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BROKEN DREAMS IN THE POCONOS: THE RESPONSE OF THE SECONDARY MARKETS AND IMPLICATIONS FOR FEDERAL LEGISLATION

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON
CAPITAL MARKETS, INSURANCE AND
GOVERNMENT SPONSORED ENTEREPRISES

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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BROKEN DREAMS IN THE POCONOS: THE RESPONSE OF THE SECONDARY MARKETS AND IMPLICATIONS FOR FEDERAL LEGISLATION

Monday, June 14, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
COMMITTEE ON FINANCIAL SERVICES
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:04 a.m., in the Keystone Room at East Stroudsburg University in East Stroudsburg, Pennsylvania, Hon. Richard Baker [Chairman of the Subcommittee] presiding.

Present: Representative Kanjorski.

Chairman BAKER. Good morning and welcome. I would like to call the meeting of the Capital Markets Subcommittee of Financial Institutions of the House of Representatives to order, and welcome all of our panelists and guests here this morning.

The Committee is engaged in a continuing overview of market function in the financial services arena with specific interest in the area of home ownership. Over the past several years, securitization by the secondary market has made it easier for all consumers, particularly those borrowers with less than perfect credit ratings, to obtain mortgage financing. Translation: this means that when you go into your local lending institution and fill out the papers, and they approve you for a loan, that loan may then be subsequently sold off to someone else, so that the originating lender does not hold that debt in their own portfolio. This enables credit to be extended to more people in a more efficient manner, and has resulted in an expansion of home ownership to the segment of the population for whom it might otherwise not have been available.

Mortgage securitization involves the transpiration of mortgage loans into securities that are issued and subsequently traded in the capital markets. As the availability of mortgage financing has increased, so do concerns about less than scrupulous individuals who might take advantage of unsophisticated consumers. Known commonly as predatory lending, the practice of targeting individuals, often minorities or the elderly, with high interest mortgages, with little to no consideration of their ability to repay, is a matter of increasing concern from all those involved with oversight of the regulatory market.

Predatory lending may also encompass the placement of individuals in overvalued homes, using deceptive sales practices or inflated appraisals. Because such lending deliberately stretches borrowers beyond the amount they can pay, placing them into an overvalued home, it results in higher than acceptable levels of foreclosures. Many States are now enacting predatory lending statutes to halt abusive practices in the lending industry. The consequences of these state actions is now quite unclear, and if liabilities for the origination of the loan now extend into the secondary market, there is a potential for a chilling effect. For example, in the—recently in the case of the State of Georgia where participants in the secondary market simply refused to acquire loans, this works obviously to the direct adverse interest of consumers. So this is one area in which the Committee will continue to make examination.

The second and more local and pertinent issue for the Hearing this morning to many of you who have attended is the tactic used in the Poconos which relied upon inflated appraisals that established unjustifiable and unrealistically high real estate values. The typical function of the appraiser is to independently verify to the buyer and to the lender the true value of a particular piece of real estate. Investigations providing information to the Committee have revealed that some appraisers ignored normal codes of conduct set by the industry because the rules were not strictly enforced.

One common problem is that real estate mortgage creditors, lenders, and realtors often attempt to influence appraisers to make the value on properties being appraised. Appraisers in the Poconos allegedly colluded with interested parties to over-estimate the value of many homes, in some cases by tens of thousands of dollars. The problem came to light when homeowners would later attempt to sell the mortgage on the open market and their property would appraise at a price significantly lower than the purchase price. Many cash-poor homeowners were unable to recoup their investment, resulting in unacceptably high levels of bankruptcy. In 1990, there were 120 foreclosures in Monroe County, by 2002, 925.

The Hearing will focus on the issues related to the purchase of mortgage-backed securities in the secondary market, and the role that purchasers of those securities can play in curbing abusive lending practices.

We have a delicate task with which to resolve. On the one hand, we do not want liability issues to constrain those engaged in the secondary market from buying mortgages in the first place. But, at the same time, we cannot turn a blind eye to practices which result in predatory lending being the common practice for abused homeowners.

To that extent, Mr. Kanjorski and I have worked over many years toward resolution of these problems. And, at this request, the Committee is here today to hear firsthand the observations of professionals from the field who may have recommendations as to potential reforms and the direction the Committee might consider on returning its work to Washington, D.C.

With that, I yield such time as the gentleman may consume for his opening statement. Mr. Kanjorski?

Mr. KANJORSKI. Thank you, Mr. Chairman. First of all, Mr. Chairman, welcome to East Stroudsburg University. You may not

be aware of it, but it is the future alma mater of A.J. Soprano. I had the occasion to remind Dr. Dillman of that, and he assured me that all standards will be used in the determination of qualifications for that particular student.

Chairman BAKER. Just be very careful with that determination.

Mr. KANJORSKI. Secondly, Mr. Chairman, I know you are a good old Louisiana boy and you like NASCAR. We just completed the Pocono 500 yesterday, and we had hoped that you would be the one who said, "Gentlemen, start your engines." Unfortunately, I know because of other conditions, you were unable to make that event. We intend, however, to hold another race in your honor as soon as you can accommodate us.

Chairman BAKER. I think the Chairman of Delta Airlines was unable to say start their engines, and so as a consequence, I was a little detained yesterday, but I appreciate the courtesies extended by your and your fine office. Thank you, sir.

Mr. KANJORSKI. Thank you. Welcome, anyway, to the Pocono mountains of northeastern Pennsylvania, Mr. Chairman. We have recognized, over a number of years, and I have discussed this with you a number of times, a unique problem here in the Poconos. At least we think it is unique in the Poconos, but we recognize a commonality with certain problems that exist throughout the country, particularly in sub-prime lending, or as often referred to on the negative side, predatory lending.

What we hope to do today is to hear what the particular problems are here in the Poconos and then relate them to legislative activity that we are undertaking and the bill that we are preparing. We want to see if we can establish a national standard and what protections should be put into play to encourage state enforcement and regulation of a higher order than has yet attended here in Pennsylvania. I wanted to particularly pay thanks to the new Secretary of Banking in Pennsylvania, who has commissioned a study, of which we will get a report first on, that which attends to investigate and establish the data necessary for a more comprehensive understanding of what the problem particularly is here in the Poconos, and that I think probably will lend itself to be applicable to other areas of the country.

Our problem is an interesting one here. It also speaks well of the private press, because the "Pocono Record", which is the major newspaper of Monroe County, has been particularly attentive to bringing out the problem of mortgages, foreclosures, and other things that have happened here, so that it has gained a public recognition, which is most important, and ultimately the attention of the United States Congress that we reflect here today.

Too often, faulty appraisals, questionable lending practices, and fraudulent transactions in some cases have led to broken dreams. What we have to do today is see why an astonishing 27 percent of Monroe County's foreclosure to sales rate—it was so high compared to 1 percent nationwide. Certainly, this cries for some attention. On the other hand, I would like the Chair, the Committee, and the people of Monroe County to know that your problem and your strife has not gone on without a very positive response on the national level. We have witnesses today from Fannie Mae and Freddie Mac, the Appraisal Institute, the real estate industry, the home building

industry, all individuals that have participated with several other groups in a task force that I convened in Washington almost 3 years ago, that have been most helpful, and in some instances, have literally persuaded some of the institutions that held the mortgages of problem here in Monroe County to refinance and restructure some of those. Unfortunately, it has not been as uniform because there are many problems that are attentive to the particular problem of Monroe County, and secondly, it has been so wide and diverse that not everybody has received probably the same attention.

But corralling those entities on the federal level that are most involved with the real estate transactions, building and financing, have been most attentive to this problem, and I want to pay particular thanks to Freddie Mac and Fannie Mae, who, I think, are quite largely represented here today and have witnesses before us.

What we ultimately can do for Monroe County is yet a question. What we can do in terms of sub-prime lending in the country is open to question. But clearly, we have the jurisdiction to act.

Mr. Chairman, as you have cited the State of Georgia problem, sometimes in the solution of a problem, you can create a greater problem and a great disadvantage to people who would normally exercise their influence in the sub-prime market. Wanting to hold with the objective of home ownership for more Americans in a fair and safe and efficient manner is clearly the objective of this Committee and the Federal Government and the State Government of Pennsylvania, and it is just a question of how we can arrive at that objective.

Too often, issues like this are—lend themselves to demagoguery. What I have to say is that at least I am aware of the fact that one of the presenters—the first presenter today, Mr. Goldstein from the Reinvestment Fund, has been commissioned by the Pennsylvania Department of Banking to particularly investigate the problems here of—in the Pocono Mountains of this particular problem. I want to personally thank Secretary Schenck for allowing him, even prior to the release of his final report, to give us some of the substantive facts, information and data in his report, and give us the basis, or predicate, if you will, for this hearing. So I want to extend the thanks to Mr. Goldstein and to the Secretary.

