News from your Settlement Consultant for Life

White Rose Newsletter

News to Help You Build Your Business October, 2014

Unconditional Love

A story is told about a soldier who was finally coming home from the war. He called his parents from the airport after landing back on his home soil. “Mom and Dad, I’m coming home, but I’ve got a favor to ask. I have a friend I’d like to bring with me.” “Sure,” they replied, “we’d love to meet him.”

“There’s something you should know,” the son continued. “He lost an arm and a leg in this war. He has nowhere else to go and I want him to come live with us.” “I’m sorry to hear that, son. We'd like to meet him, and he's welcome to stay with us for a time. Bring him along and we will do the best we can to get him set up on his own when he's ready." The soldier smiled. He knew his parents would say that.

When the soldier flew back into his home town, his parents were there to greet him. They saw him come off the plane in a wheelchair, one leg and one arm missing, and they ran to embrace him. After tearfully looking over their maimed son, the father looked around and said ironically, "Well, where is that other fellow that you wanted us to meet?" They had a good laugh, and the soldier felt he was home. He looked at his parents with the deepest love and knew he would be all right.

HUD Not Planning to Extend Anti-Flipping Waiver

The Federal Housing Administration’s (FHA) deputy assistant secretary for single family housing indicated in a letter that the Department of Housing and Urban development (HUD) does not plan to extend a waiver expiring at the end of the year that allows lenders to offer FHA loans to borrowers buying flipped properties.

The letter from Kathleen Zadareky was included with a report from the Office of Inspector General, which audited HUD’s oversight of its property-flipping waiver requirements. The Inspector General recommended that HUD discontinue the waiver or strengthen its controls over its property-flipping waiver requirements and issue clarification on the criteria for determining a loan’s sales contract date and a property’s resale date to ensure consistent and accurate application by lenders.

Inside This Issue

Zadareky wrote that HUD was “reassessing the need for a waiver and is not planning on extending it at this time. Due to the short time remaining, the recommended controls and clarifications could not be implemented prior to the December 31, 2014 expiration.”

The report from the Inspector General concluded that HUD lacked adequate procedures and controls to ensure that:

1. it performed adequate monitoring and oversight of lenders for compliance with the requirements of the waiver and
2. lenders fully understood the additional underwriting conditions for 90-day property flips and entered accurate information into HUD’s system.

As a result, the risk to FHA’s Mutual Mortgage Insurance Fund increased by more than $2.5 million, the Inspector General wrote in its report. The report also estimated that if HUD does not implement the recommendations, the potential risk to the FHA Mutual Mortgage Insurance Fund would be nearly $274 million for properties not meeting the eligibility requirements for a waiver of HUD’s property-flipping regulation.

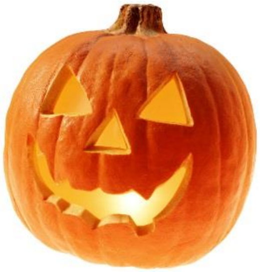
The Inspector General reviewed a sample of loans insured for property flips between 2010 and 2012 and found instances in which the lenders did not conduct property inspections or obtain second appraisals that are required to guard against artificially inflated home values.

The waiver, which is set to expire at the end of 2014, was first issued in January 2010 and has been extended several times. The FHA said it extended the waiver to encourage renovation of foreclosed and abandoned properties, increase the availability of affordable homes and stabilize home prices.

The waiver contains strict conditions and guidelines to prevent the predatory practice of property flipping, in which properties are quickly resold at inflated prices to unsuspecting borrowers. The waiver continues to be limited to sales meeting the following conditions:

- All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
- In cases in which the sales price of the property is 20 percent or more above the seller's acquisition cost, the waiver will only apply if the lender meets specific conditions.
- The waiver is limited to forward mortgages, and does not apply to the Home Equity Conversion Mortgage (HECM) for purchase program.

Why Jack-O'Lanterns?



Have you ever wondered how the practice of turning pumpkins into jack o'lanterns was born? The origin is quite fascinating.

O'lantern sounds Irish, and it is. The carved pumpkin faces that animate the Halloween landscape derive from an old Irish custom of creating lanterns from vegetables.

- The Irish child's typical Halloween flashlight was a hollowed-out turnip or potato with a candle inside, and when the Irish landed in America in the nineteenth century, they were quick to spot the possibilities of using pumpkins for the same purpose.

