offer, signed by the broker's husband, who was the mortgage broker.

My seller signed a counterproposal accepting all the offer's financial terms but asking for a second opinion from another mortgage broker as to the buyer's qualification for the loans.

The counterproposal was rejected. In fact, the broker had told me on the phone, without even consulting her buyer, that

such a request was unacceptable.

This broker volunteered that "all" her transactions were for 100% financing, and that her buyers did not want a second opinion on their qualification, because each pulling of a credit report would negatively impact the client's FICO score.

If this agent and her husband told their client that this was true, I believe they did so to convince the client not to get a competitive quote, and that they were knowingly misleading their client. It is widely known that FICO scores are not reduced when multiple mortgage companies pull credit reports, because it is understood that the client is shopping for the best single mortgage, not applying for multiple mortgages. This is also true for auto loans.

That's just one example of the deception, lack of ethical standards and even criminality to which Colorado mortgage borrowers are being subjected.

To me, however, the greater danger from unregulated mortgage brokerage is how it promotes or facilitates identity theft. Until this new Colorado law takes effect (Jan. 1, 2007), it is literally possible for a felon to leave prison, move to Colorado, buy a nice suit, print up business cards that say "mortgage broker," and proceed to convince unsuspecting Coloradans to reveal their Social Security number, bank information, credit card information, etc. Pretty frightening, isn't it?

All of us can breathe a big sigh of relief when this law is enacted.



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