What we do in the future, of course, to a large extent, not only depends on the facts gained in this hearing, but all the information that we have been gathering over the last several years. And I am optimistic that something can happen that we will all be proud of. As we proceed in today and the weeks ahead, it is moreover important that we find solutions to obstacles faced by honest, hard-working people who want to achieve the American Dream of owning a home. Hopefully today's hearing will also further our bipartisan efforts in Washington to develop legislation to increase homebuyer and homeowner protections. As you know, Mr. Chairman, the Financial Services Committee in recent months has been a—has begun to examine abuses in mortgage lending and the need to update federal laws to protect home ownership against such practices.

Again, Mr. Chairman, I welcome you to Pennsylvania, to northeastern Pennsylvania, particularly to Monroe County. We know

that this will be a fruitful hearing today, and anything that we can do to accommodate your visit here, we certainly offer those assistances. Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Paul E. Kanjorski can be found on page 48 in the appendix.]

Chairman BAKER. Thank the gentleman for his gracious statement. And for those here in attendance, let me assure you that the Capital Market Subcommittee membership generally will have access to all statements and information provided here at the hearing today. The Subcommittee is a very large one. The Subcommittee has 47 members. There being only 435 members of the Congress, more than 10 percent of the Congress serves on the Subcommittee. Almost 20 percent of the Congress serves on Financial Institutions—Full Committee Financial Services, and to those who are expressing concerns about actions that occurred here in the community, the Committee will take a very thorough and studied view of the issues presented. But our rule is as to national policy, not as to criminal inquiries. Those responsibilities will be left to those at the State and local level who may find the facts worthy of further resolution.

We want to get today a complete and full understanding of what has happened here, and pledged Mr. Kanjorski our continued cooperation. We have worked, I believe, very well together over our years on the Committee, and where possible, we will reach agreement and take all appropriate action. For those witnesses here today, our general and customary practice is for each witness to be recognized. Your full statement will be incorporated into the record. We request that you attempt to keep your remarks to 5 minutes to allow us to engage in discussions with you. But by prior agreement with Mr. Kanjorski, our first witness here today is going to make an overall report and presentation completed by the Reinvestment Fund.

It is my pleasure to welcome Mr. Ira Goldstein, Director of Public Policy and Program Assessment, the Reinvestment Fund, and, by agreement, we will give you such time as you may consume, sir, to make your presentation, which I understand may be 15 minutes or so. Welcome.

STATEMENT OF IRA GOLDSTEIN, PUBLIC POLICY AND PROGRAM ASSESSMENT, THE REINVESTMENT FUND

Mr. GOLDSTEIN. Thank you very much, Mr. Baker, Mr. Kanjorski, for the opportunity to come here and present this material to you.

Chairman BAKER. Maybe take that mic at the end of the table there. Walk it around.

Mr. GOLDSTEIN. Thank you. Good morning. Is this on?

Chairman BAKER. Yes.

Mr. GOLDSTEIN. The Reinvestment Fund was contracted with by the Department of Banking in January of 2004 to help the Department of Banking devise a set of facts upon which the Department of Banking could design a set of action-steps to address the issues that have been taking place in Monroe County, Pennsylvania, for the last, at least, 4, 5 years.

The data sources that we have used to be able to help the Department of Banking in this way is to take a very careful and detailed look at all the filings from the Prothonotary of Monroe County, the Prothonotary being the Clerk of Courts of Monroe County; some very specific property sale and mortgage and data, so for each of those properties that went into foreclosure, to look at the sale and mortgage history on those properties; to look at the records that are gathered through the State's Homeowner's Emergency Mortgage Assistance Program, or HEMAP Program, which is a program, I think, that is probably unique to the Commonwealth of Pennsylvania, has been around since the '70s, and was designed initially to help people who are facing foreclosure and might, under the proper circumstance, be able to hold that off with assistance from the State; and, of course, a full complement of census population and housing information.

The study status is that it will be released some time in July of 2004. We are not entirely certain about the final release date, but it certainly will be within July. And when it is released, it will not only be a study of the facts, but it will be a full complement of action-steps that Secretary Schenck will be proposing to address the issue in Monroe County.

Our findings: first off, Monroe County is, in fact, a very fast-growing county. In fact, it is the second fastest growing county in the Commonwealth of Pennsylvania, Pennsylvania being actually a relatively slow-growth state. Monroe County grew, between 1990 and 2000, by about 45 percent, and then since 2000, has grown by about another—over 10, 12 percent, so it has been growing very rapidly in a State that has barely increased 5 or 6 percent over that time-period.

The housing units as well, and this is the crux of where we get to the issue—the housing units stock, as well, has grown by almost 25 percent between 1990 and 2000, and by another 5 percent since 2000, up through 2002. Foreclosures across the Commonwealth have grown up almost unabatedly from the latter part of the 1970s on up through the latter part of 2002, 2003. And in fact, if you look at it, with very few exceptions, this number has tracked up. And compared to other States, Pennsylvania is one of the higher States in the overall foreclosure rate. As well, it is one of the highest States in terms of foreclosures as reported by the Mortgage Bankers Association in its percentage of loans that are in foreclosure that initially were sub-prime loans.

In Monroe County, over the period 1995 through 2003, the number of foreclosures rose from about 300, 400 a year up through over 900 a year. Cumulatively, since 1995, more than 6,100 households were subject to foreclosure, and more than 2,700 of those were subject to foreclosure since the year 2000. This data comes from the State's HEMAP, or Homeowner's Emergency Mortgage Assistance Program, and they suggest that over the last 4 years, but for that program, about another 320 or so homes would have also been subject to foreclosure. This program kicks in and provides assistance before the actual filing of the foreclosure action.

Now, Mr. Kanjorski himself raised this question to us when we met a few months back. Given that the population and housing unit change in Monroe County has been so dramatic over the last

year—the last few years, the question is, is what has happened to foreclosure merely a reflection of the fact that there are so many new people and so many foreclosure—so many more housing units in that time-period. And we struggled with trying to get an answer to that question. But in fact, what we were able to do was to essentially create the equivalence of a crime rate for foreclosures and say what is the number of foreclosures per housing unit. And in fact, we were able to do this in a, I think, a pretty comprehensive way because of the ability to obtain updated housing unit information from the Census.

The top line, that green line, represents Monroe County, and over the period 2000 through 2002, you can see it is both the highest line, which means it had the highest number of foreclosures per 100 owner-occupied housing units, and actually rose at a quicker rate than any of the other counties that we have—that I detailed here. And, in fact, we have detailed counties of Allegheny, Lancaster, Lehigh, Washington, Philadelphia, Chester, and Monroe County. Those are places that to date we have been able to get comprehensive foreclosure information for, and we see that the rate of foreclosure filing, in terms of the per owner-occupied housing units, and the steepness of the increase is greater in Monroe County than in the other places that we have been able to detail.

Where are all the people coming from to Monroe County? We have been able to trace through the Census information that vast numbers of people have come from New York, as the reports to us through interviews and the like have suggested. In fact, the largest county feeding population into Monroe County is Kings County, New York. Between 1995 and the year 2000, well over 2,000 from Kings County, New York, ended up in Monroe County. Another very similar number from Queens County, from the Bronx, then Northampton in Pennsylvania, and then you see Suffolk, Essex, Morris, Bergen, and Middlesex Counties as some of the leading places that are a feeding population into the Pocono-Monroe County area.

How do those people look who are migrating into Monroe County? First of all, we find that about 20 percent of the new migrants are from New York, and about 16 percent are from New Jersey, between 1995 and 2000. We find that in relation to the existing Monroe County population, that is the population that existed prior to 1995, the people who migrated tend to be more likely married, tend to be more likely with children, they tend also to have higher incomes. They tend to be residing in newer construction housing, so they are moving more likely into new than existing housing stock. And they tend to be substantially more likely to be African-American and Hispanic.

One of the anecdotes in the stories that were reported in the "Pocono Record" and in what we learned through our interviews with people is that many people not only came to Monroe County for residence, but continued to work back in their counties of origin back in New York and New Jersey. And we found, in fact, that that—the data does tend to support that, and in fact, some substantial number continue—or substantial percent continue to commute back to Morris County, New Jersey; New York; Warren, New

Jersey; Essex; King; Bergen. So people are making that pretty significant commute back and forth, and in some significant number.

In terms of what has happened demographically, as I have said, the people who are commuting or who have migrated to Monroe County are more likely to be African-American and Hispanic, and that does reflect in the fact that the African-American population and the Hispanic population have risen fairly dramatically in Monroe County since 1990. In fact, what you are seeing is triple-digit increases in the size of the African-American and Hispanic population, and other, which is Asian, primarily. Those increases are coupled with relatively small percentage increases in the size of the white population. But much of that population change has been fueled by minority populations.