Octoberber Quiz Question

Q: What is the famous painting, La Gioconda*, more commonly called?*

Everyone who texts, emails or calls in the correct answer to Paul by the last day of this month will be entered into a drawing for a $50 gift certificate to the restaurant of your choice. 717.269.4957 or Paul@wrsettlements.com

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September Quiz Question:

Q: *What do you see in fall, but not in summer, winter, or spring?*

A: *The letters F A L*

Thank you to all who responded; however, no one had the correct answer.

Industry trade groups provide recommendations to CFPB on TILA-RESPA implementation by Marc Patterson

Sixteen industry trade groups, including the American Bankers Association, the Mortgage Bankers Association, [The American Land Title Association] and Financial Services Roundtable, have sent a letter to Director Cordray in which they requested that the CFPB provide additional guidance to help the mortgage industry implement the new TILA-RESPA Integrated Disclosures Rule that will become effective on August 1, 2015.

In the letter, the trade groups asked the CFPB to provide clear written authoritative guidance in addition to offering oral guidance through webinars and other venues. The trade groups expressed their belief that due to the complexity of the rule, the CFPB should memorialize its guidance on issues to ensure a timely and effective implementation.

In the letter, the trade groups said, "Uniform written guidance developed with stakeholders' input that can be relied upon will further fair competition and minimize the possibility of undue liability increasing costs. Most importantly, it will ensure that consumers will not be harmed by unnecessary confusion."

In order to successfully put the new law into effect, the trade groups also recommend that the CFPB:

- Continue to actively participate in conferences and forums
- Provide additional exemplar forms
- Maintain contact with industry vendors
- Resolve conflicting regulations

Who Should Invest In Real Estate?

Buying an extra condo or home can be a solid investment for both home owners and home renters alike. Consider that in some markets, homes are too expensive for many people to buy, so they rent a large home, and then buy a small house in a less convenient area, and then rent it out. In this way they benefit from home ownership, too. Here are five ways that real estate investing pays off.

Rental yield. Experienced investors take expenses, taxes and other costs into account, making sure there is enough coming in front rents to pay for everything going out, including loan servicing, maintenance, HOA fees, etc.

Appreciation. The value of rental properties normally appreciates over time. Increased value can mean selling and reinvesting in still higher value properties, or using an equity line of credit for other investments. Also, rents often increase along with rising values.

Leverage. Instead of paying $100,000 cash for one property, an investor can use that same cash as down payments for two or three properties. All leverage involves risk, so the successful investor must understand how leverage works.

Paying down the loan. The best way to pay down a mortgage loan is to have rents coming in that cover the mortgage. Some investors own ten to twenty small rental properties that just break even now, but in 15 to 20 years could be worth significantly more, and nearly paid off. Other investors use the equity to invest in more properties.

Property improvement. Investors look for properties that need improvement. Also called a "flip," these properties can be fixed and resold at a profit. Investors will calculate that the value of the improvements will exceed the cost. This is called ARV (after repair value).

> *"Without ambition one starts nothing. Without work one finishes nothing. The prize will not be sent to you. You have to win it." ~ Ralph Waldo Emerson*

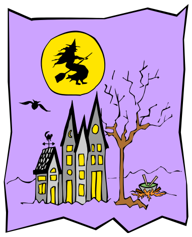
Why It Pays to Be a Home Owner Daily Real Estate News 2014

Home owners are building net worth at a pace that is up to quadruple that of a renter.

In the past 15 years, the net worth of the typical home owner has ranged between 31 and 46 times that of the net worth of the typical renter, according to the Federal Reserve's Survey of Consumer Finances, which is based on 2013 data.

On average, home owners had nearly $200,000 in net worth compared to the average $5,000 net worth of renters, according to the survey.

"Home owner equity is a substantial component of home owner wealth," Danielle Hale, research economist at the National Association of REALTORS®, writes on the association's Economists' Outlook blog.



A Real Estate Ghost Story

There was an abandoned house sitting in the middle of a fancy neighborhood in Vancouver that everyone said was haunted. Robert was the agent in charge of selling that house, which had been listed for over two years. Finally, Robert found a rich city slicker to buy it. Robert thought that if he could show the house in the bright light of day, the house wouldn't look so scary, and he could finally close the deal. Unfortunately, the city slicker's train was delayed and it was evening before Robert took him to the house.

