



Mark Sampson

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## **Mortgage Lenders Under Government Scrutiny**

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Topping the list of institutions under fire are the familiar faces of Fannie Mae and Freddie Mac, the poster children for good intentions gone bad. The government entities faced renewed federal scrutiny earlier this year. What to do with the troubled HUD groups, however, is still up in the air. The issue is delayed until after the current federal bank restructuring effort is completed, which is anticipated by year-end.

Reformation is definitely on the horizon for these two lenders. The Treasury Department is considering an expansion of options on guidelines officials released in June regarding both lenders. Privatization, nationalism, hybrid strategies are all being measured for reform.

Fannie and Freddie were taken into conservatorship by the federal government last year as the financial crisis spread. Governmental control seemed inevitable. If the two were to collapse, it was thought that the damage would be irreparable and more widespread and devastating than even the Lehman Brothers' failure.

Reform is critical, since these entities provide the majority of home loans in the U.S. The U.S. Treasury Department was authorized to purchase Fannie and Freddie mortgage securities through the end of this year. Legislation is anticipated to extend the Treasury's conservatorship through the end of 2010.

Wells Fargo, the receiver of \$25 billion in bank bailout money, was the primary lender on two recently shuttered businesses in Alabama. Wadley company Plantation Patterns and Anniston corporation Anniston Sportswear both filed for bankruptcy, and Wells Fargo was the primary lender for both companies. According to federal statistics and a local mayor's report, a total of more than 660 jobs were lost in both closings. Birmingham-based Meadowcraft is the parent company of Plantation Patterns. Chicago-based Hartmax Corporation is the parent company of Anniston Sportswear.

Wells Fargo's apparent refusal to work with either business brought federal scrutiny. In two separate incidents, the lender was named by over 40 members of Congress in complaints written to Treasury Secretary Timothy Geithner.

Not unfamiliar to federal scrutiny, Countrywide came under the federal microscope again last year, this time by a federal bankruptcy court official. Accused of destroying, losing or misplacing \$515,000 in checks issued by homeowners, the home lender was further accused of adding inappropriate charges to the bankruptcy debt of homeowners.

Countrywide eventually worked out a deal with the court; however, the Justice Department challenged the settlement due to some unsavory terms presented by the mortgage lender. A non-disparaging clause was included, which caused the judge in the case to approve a probe of Countrywide's entire systems by the U.S. trustee.

Many mortgage lenders letting loans for reverse mortgages are now being examined under federal scrutiny. Some lenders responsible for predatory lending have now turned to high-pressure tactics and broad-yield premiums intended to rip off elderly homeowners. Michael S. Blume, U.S. Attorney, noted a dramatic increase in reverse mortgage loan numbers.

Bank of America and Wells Fargo, along with insurers like MetLife and Genworth, heavily invest in reverse mortgages worth about \$17 billion annually. The FHA insures most reverse mortgages. Lenders are approved by HUD. Borrowers are required to meet with HUD-approved counselors prior to being approved for the reverse mortgage loan. New certification requirements have resulted in a reduction of counselors available nationwide, alongside an increase in the number of reverse mortgage loans.

The similarities of subprime loans to reverse mortgages are eerily similar in their predatory lending practices. Senior homeowners are strongly encouraged to avoid high-pressure sales that involve add-on products and services for reverse mortgages.

For more mortgage lenders under federal scrutiny, check out the Federal Trade Commission website at [FTC.gov](http://FTC.gov). You'll find formal complaints and current cases being prosecuted by the federal government.

*Ki developed a website to serve Austin real estate investors. The site lets people search for homes and condos in the [Austin MLS](#). His site has a [mortgage rates widget](#) along with general information on [Austin real estate](#).*