In terms of the age, Pennsylvania is one of the oldest States in the nation. Depending upon how you estimate the age of Pennsylvanians, either the third or the fourth oldest state in the country. But what you find in Monroe County is that there has been substantial growth both in the numbers and the percentages of school-aged populations and populations of parents who would have school-aged populations, so that would be people in that 25- to 44-year age range.

And as I mentioned, both the migrants are ending up more likely in newer housing, and Monroe County, in general, in relation to Pennsylvania, is much more likely to have a newer housing stock.

Values have been fairly robust in this community, although, quite frankly, it is sometimes difficult to get a sense as to true value when what we see is that some large proportion of the sales transactions seem to be, or potentially, are tainted. Nevertheless, what you are seeing is increases in Monroe County that are roughly equivalent in size and magnitude to that of the Commonwealth. The two lower lines represent the size of mortgages in Monroe County, and the upper line represents the average of the Pocono Mountain Association of Realtors for existing home sale prices. You will notice, by the way, that those things tend to stay in relation of about an 80 percent or so of value to sale—mortgage.

In terms of income, as I mentioned, Monroe County, many of the population, many of the people who have migrated to Monroe County have come with higher incomes, and in fact, Monroe County tends to be slightly higher income than the Commonwealth of Pennsylvania overall.

Okay. Now, as I mentioned, we got each of those well over 3,000 foreclosure filings from the Prothonotary of Monroe County. That is the Clerk of Courts where all foreclosure actions must be filed by law. We took each of those foreclosure filings and went through a pretty tedious and meticulous geo-coding process where we were able to take that filing and stick it right down on the geographic parser that is represented by the housing unit that is subject to that foreclosure filing. Each one of those foreclosure filings is represented by a black dot on that map.

And what you will notice is that there are several areas of concentration. I am going to go up over here a little. Up here is a subdivision called Country Place, not too far from where we are, in the Stroudsburg, East Stroudsburg vicinity, and the Pocono Mountain Lake area. There is also—for you to be able to examine in more de-

tail, there is a printed version of this map in slightly different coloration. But this gave us great pause because ordinarily you might expect these things to be more randomly distributed throughout a place, and in fact, we were finding the kind of clustering that, quite frankly, in the epidemiology field, you would say would be consistent with there being something poison in the ground. And what we were able to do was to be able to identify the characteristics of each of those transactions. Much of that will be released when the Secretary releases the report in about 3 weeks, a month, something to that nature.

But I also wanted to be able to take these and show you by township some of the more hardly hit spots. This is Coolbaugh Township, which is in the upper portion of the county, and as you can see, as you walk through some of these subdivisions, it is literally look left, look right, and you are likely to see a housing foreclosure. This shows you the detail of it.

Next, Middle Smithfield in the Winona Lakes, and I know it is difficult to see, but just again, so you can understand about the way these maps are working, these lightly-shaded gray areas actually represent physical parcel lines, which means there is a house sitting right on that parcel. You are seeing here 4 or 5 or 6 dots right next to each other. So we present these for you to get some sense as to both the scale and the scope and the concentration of what has happened up here at Monroe County.

This is where we are now—not to distant from where we are now, Stroudsburg and East Stroudsburg in Stroud Township, and then Tunkhannock Township.

One of the things we did want to take a look at was the extent to which—given that we saw that so many of the people who migrated into Monroe County from New York and New Jersey were of minority group status, we wanted to see whether or not the concentration of the foreclosures tended to relate to those concentrations. And in fact, what you find is that in areas—in Census blockgroups, which actually tend to be fairly small, in those blockgroups, we are seeing the largest number of foreclosures. You are also seeing the highest concentrations of African-American and Hispanic homeowners. So, in fact, these data would suggest to us that there is some concentration among minority group members.

Finally, in the plans going forward, this study will be released on or before July 31 by the Department of Banking. When the Department of Banking releases this study, it will release a set of action-steps based on the facts that we have uncovered, some of which we have presented here, others of which will be presented with the final study. And the purpose of those action-steps will be to both address the current problem, and look at the kind of changes that could be implemented to make sure that these kinds of things do not happen again.

During the fall of 2004, the Reinvestment Fund will be also releasing for the Department of Banking a study that was commissioned on foreclosures across the Commonwealth of Pennsylvania. We will be holding focus groups across the Commonwealth over the next couple months, and then we will be looking at facts not specifically to Monroe County, but as much as we can to develop the same kind of fact basis for Secretary Schenck to be able to make

the kinds of policy recommendations, legislative recommendations, programmatic recommendations, that he feels will be appropriate to address that growing foreclosure problem in the Commonwealth.

And, with that, I thank you.

[The prepared statement of Ira Goldstein can be found on page 68 in the appendix.]

Chairman BAKER. Mr. Goldstein, I understand that by agreement we are not going to engage in any questions at this time of you, and your schedule limits require your departure. I just want to express my appreciation to you and the State government for allowing you to be here to make that presentation to us. It was most helpful and insightful. The only request I might make is that at such point as you come to conclusions about any federal adjurative steps, it might be advisable if you could communicate through Mr. Kanjorski to the Committee any such recommendations the Committee might consider. Mr. Kanjorski?

Mr. KANJORSKI. Mr. Chairman, thank you. Mr. Goldstein, I want to thank you again, and the Secretary of Banking of Pennsylvania, Secretary Schenck, for allowing you to give us the pre-disclosure of some of the information and facts in your upcoming report. It will be most helpful, and we look forward to working in conjunction with your organization and the Secretary of Banking of Pennsylvania to see if we cannot come to some resolve of some of the contentious problems here in Monroe County. Thank you.

Chairman BAKER. And you are free to go as you require, sir. We will turn on to our record of order now, with our next witness being Mr. Robert Hay, broker and owner, BobHay.com Realtors. Welcome, sir.

STATEMENT OF ROBERT C. HAY, BROKER AND OWNER, BOBHAY.COM REALTORS

Mr. HAY. Thank you.

Chairman BAKER. And you will have to pull that close to you. That is not real sensitive.

Mr. HAY. Okay. Good morning Chairman Baker and Congressman Kanjorski. Thank you for the opportunity to present testimony on the very important subject of home buying and achieving the Great American Dream of homeownership. Let me first recognize your efforts, Congressman Kanjorski, for your leadership in safeguarding the economic viability of the real estate industry by cosponsoring the Community Choice in Real Estate Act, HR 111.

Through your leadership, this legislation has garnered 252 cosponsors, and will keep large banking conglomerates from engaging in real estate brokerage and management activities. It is time for Congress to act on—to finalize this legislation.

By the way of background, I am a lifelong resident of Monroe County, and have been a licensed real estate practitioner for the last 28 years. I have also been a member of the Pennsylvania Association of Realtors, a statewide trade association representing nearly 29,000 real estate licensees since 1976. Aside from my activity on the State level of the Association, I participate on the local and national levels as well, serving on various committees and task forces, as invited.

Even though I am currently broker-owner of a small independent firm, I still work with buyers and sellers on a daily basis. Let me give you a perspective on the home buying process, how we work with buyers, and the various disclosures we must use.

On the first substantial meeting, all real estate licensees must review a Consumer Notice. The Consumer Notice educates the consumers of real estate about the business relationships that might be available to them and, in effect, puts the consumer on notice to exercise discretion in revealing information to a licensee before a relationship is formed. The consumer is asked to sign the form, and licensees must retain a copy in our file, pursuant to the Real Estate Licensing and Registration Act.

Should a buyer make an inquiry by phone, the licensee can provide a verbal summary, with language dictated by law, prior to asking any qualifying questions and answering questions about a specific property.

The second step to the process is establishing a business relationship with the buyer. Pennsylvania law specifically authorizes the types of business relationship that a real estate licensee can have with a consumer: seller agency, buyer agency, dual agency, designated agency, and transaction licensee. This disclosure protects the consumer because they know who the agent is representing in the transaction. A Business Relationship Agreement is attached for your reference as marked in Exhibit C.

After establishing a business relationship with a buyer, we utilize a multiple listing service to show buyers homes that meet with their criteria currently available on the market, on matter who the properties are listed with. As a realtor and a participant of the MLS, we have a unilateral agreement to cooperate with each other. This is very beneficial to both buyers and sellers.

Once a buyer finds a property they may wish to purchase, we enter into an agreement of sale, which spells out the price and other terms to the offer. The agreement is typically subject to a mortgage contingency and various inspections. We often ask for name of lenders, home inspectors, attorneys, insurance companies, et cetera. We normally give a few select—a few selections to the buyer. Should we have any financial interest in any of the recommendations we make, we must disclose that fact.