Robert unlocked the front door, and crossed his fingers that nothing strange would happen. He swallowed nervously, but the city slicker just said something about atmosphere. Robert relaxed a bit, deciding this might not be so bad as he opened the front door. “Creepy!” the city slicker said enthusiastically. He bounded into the foyer and with a boyish grin, raised his arms and intoned “Come to me, foul spirits!” Immediately, the whole house rang with a sinister, unearthly laugh. Then a voice boomed: “I’m coming to you." The city slicker jumped and then turned to Robert with a happy grin. “Great special effects! How’d you do that?” “I didn’t,” Robert said, his teeth chattering.

“I’m coming down now!” the voice boomed again, and the city slicker’s grin slipped a bit. He followed Robert's frightened gaze toward the stairs. At the top of the steps, a grotesque green head was floating. The deformed mouth opened and screamed--a terrible, high-pitched sound that scraped across their nerves. As the head began rolling down the stairs toward the two men, they ran from the house screaming. "Robert," yelled the city slicker. "I don’t think I want that house."

“Why not?” asked a haunting voice. The men looked over and saw the green head keeping pace with them as they raced down the street. The men screeched and put on a burst of speed, leaving the head behind.

“Must have been the asking price,” chuckled the floating head as it faded away.

Report: Identity Fraud Rises 9 Percent

While Interthinx reported that mortgage fraud remained unchanged from the previous quarter, instances of identity fraud increased 9 percent during the second quarter of 2014.

According to Interthinx's second-quarter Mortgage Fraud Risk Report, the increase in identity fraud risk is due to an increase in instances where a borrower's name or Social Security number are different. The Fraud Risk Indices are calculated based on the frequency with which indicators of fraudulent activity are detected in mortgage applications processed by Interthinx.

Identity fraud is often used in mortgage fraud schemes in order to hide the identity of the perpetrators and/or to obtain a credit profile that meets lender guidelines. Lenders grant loans based on a borrower's credit profile, and fraudsters often use stolen identities as a means of acquiring property illegally. Interthinx cross-references borrower information against numerous data sources in order to identify anomalies in a borrower's Social Security number (SSN) trace, including identity Issues, SSN Misuse, Deceased Borrowers and SSN Alerts.

The increase in this type of activity is important to title and settlement agents as lenders will often try to hold them liable for not detecting the fraud at the closing table. Lenders often will attempt to file a CPL claim by alleging the agent failed to follow the closing instructions.

Life is like a camera. Focus on what's important, capture the good times, develop from the negatives and, if things don't work out, take another shot.

Lenders' closing instructions typically require the closing or settlement agent to ascertain and verify the identity of all parties involved in the transaction. This requires the settlement agent to have each borrower complete and sign an ID affidavit, and obtain a copy of an unexpired government-issued identification that bears a photograph or similar safeguard. Settlement agents are often required to verity that the information provided on the ID affidavit matches the identity information provided by the borrower at closing. If a red flag is discovered, the closing instructions require the settlement agent to suspend the closing and obtain written authorization from the lender to proceed.

Overall, California is once again the riskiest state for mortgage fraud, despite a 12 percent drop in overall risk from the previous quarter. Florida and New Jersey are tied for second, followed by Arkansas, Delaware, Oklahoma, Arizona, Connecticut, Washington D.C., and Nevada. South Dakota is the least risky state this quarter. Mississippi, Iowa, Nebraska, West Virginia, Indiana, Kentucky, Montana, Idaho and New Hampshire round out the 10 least risky states.

Red Flags to Potential Mortgage Fraud

Here are some suspicious activities that should alert closing and settlement agents to potential mortgage fraud:

- Power of Attorney used and the attorney in fact is a party to the transaction who will financially benefit (other than a spouse or immediate family member who resides in the property)
- Recent changes of title where new owner is now selling the property
- Double escrow concurrent back-to-back transactions with deed transfers to intermediate straw buyers needed to facilitate the flip
- Funds to closing not coming from the buyer, but some other party involved in the transaction
- Payouts to third parties especially parties not on the lender's specific closing instructions
- Payouts to contractors and repair companies—especially when not on closing instructions
- "Unusual" sales contract addendums with terms /conditions and or payouts that are not the norm for the local market (this may not have been provided to the lender as a material omission)
- Buyer is a "real estate investor" where the seller is controlling all aspects of the transaction and who may or may not realize he is acting as a straw buyer (e.g. when speaking to the buyer in coordinating a closing, do they understand the transaction?)
- Recently recorded liens, often involving disbursement being paid to a participant in the transaction.

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