

Forensic Loan Audits: A Serious Tool for Loan Modifications

What do you do if you're trying to negotiate a loan modification with your lender and they won't respond even after you've provided everything they've asked for?

For most people, the answer is "I lose my home." But there's a resource growing in popularity called a "Forensic Loan Audit" which is designed to find abuses of the lending system by lenders and therefore give "teeth" to home owners who are fighting to save their homes.

The idea is that many loans - and particularly those facing default - were performed in error and in violation of some law or public policy. For example:

- Did the lender violate "good faith" guidelines?
- Was a borrower approved for a loan that they could not repay?
- Were there any "Truth in Lending" violations?
- Does any part of the loan conflict with the Real Estate Settlement Procedures Act?
- Did the loan deliver a tangible net benefit to the borrower?

If a borrower can produce proof of one of these types of violations, this gives that borrower significant leverage in dealing with the lender to get a helpful dialog started, and may even make it possible to negotiate a loan modification of some type. Why? Lenders know it will be far cheaper and faster to deal directly with the home owner rather than be on the receiving end of a home owner's lawsuit that is based on well-documented violations by the lender.

Please note that I'm reporting to you what I've learned. I personally have zero experience with Forensic Loan Audits but the concept was immediately intriguing to me. I suspect that this might be a place where fraudsters could take advantage of distressed home owners, but it appears to me that the notion of Forensic Loan Audits is a legitimate concept that gives distressed home owners increased leverage in dealing with their lenders.

This could be a good thing. Even though I strongly believe that both lenders and borrowers should face the responsibility for the poor decisions they've made, I've also heard enough anecdotal reports of lenders being willfully difficult in their negotiations with borrowers that I suspect that the strong evidence offered by a good forensic loan audit will give distressed borrowers leverage against the lenders in a circumstance in which the lender really holds all of the cards.

Reprinted from an article written by Bryan Ellis found on his website