Without walking you step-by-step, that summarizes the buying process. The real estate market continues to be very strong across Pennsylvania, and especially here in this region. Last year, more homes were bought and sold nationally than any previous year in history. That is more than 6 million existing homes, and just over 1 million new homes. There is a great demand for homes with a very limited supply. There is legislation pending in Congress that would increase the supply of affordable housing. That legislation is Renewing the Dream Tax Credit Bill, H.R. 829, which would provide tax credits to developers and investors of affordable housing. Housing built or rehabilitated for those individuals and family at or below 80% of the area median income.

I thank you for your co-sponsorship of this important legislation, and hope that Congress will act to make this proposal a reality for millions of Americans who seek to own their own home. The supply and the demand has increased home prices for the last several

years. With home prices increasing, it helps the homeowner that has a minimum equity in their property. There are some, however, that just cannot sell high enough to pay off their debt. This is not limited to the people that just built a home. It applies to many that have refinanced their homes and pulled equity out.

Recently, there have been many discussions of predatory lending, which has no clear definition. This practice needs to be addressed legislatively, but the remedy must be balanced. It must protect the consumer, but not hinder some of the sub-prime lending programs that have helped so many buyers who deserve a second chance.

Buying a home is one of the most important purchases an individual will ever make. Before embarking on this course, whether building a new home or buying an existing one, buyers should come to the table prepared. This can easily be done by picking up a home guide magazine or browsing the Internet to gain knowledge of market values.

Buyers must also take into account consideration of cost of commuting, not only financially, but mentally and socially. People move to the Pocono Mountains area primarily for our schools, our environment, the cost of housing, and taxes. Even though there have been some that have experienced broken dreams, thousands have realized the American Dream of home ownership and have enjoyed a good home-buying experience. These individuals benefit by living in one of the most beautiful places in our great country.

Thank you, again, for this opportunity to testify, and I would be happy to answer any questions that you might have.

[The prepared statement of Robert Hay can be found on page 96 in the appendix.]

Chairman BAKER. Thank you, sir. Our next witness is Ms. Maureen McGrath here as an interested homeowner. Welcome.

STATEMENT OF MAUREEN MCGRATH, HOMEOWNER

Ms. MCGRATH. Thank you. Good morning, Mr. Chairman——

Chairman BAKER. And you will need to pull that microphone close to you.

Ms. MCGRATH. Oh, thank you. Good morning, Mr. Chairman. My name is Maureen McGrath. I appear here today on behalf of the National Advocacy Against Mortgage Servicing Fraud, and I wish to thank you for holding this important hearing to examine the problem of predatory mortgage lending and real estate fraud in the Poconos, and for allowing me to testify. I would also like to extend a special thank you to Congressman Kanjorski for the extraordinary time and effort he spends on this and other issues on behalf of his constituents——

Chairman BAKER. Just one second. Ma'am, you will have to pull that mic a little closer. Folks cannot hear in the back.

Ms. MCGRATH. Is that better?

Chairman BAKER. That is better. Thank you.

Ms. MCGRATH. I would also like to extend a special thank you to Congressman Kanjorski for the extraordinary time and effort he spends on this and other issues on behalf of his constituents in the Poconos.

I speak with deep personal conviction that predatory lending and mortgage servicing fraud devastates communities and destroys in-

dividuals' lives, and I testify here with great certainty that approaches to the problem are at hand, are workable, and fair. I would like to provide the stories of 3 victims of mortgage servicing fraud that the National Advocacy Against Mortgage Servicing Fraud has assisted.

Mr. M is a 40-year old who lives in Monroe County. He is gainfully employed and has consistently paid his mortgage in a timely manner. He has owned his home for 8 years. In November of 2001, Mr. M was notified by his mortgage servicer that they were placing his loan in default, the reason, that he was 4 months in arrears. Mr. M disputed the servicer's claim and immediately wrote qualified RESPA Letters of Dispute. Despite 3 such letters, the mortgage servicer never responded to Mr. M's RESPA inquiry, and his loan was foreclosed on. After commencing litigation, a redacted copy of the loan history was finally supplied to Mr. M. A line-by-line audit of the information indicates that at the time of foreclosure, over $8,000 in principal and interest payments were missing, charges for a property in Cleveland, Ohio, were charged to Mr. M's account, and usurious fees were assessed. The litigation of this case continues.

Ms. X is 48-year old African-American woman. She has owned a home in Monroe County, Pennsylvania, since January 2000. Over a period of 3 years, the value of her home has dropped over $40,000 based on the BPO's conducted by her mortgage servicer. There is no explanation for the decrease in value, and this is currently under investigation.

Ms. Y is a 50-year old immigrant. She has owned a home in Monroe County, Pennsylvania, since November 1999. Her mortgage servicer assessed her with forced-placed insurance fees in the amount of $1,998 per year, despite the fact that Ms. Y had hazard insurance in place on her home. Lenders require homeowners to carry homeowners insurance with the lender named as a loss payee. Mortgage loan documents allow the lender to force-place insurance when the homeowner fails to maintain the insurance, and to add the premium to the loan balance. Some predatory mortgage services force-place insurance naming the servicer as loss payee, even when the homeowner has insurance and has provided proof of such insurance to the servicer. Even when the homeowner has, in fact, failed to provide the insurance, the premiums for the force-placed insurance are often exorbitant. Often the insurance carrier is a company affiliated with the lender or servicer. Furthermore, the cost of forced-place insurance is frequently padded because it covers the lender for risks or losses in excess of what the lender may require under the terms of the mortgage loan. The taking of the forced-placed fees placed Ms. Y's mortgage in default, and she was forced into bankruptcy to save her home. This case is ongoing.

Everyone is aware of such terms as home equity theft and predatory mortgage lending, however very few people are aware of mortgage servicing fraud, even when they themselves are victims. I hope that this Committee, after hearing my testimony, will no longer look at predatory mortgage lending as a process that begins with the mortgage broker and ends with the mortgagee, but will look further and realize that predatory lending breeds further abuse in the form of mortgage servicing fraud.

Predatory lending, in and of itself, does not explain the rapid deterioration of property values in the Poconos while property values throughout the majority of the nation are rising. Predatory mortgage lending, by its innate nature, also brings about mortgage servicing abuse, because the consumer is already tagged with the nomenclature, and the mortgage services perpetrate this title consistently. That title is deadbeat. I firmly believe that mortgage servicing fraud is at the crux of the matter.

As you are aware, mortgage notes are bundled together and sold on the secondary market and passed as certificates, these certificates may take the form of REMIC or REIT. This bundling enables the loan originators to receive compensation for the loan, replenishing their cash flow and enabling the creation of further credit for borrowers.

However, something has gone wrong in the Poconos. More and more homes are being foreclosed on, and there are hardly any properties that increase in value. The cause of devaluation and the effect it may have on future trusts must be addressed.

The path for devaluation of a home is actually quite simple. Once a default is fabricated, the predatory mortgage servicer files a script until the 90-day delinquent point when the servicer will institute foreclosure proceedings. Once this process has commenced, the servicer will order a BPO, or Brokers Price Opinion. This tool is actually meant to be used by legitimate buyers and sellers of real estate who wish to know the best, worst, and median price of a home they are contemplating selling or purchasing. The mortgage servicer will use the BPO in lieu of an appraisal performed by a licensed appraiser. The mortgage servicer will also order a quick sale price for the property. This will often drop the price of a home by $30,000, $40,000 or even $50,000. In the case of one mortgage servicer, if the BPO does not come in low enough, the internal review will lower the price of the home down to what they believe it should be. As seen in the Poconos, this practice of having undervalued or quick sale BPO's performed has a devastating effect of devaluing an entire community. Once 1, 2 or 3 homes are placed in lawful foreclosure, and due to the fact that many loans in the Poconos are sub-prime or non-conforming, there is a high propensity for this behavior on the part of the servicers.

Any legitimate appraisal for a refinancing request by any of the homes in the proximity of the wrongfully foreclosed home will need to be adjusted to reflect the value of the home due to the low sale price of the comparable wrongfully foreclosed home. Once you have several homes with high loan devalue ratios because of the downward trend of the values of the homes, and ablinge effect begins affecting home after home, consumer after consumer, until, finally, you have the phenomenon of people simply walking away from their homes because they cannot afford the current mortgages, they have been placed in a fraudulent status of default, or they cannot refinance because the downward trend of the values of their homes.

The implications and effects of mortgage servicing fraud are far-reaching and need to be considered when looking at real estate fraud or predatory lending, as well as the effect on the secondary mortgage market, the REMICs and the REITs. If enough loans in the trust are placed in default, it effects the distribution certificate

holders, and it will eventually become more and more difficult to sell the securitization of these loans to these secondary market, and that will effect the ability of lending institutions to offer credit to borrowers. The tax consequences of wrongful foreclosures must also be addressed, as it affects the tax status of the REMICs and the REITs.

I would like to propose that when addressing predatory lending and drafting any future legislation, that consideration should be given to requiring that a certified appraisal performed by a licensed appraiser accompany any foreclosure. This will curtail the practice of using quick sale BPO's and falsely devaluing the value of a home, which in term will serve to protect not only the certificate holders of the trust, but also the neighboring property owners, by maintaining the values of the homes in the neighborhood, and guaranteeing that the fair market value of a home is preserved.

Concerning the mortgage servicing aspect of the industry, it should be kept in mind that the great majority of loans today are serviced by firms that do not own the notes. The servicer is paid by and is beholden to the owner of the mortgage. Borrowers have no say who serves their loan, and if they get poor service, about all they can do is write a complaint—letter of complaint to HUD or the FTC. It is hardly surprising, therefore, that servicing does not generally meet the needs of the borrowers. However, it does not have to be that way.

Servicing systems can be designed to meet the needs of borrowers as well as the trusts. The borrower would be the client alongside the lender, and have the right to change services. Dispension—the implication of Morris would make this process quite simple. This would involve competition between services to keep their cash flow bases, and would help prevent the fraud that is currently being perpetrated.

To avoid undue disruption and encourage rational decisions, the opt out should become effective only after approximately 6 months of servicing, and should apply only once. To win the favor of opt out, servicers would be obligated to compete. Since servicers are paid by lenders rather than borrowers, they will compete with service, which is exactly what is needed. Firms with efficient and courteous support people, easy to read statement, et cetera, will draw opt outs from firms that have served them badly. The market would, at long last, begin to work for the borrower.

This concludes my testimony. And, once again, thank you for your time and kind consideration. I will be happy to answer any questions.

[The prepared statement of Maureen McGrath can be found on page 124 in the appendix.]

Chairman BAKER. Thank you, Ms. McGrath. Our next witness is Mr. Richard J. Peterson, Executive Director, Pocono Builders Association. Welcome, sir.

STATEMENT OF RICHARD J. PETERSON, EXECUTIVE DIRECTOR, POCONO BUILDERS ASSOCIATION

Mr. PETERSON. Thank you, Mr. Chairman, Congressman——

Chairman BAKER. Now, you will need to pull that mic to your left over there. The gray one. There you go.

Mr. PETERSON. Thank you, Mr. Chairman, and Congressman Kanjorski. Thank you.

Chairman BAKER. If you would, please, the gentleman's testimony is important. We do need to hear him. I understand the emotions are high on this and everyone will have their day, so, please, let the gentleman proceed. Pull the mic closer, please, so they can hear you. Thank you, sir.

Mr. PETERSON. Thank you. Thank you for inviting me to testify on behalf of the Pocono Builders Association, its members, and the building industry. The Pocono Builders Association is a member of the National Association of Home Builders and its federation. We represent more than 250 businesses here in Monroe County. The local building industry represents various trades and suppliers, and employs over 7,000 employees within Monroe County. Our industry generates more than 250 million annually to the Monroe County economy, and contributes to the State's third largest industry a $25 billion a year industry, and is a contributing factor for the Commonwealth's home ownership as high as 71 percent. Last year, there were over 1,630 new permits issued for new homes within Monroe County, and within the last 5 years, there have been over 7,500 new home permits.

The Pocono area, especially Monroe County, is an area witnessing a migration of families from New York and New Jersey, as we just saw. They are escaping high taxes, expensive housing, and what they feel is a poor quality of life, and looking for something better here in the Poconos. They have moved here seeking the American Dream, especially since the 9/11. The once 50 percent vacation/second home market has now evolved to a 75 percent primary home market.

It has been stated that the Poconos are unique with its high growth and high foreclosure rates, yet national studies show that this region is not unique, nor does it even show up on the map when compared to national statistics. According to the U.S. Census, which I have set—put a copy of that in your files—there are only 2 States whose population increases were less than the Commonwealth of Pennsylvania, and that was West Virginia and North Dakota. The Commonwealth saw only 3.4 percent of an increase.

As for foreclosures, a report released last week by Foreclosures.com pointed out that foreclosures are an issue throughout the country, and 7 States actually rank much higher than Pennsylvania when it came to new foreclosures. They are Georgia, Indiana, Michigan, North Carolina, Ohio, Tennessee, and Texas. And again, that documentation is in your folders. In addition, just last week, Allegheny County, located in the Pittsburgh region, has a 500 percent increase in foreclosures over the last 8 years, largely due to property reassessments and property taxes.

We are here today because of allegations regarding real estate fraud, especially in the area of appraisals and predatory lending. It is unfortunate that these allegations have occurred in the Poconos. However, I must stress that as I speak today, I only know of 170 cases, and not to minimize this, because I am not, and these are serious allegations, but this represents 2.2 percent of the 7,500 new homes that were built within the last 5 years.

We believe that allegations being made, while serious—and they are—are ones that involve an isolated number of members of the local real estate lending and development industry. The issues seem to revolve around appraisals and financing. Our association, representing professional contractors, has always had a consumer focus, in that we believe that all consumers are entitled to safe and affordable housing. Consequently, our association had put in place many years ago a very stringent code of ethics and a consumer protection process aimed at addressing any consumer concerns with quality workmanship and codes. We have worked hard in the past few years to educate the consumer on how to hire a professional and reputable contractor. And, again, the documentation of that is in your folders.

In light of the Attorney General's announcement of the filing of a civil law suit in April of 2002, our Ethics Committee reviewed our current consumer education program and extended it with a billboard featuring a toll-free number for consumers who felt they had been the targets of contractor fraud. We also published in the news media information regarding our existing contractor quality commitment program and the process to file a complaint. Within weeks, we received several complaints in which only a few related to value, and that is the appraisal issue, and again, we referred those to the Attorney General's office. Most complaints that came were not dealing with questions of appraisals and predatory lending, but workmanship issues and contractual disputes. Within the last 2 years, we have had——

Chairman BAKER. Please, we need to be able to hear what he is saying.

Mr. PETERSON. I am talking about our association as we receive complaints. We are not talking about the Attorney General's office or any other body that has received complaints. I am talking about the association.

Now, within the last 2 years we heard 47 cases and distributed over 10,000 brochures to consumers on how to hire a reputable contractor, which outlines specific steps to protect consumers, again, in your folder.

So committed is our association to the need for consumers to be educated on new home purchases, that we did reach out to one of the homeowner associations involved in the predatory and appraisal alleged fraud to offer them these materials that you have in your folder, and to help them—partner with them on consumer education. We remain firm in our resolve that the ultimate weapon against contractor fraud at all levels, and indeed this includes appraisal and predatory lending practices, is an informed and educated public.

The present situation in the Poconos, however, does not focus on the issues of workmanship or codes but appraisals and lending. It is our understanding that the Pennsylvania Attorney General office is investigating these allegations and to be—should be handled through the proper authorities and therefore, allow the legal system to do its job. As a trade association, we are regulated by federal anti-trust laws that prohibit us as an organization to single out any one member or non-member within our community and tarnish that individual's reputation, and can only take appropriate

action when one is found guilty, and must treat each member and non-member as if they were innocent until proven guilty.

We will continue to educate and inform the consumer, and as we tell the consumer, if it is too good to be true, it probably is. We will continue our role of a trade association to represent, educate, and hold accountable our members. We will continue to work with government officials and the business community to assure the interests of the housing consumer and the industry, and to see that they are protected due to the major economic impact that our industry does have on the Poconos.

We believe that Congress needs to look at the issues of sub-prime loans and look at federal lending practices as it relates to first-time homebuyers programs and programs for those with bad credit. Education on the process of buying a home is important, and understanding between the new housing market, the resale market is also important. And, also, I agree that there needs to be some federal assistance in programs in finding affordable housing and producing affordable housing within areas like ours.

Thank you very much for your time, and I am also available——

[The prepared statement of Richard J. Peterson can be found on page 170 in the appendix.]

Chairman BAKER. Thank you Mr. Peterson. Our next witness is Mr. Almus Wilson, founder and CEO, Pocono Homeowners Defense Association.

STATEMENT OF ALMUS WILSON, FOUNDER AND CEO, POCONO HOMEOWNERS DEFENSE ASSOCIATION

Mr. WILSON. Thank you, Chairman Baker——

Chairman BAKER. If you can tilt that mic up just a little bit, it will help us in hearing you. Just tilt it up. There you go. That is great.

Mr. WILSON. Okay. Thank you. Chairman Baker, Ranking Member Kanjorski, I appreciate you inviting me here today to testify. Thank you for the opportunity——

Chairman BAKER. Make sure that mic is turned on. I am not sure—it is on. You just have to pull it very close.

Mr. WILSON. Let me adjust it a little bit. Thank you for the opportunity to come before you to share the concerns of serious issues facing families that have become victims of predatory lending.

The Poconos have much to offer new families starting off, established families seeking a better lifestyle, and even seniors looking for a great place to retire. Known for outstanding greenery, good schools, beautiful lakes, it is a place attractive to many looking for a new beginning away from urban areas. This was a solution to many families' dreams.

My family, along with over 6,000 other families from many nationalities and ethnic backgrounds, saw those dreams turn sour. I come before you not just to represent the Wilson family, a family who eagerly moved to a new home, only to later realize we had been defrauded, but thousands of others who have also been run back to various large cities or they are on the verge of losing their homes as well.

Our story: it was a glorious day, I would say, in September of 1999, that we made what I called our journey to a new and won-

derful life in the Poconos. This is what we saved diligently for. We were finally realizing our dream of home ownership, something I know our government encourages and supports of various loan programs, assistance and support. It was while reading the "Pocono Record" in April of 2001 that I first heard about housing fraud in the Poconos. The story was about a person losing his job and having to sell his home. Nothing unusual about that, I thought initially. Reading more of the story revealed the person in question was living in a home that was not worth what the builders told him it was worth. The builder had inflated the price—the purchase prices, used cheap building materials, and even had the home assessed higher than it was worth. I thought to myself at the time, this could not pertain to my family since we were well treated and told not to worry about anything. No lawyers were needed. Everything was handled here. Being a former law enforcement officer, I believe—I became suspicious obviously. Many more articles continued to be published in reference to predatory lending in the Poconos.

My suspicions turned out to be right when I did reach about—research on my family's home. Oddly enough, I did not do research until I participated in a few marches and demonstrations in support of alleged homeowner victims in Monroe County. I found out that our dream home was not worth what the builder charged us. We also realized that the appraisal was questionable. Lastly, we knew we had to do something, not just for us, but for many people and others who had no voice.

Therefore, in June of 2001, a forum was held at East Stroudsburg University, made up of local politicians and disgruntled homeowners. Beginning in 2002, a District Attorney taskforce was formed along with the State Attorney General, the FBI, and Justice Department. Later, the FBI was called off the case weeks after the District Attorney released findings. We also noticed that other States had predatory lending problems, and we began to wonder why is there no enforcement of laws and regulations. Also, we asked why no one questioned the reasons for nearly 1,000 foreclosures per year in Monroe County.

Many people were being drawn to the area because of the dreams they had and promises they received via TV, radio and newspaper ads. The "Pocono Record" had published many investigative articles with unbiased angles. The "New York Times" also released an overwhelming 3-day investigative series, as well as NBC station Telemundo from New York City featuring Monroe County housing fraud.

Finally, I get to the creation of PHDA. Because of the widespread fraud and predatory lending practices occurring so often, people were going all over for assistance. Unfortunately, no one knew where to turn and who to turn to. I, along with other victims of fraud, planned a march to protest in Washington, D.C., at the FBI and Justice Department. As upsetting as it was to hear some of the stories and to see the actual paperwork, it became more intriguing as to what was happening to the homeowners.

I saw people who put down $60,000 deposits, get final paperwork showing they only put down 24,000. I saw workmanship that would make a true builder roll over in his grave. I saw people have homes

built for a price, only to have the same home much later for much less. The area DA was no help. The Attorney General made us feel like we were the ones committing the crimes. And, lastly, many folks have just given up on the dreams that they had walked away from, their investment, and the crimes committed against them. Something had to be done, and done soon. I felt we all needed voices.

Excuse me. It is a lot of stress. Along with my wife of 25 years, Marilyn Wilson, Maria Yagual, Chairman Cooper, PHDA was created in my kitchen. With little funding and no support from local officials, we have been able to assist many homeowners. Often we eat at the others' homes to save money and share babysitting responsibilities, to give each other a break. This has been a full-time job with the reward being a family being able to save their home and keeping a roof over their heads. It has been a hard yet rewarding adventure.

PHDA continues to assist homeowners from throughout the Poconos. PHDA's goal was to uncover alleged predatory lending by insisting that local, state, and federal agencies start an investigation of the allegations. We want to make sure those who commit the fraud are held accountable, and that there are serious repercussions behind the misuses of their professional positions through deception. If a homeowner can be held accountable for falsifying documents, so should the real estate professionals that are offering the services needed to provide the American Dream.

People deserve financial rewards and justice criminal indictments in order to get back to their lives. We must remember even though the President has a Homeowners Initiative Program, how many people actually go into foreclosure? In Monroe County, from 1995 until now, there were more than 6,000 foreclosures, and our foreclosure to sales rate of more than 25 percent greatly exceeds the national average of about 1 percent.

From identifying faulty building practices to fraudulent home assessments, we have been a leader in making things right for families in need. Despite personal attacks and a certain amount of fear for me, my family, and others associated with PHDA, the battle continues daily. Phones in my home and office rings off the hook 7 days a week. So, whether it is a large PHDA sponsored forum at ESU, protest marches, family assistance, mold or heat, et cetera, we remain committed to help.

I am here to share what has been a huge battle for many years, one that has claimed families while stripping them of their dreams and their dignity. We need assistance. As the founder of PHDA, and with a great support team that has great insight into what has transpired in this region, we need to be more involved with what is happening and need funding that will be made available. We have done much already, but it is only the tip of the iceberg when looking at what needs to be done.

My suggestions for Congress and the PHDA members is to suggest that we need to federalize and make stronger legislation on the real estate and mortgage industry, which would include stiff penalties for illegal activity. This will hold any and all accountable for any real estate transactions. However, not to totally preempt States from being able to pass State legislations whereby they

would enforce and police their real estate industry. It is vital that they have some forms of power or jurisdiction to do that, as they can adapt to the system.

To protect—to petition the U.S. Justice Department to investigate the entire real estate housing situation surrounding Monroe County, which has a big question mark pertaining to this particular area-investigation here regarding the housing fraud situation.

Three: to provide a larger budget for consumer education and housing organizations. I think it is vital that you need more money for these types of program and things like that.

Lastly, the predecessors of the last three administrations in the State, we're requesting that the Congressmen here petition the U.S. Justice Department to investigate the Monroe County District Attorneys Office, the State Attorneys General Office, and the Pennsylvania State Banking Department. We are not talking about Secretary Schenck, we are talking about his predecessors. The last administrations need to be looked at. These are serious allegations. This is something that we deal with on a daily basis from citizens who are calling us and complaining. The last complaints we have received, is that they are receiving calls from the State Attorney General's office acting as a collection agency for the bank.

Thank you, Congressman Kanjorski, Chairman Baker. I appreciate this opportunity. I apologize, but these issues are very sensitive, and they have been long-range for us at PHDA. Thank you very much.

[The prepared statement of Almus Wilson can be found on page 212 in the appendix.]

Chairman BAKER. Thank you, Mr. Wilson. Our next witness is Mr. Donald J. Bisenius, Senior Vice-President, Credit Policy and Portfolio Management from Freddie Mac. Welcome, sir.

STATEMENT OF DONALD J. BISENIUS, SENIOR VICE-PRESIDENT, CREDIT POLICY AND PORTFOLIO MANAGEMENT, FREDDIE MAC

Mr. BISENIUS. Thank you. Thank you, Chairman Baker and Ranking Member Kanjorski. It is a pleasure to be here this morning. My name is Donald J. Bisenius. I am the Senior Vice-President of Credit Policy and Portfolio Management at Freddie Mac. I am responsible for establishing and implementing a comprehensive credit risk management framework for Freddie Mac.

I welcome the opportunity to be here today to discuss the steps Freddie Mac has taken in responding to the serious loan origination improprieties and fraudulent activities associated with certain loans made on properties located in the Pocono Mountains of Pennsylvania. Freddie Mac opposes any actions that denies homebuyers fair treatment in the purchase of decent, safe and affordable housing.

I commend the Subcommittee for its leadership in promoting responsible lending practices. Chairman Baker has a long history of diligence and vigilance in critical financial services matters.

I would like to recognize Congressman Kanjorski for his tireless dedication to working with affected and concerned parties in developing solutions that will help to reduce the likelihood of the situa-

tion of the Poconos reoccurring anywhere in the country. I should go further to note that the Congressman's lengthy record of service to affordable housing and economic development in general. I am honored to appear in his District at this important field hearing.

Congressman Baker and Congressman Kanjorski's many years of seniority on the Committee give them a unique vantage point for seasoned, effective public policy advocacy.

Freddie Mac's mission is to ensure the stable supply of low-cost mortgages for America's families, whenever and wherever they need them. For more than 30 years, Freddie Mac has helped meet the home financing needs of low- and middle-income families across the country. As the company whose mission is to expand affordable home ownership, Freddie Mac is dedicated to promoting responsible credit underwriting and appraisal practices for all America's families who seek to achieve the dream of home ownership.

Today I will focus on 3 areas: Freddie Mac's credit risk management practices, the steps we took after discovering the fraudulent activities in the Poconos, and our commitment to promoting responsible lending practices.

The prevention, detection and resolution of mortgage improprieties are an integral part of Freddie Mac's business operations. Freddie Mac has in place a comprehensive risk management program designed to help us evaluate the quality of mortgage lenders and servicers with whom we do business, and the characteristics of the loans we have purchased.

Freddie Mac has institutional eligibility requirements that help to ensure that the companies that sell loans to us, or service mortgage loans for us, have the organizational structure, financial resources, quality controls, and personnel expertise to originate and service mortgages that are acceptable to Freddie Mac. We require all mortgage loan sellers and services to originate and service every mortgage loan they sell to us or service for us in conformance with contract requirements and all applicable laws.

As part of our broad detection efforts, we routinely sample performing and non-performing mortgage loans to check for conformance with contract requirements. We refer all suspicious patterns or trends to our internal fraud investigation area for further review.

Freddie Mac has long been a leader in the fight against mortgage fraud. In 1989, we created the first fraud investigation unit in the secondary mortgage market because we are dedicated to helping reduce the likelihood of mortgage fraud. We have established a toll-free fraud hotline for reporting suspected fraudulent activity, and we have created and maintained an exclusionary list of individuals and companies that we have excluded from participating in transactions involving Freddie Mac loans.

Our fraud investigation area has substantially affected the mortgage fraud landscape. Our efforts have led to hundreds of individuals and companies being barred from selling loans to Freddie Mac, to indictments and convictions by federal and state prosecutors, and to the recovery of millions of dollars.

Freddie Mac is firmly committed to helping participants in the mortgage finance industry establish comprehensive quality control practices that safeguard against fraud. We have developed a publi-

cation, "Discover Gold Through Quality" that provides all of our mortgage sellers and servicers with the information about best practices for quality control.

So let me now turn to the steps that Freddie Mac has taken, and continues to follow, and enhance, after discovering the fraudulent activities in the Poconos. At the onset, I would note that when the allegations of significant loan origination improprieties arose in the Poconos, it was Congressman Kanjorski who was instrumental in helping all parties work towards solutions that will help the Pocono borrowers keep their homes.

Freddie Mac issued an industry letter alerting the primary market of the serious allegations of fraud in connection with loans originating in the Poconos. After discovering the fraudulent activities, we held accountable primary market participants who were involved, and we worked closely with Congressman Kanjorski and the primary market, to facilitate a process whereby the primary market was able to provide many Pocono borrowers with the appropriate assistance and corrective measures that enabled them to keep their homes.

Freddie Mac temporarily suspended foreclosure activities on many of the affected loans, so that the borrowers and the primary market lenders would have sufficient time and opportunity to work through the problems associated with these loans. Freddie Mac also established a special toll-free Poconos hotline for responding to borrowers' questions and concerns.

Throughout the period of investigation and discovery of the fraudulent activities, Freddie Mac worked closely with criminal and civil authorities. Since our experience with the Poconos, we have enhanced our focus on operational risk, as demonstrated by our expansion of on-site evaluations of mortgage lenders and servicers. The fraudulent activities that occurred in the Poconos have served to reinforce our commitment to promoting responsible lending practices.

We have instituted the secondary mortgage market's most comprehensive set of measures designed to promote responsible lending practices. Our publications and educational programs help potential borrowers to better understand the mortgage lending process, an effective way in protecting borrowers from predatory practices.

Freddie Mac is among the first secondary mortgage market institutions to have adopted anti-predatory lending policies, and we have developed a range of mortgage products aimed at making credit less costly and more sustainable.

In closing, I want to reiterate that Freddie Mac has always opposed any action that denies home buyers fair treatment in the purchase of decent, safe and affordable housing. Working with Congressman Kanjorski, we have helped to fight mortgage fraud in the Poconos. We have in place a comprehensive risk management program that includes rigorous quality control, and helps us to identify loans with suspicious or fraudulent characteristics.

Our fraud investigation unit has had substantial positive effect on reducing the likelihood of mortgage fraud, and we have instituted the secondary mortgage market's most comprehensive set of measures designed to protect consumers.

Thank you for the opportunity to appear here today. I look forward to working with you, Congressman Kanjorski, and the members of the Committee, as you consider legislation to help reduce the likelihood of mortgage fraud and predatory lending practices.

[The prepared statement of Donald J. Bisenius can be found on page 50 in the appendix.]

Chairman BAKER. Thank you, sir. Our next witness is Mr. Zach Oppenheimer, Senior Vice-President, Single-Family Mortgage Business of Fannie Mae. Welcome.

STATEMENT OF ZACH OPPENHEIMER, SENIOR VICE-PRESIDENT, SINGLE-FAMILY MORTGAGE BUSINESS, FANNIE MAE

Mr. OPPENHEIMER. Thank you, Chairman Baker, Ranking Member Kanjorski, and members of the Subcommittee who are not here. My name is Zach Oppenheimer, and I am Fannie Mae's Senior Vice-President for Single-Family Mortgage Business based here in Pennsylvania. And since 2001, I have led Fannie Mae's efforts to address the problems being discussed here today.

I want to thank you for inviting me to testify about our efforts, and commend you, Congressman Kanjorski, for your leadership right here in and around Monroe County. Your concern and attention have been critical to helping families stay in their homes and right themselves financially.

As this Subcommittee is keenly aware, Fannie Mae's mission is to expand homeownership, with a special focus on helping underserved Americans overcome the unique barriers they face. Our role among financial institutions, and one of the things that sets us apart, is that we provide private mortgage capital to all communities, at all times, under all economic conditions. But Fannie Mae does not originate loans. We buy loans from lenders in a very competitive secondary mortgage market, and we rely on lenders who sell us loans to comply with all laws and requirements to properly underwrite loans, and to asses the value of the property securing those loans.

Because our mission is expanding homeownership, we are committed to being a leader in promoting responsible lender practices. We support the adoption of a strong federal anti-predatory lending law, and look forward to working with you on that issue.

Fannie Mae has been purchasing mortgage loans in the Pocono area for many years, and we continue to do so. While we have observed swings in home values as economic conditions have fluctuated, changing home values by themselves do not necessarily indicate a problem. But in early 2001, newspaper articles alleging inflated appraisals began appearing, and Congressman Kanjorski alerted us that the valuation problems in this area required closer attention. We also began to hear similar concerns from lenders and others.

At that time, Fannie Mae owned or guaranteed close to 8,300 mortgage loans in Monroe County and the surrounding area. We immediately formed an internal team to identify the nature and cause of the alleged problems, begin to take action to appropriately remedy the situation, and to assist affected homeowners with their mortgage loans. Fannie Mae fully recognizes that foreclosures can

be devastating to homeowners and their families, to the community, and to mortgage investors.

In order to help homeowners whose loans we own, we committed to working with borrowers, through our lender partners, to make every reasonable attempt to keep families in their homes. We directed our servicers not to foreclose on any property in the area until they had reviewed the original appraisal and loan documents for irregularities, and we granted a moratorium on foreclosures for up to 60 days. For homeowners who could—who wanted to refinance their Fannie Mae-owned loans but could not, because of valuation issues, we even designed and offered a special refinancing program for them. We encouraged lenders originating new loans to implement controls to improve the appraisal process to reduce the possibility that homeowners would pay too much for homes that they were purchasing in this area.

We joined the Home Ownership in the Poconos Enterprise, or HOPE, which was formed by Congressman Kanjorski to bring together national and local housing industry leaders, elected officials, and community groups, to find solutions to problems in the Pocono housing market, and to prevent similar situations from recurring. Joe Terrana, the Deputy—the Director of our local partnership office, is actively engaged in addressing community housing issues right here in the Pocono region.

Since the end of 2000, we have managed to reduce our foreclosure rate in this area by more than half, and the trend continues lower. Since 2001, our loan workout ratio, which measures the percentage of defaulted loans that we were able to cure without foreclosure, has averaged more than 60 percent, far exceeding the State rate in Pennsylvania of 45 percent. But not withstanding these challenges, Fannie Mae has remained committed to providing mortgage loan liquidity here in Monroe County, and has increased our investments in this region from the 8,300 loans that I mentioned, to more than 10,000 loans today.

As we move forward, we remain committed to serving this community. We have developed new procedures to detect this kind of problem sooner. We can now identify the refinance transactions with potential excessive property value estimates by using automated underwriting technology, and we also now refer unacceptable appraisal reports identified through this process to the Pennsylvania State Board of Certified Real Estate Appraisers for their investigation.

We believe that better appraisal practices, along with a better understanding of the home buying process on the part of homebuyers, could have enabled some consumers to avoid the problems that they experienced. Fannie Mae is a strong advocate of homebuyer education, and we require it under our own programs. In order to support homebuyer education, we have worked with the Alliance for Building Communities, the Pocono-based Pennsylvania Homeowners Defense Association, and others. We have also joined in the Keystone Housing Initiative by backing a $32 billion mortgage commitment here in Pennsylvania, which will provide additional opportunities to learn about responsible borrowing and home buying.

In conclusion, Fannie Mae remains committed to providing mortgage loan liquidity in all communities throughout the United States, in strong markets, in weak markets, and throughout challenging times. Fannie Mae remains committed to this community, and we will continue to work with all parties to improve and strengthen the housing market in this area. Thank you.

[The prepared statement of Zach Oppenheimer can be found on page 164 in the appendix.]

Chairman BAKER. Thank you, Mr. Oppenheimer. Our next witness is Mr. Gary P. Taylor, President of the Appraisal Institute. Welcome, sir.

STATEMENT OF GARY P. TAYLOR, PRESIDENT, APPRAISAL INSTITUTE

Mr. TAYLOR. Thank you, Mr. Chairman Baker, Congressman Kanjorski. Let us review the record. Poconos real estate was thrown into turmoil by an influx of lower-income New Yorkers flooding in to seek——

Chairman BAKER. Ladies and gentlemen, if you will, please, help us. We are here to get the facts, and we obviously are hearing—we are hearing from both sides. We are hearing from both sides, and we cannot proceed without allowing the gentleman to present his statement. I understand there is disagreement, but please help us. We want to get to the bottom of the facts, and we cannot do that without letting us proceed, please.

Mr. KANJORSKI. If I could have your attention, Mr. Baker has courteously traveled about 1,200 miles to be in Monroe County. We now have the advantage here of some of the most expert witnesses in the country, both locally, regionally, and nationally. We cannot complete this hearing unless we have an understanding of what each witness is going to say. Therefor, if you will do me a favor as your Representative in Congress, let the Congress hear the witnesses statements without interruption. Thank you.

Chairman BAKER. Let us start. Mr. Taylor, if you would, proceed with your statement.

Mr. TAYLOR. What is——

Chairman BAKER. I assure you, all statements are going to be examined and questioned at the appropriate time. In our business, we have to let each side make their own case, and—I know, but they have not been saying it to us. Let us proceed, please. Please, Mr. Taylor.

Mr. TAYLOR. Flooding in to seek a better life. Powerful interests—powerful interests misled the existing residents as to the value and extent of their property, cynically cheating them out of their homes. Pennsylvania authorities ignored the victims' complaints for years. I am referring, of course, to the infamous Walking Purchase of 1737, a swindle pulled off by Colonial Secretary James Logan, expanding the boundaries of settlement, which should have ended up roughly here in Stroudsburg, all the way up to Lackawack. Logan worked his scam by misleading the principles, departing from norms in land deals, and controlling the process. This beautiful land has been plagued by crooked deals ever since. The spirit of James Logan apparently still haunts the Poconos. How can we get rid of it?

One obvious place to start is by eliminating corrupt and inflated appraisals, which figure in the outrageous transactions we are discussing today. My written testimony lists 15 specific measures to correct weaknesses in our appraisal licensing system. Most of these would have to work their way through Congress, but one could work now: if the bank regulators on the Federal Appraisal Subcommittee would use the authority they already have.

Last year, bank regulators reminded lenders that borrowers and loan production staff should not influence the selection of appraisers, yet this mandate is still routinely ignored. Some mortgage brokers even require a predetermined value to be met if an appraiser wants future work from them. The regulators have authority to stop this abuse of appraiser independence, and they should use it now.

Similar problems during the savings and loan scandals of the 1980's prompted FIRREA, which sought to foster accurate appraisals as key elements in federally financed real estate transactions. The appraisal industry responded by creating uniform standards and promoting greater professional development. 15 years later, we see FIRREA has failed to meet its goal, and no where more than here in the Poconos.

Appraisal profits exist around the country, but they are acute here, where 1/5 of all the mortgaged homes face foreclosure. Compare the 29 percent foreclosure rate in Monroe County to the national average of under 1 percent. Pennsylvania's appraisal regulators have been especially slow to deal with complaints. The political and judicial establishments have been so close to some developers that it was necessary to bring in judges from elsewhere to ensure fair, legal proceedings.

In 2002, Freddie Mac made Chase Manhattan Bank buy back the loans it had sold to them, an extraordinary occurrence. Much Pocono development targeted inexperienced homebuyers, especially from New York City, completely unfamiliar with the area. Corrupt developers, financiers, and appraisers, in some cases, are one and the same.

Now, 6 overlapping investigations seek to unravel the mess, which every resident of Monroe County and the region pays for one way or the other. As an appraiser proud to represent my profession, I am appalled that misleading appraisals have helped to ruin so many lives here.

An appraiser must be independent to render an objective evaluation, and must be free to resist pressure to inflate values. Despite FIRREA, such pressure persists. Three-quarters of appraisers polled nationwide told independent surveyors that they have been pressed to deliver higher values. Contrary to the intent of FIRREA to increase professionalism, qualified appraisers are being marginalized. Language in the law is being misinterpreted to cater to minimally qualified appraisers at the expense of those with the most experience and professional development, the equivalent of hiring high school dropouts rather than college graduates.

So-called bargain bundling of real estate services renders appraisal just a formality in a mixed bag of services controlled by lenders, courting the disastrous results we have seen here in Monroe County. Regulators have been under-funded, understaffed, mis-

directed as to priorities, and sometimes just plain lazy. Some state regulators impose fines for trivial mistakes while leaving massive deliberate frauds unchecked. They chase their tails while swindled homebuyers end up on the street. Complaints languish for months and even years without resolution, while the Federal Appraisal Subcommittee does little to encourage timely action.

Our professional organizations recommend specific changes to the law that would promote appraiser independence, and allow FIRREA to work as intended to protect government financial interests, and with them, consumers. We recommend giving regulators enough access to do their jobs, giving public access to regulatory proceedings, and advancing the professionalism of appraiser. Most important of all, we want accountability down the line, from a credible federal enforcement entity, through responsible State regulatory agencies, to the entire mortgage lending industry.

The realty scandals of the Poconos reflect problems across the nation. Let us stop this mortgage merry-go-round whizzing in circles without going anywhere. We can work with Congress towards a system of accountability and clearly defined responsibility guaranteeing the integrity of honest appraisals is the first step toward purging Pennsylvania of the spirit of Logan and the modern Logans that still prey upon it today.

Thank you, Congressmen.

[The prepared statement of Gary P. Taylor can be found on page 199 in the appendix.]

Chairman BAKER. Mr. Kanjorski, you have a motion?

Mr. KANJORSKI. Yes, Mr. Chairman. Before we question our distinguished witnesses, I would ask unanimous consent that we insert into the record 2 documents from individuals who contacted me before the hearing and requested to submit material. Mr. Carl Silverstein, a father of 8 children, has encountered certain problems in his mortgage, and he raises some serious concerns about his initial appraisal for his home in the Poconos. Additionally, Mr. Joseph Fisher, who presently serves as an appraiser in the Poconos, has developed a proposal to combat problematic appraisals by redefining the description of neighborhoods. Consequently, I ask unanimous consent that both of these statements be entered into the record.

Chairman BAKER. Without objection, both statements shall be incorporated into the official Committee record.

[The following information can be found on page 235 in the appendix.]

Chairman BAKER. I shall begin my questions. Mr. Goldstein, I am not sure that I should ask any questions of you, given the fact the report is not been released, but I just want an observation to be confirmed for me. Your data would seem to indicate that over the last decade, generally, Pennsylvania real estate values have been on the increase. Is that a fair assessment of the real estate market?

Mr. GOLDSTEIN. Pennsylvania? Yes.

Chairman BAKER. Yes? Speaking for the GSE's, I just pick Mr. Oppenheimer to make a general statement. In your credit review process of portfolios, you do not in the course of normal business conduct, examine the underlying appraisals of values of every loan

which is acquired as a part of the secondary market acquisition, is that correct?

Mr. OPPENHEIMER. That is correct. That is correct, sir.

Chairman BAKER. So——

Mr. OPPENHEIMER. We have standards for prudent investment quality underwriting that would relate to every appraisal for every loan that we purchase. We randomly sample loans to make sure that all of the lenders selling loans to Fannie Mae abide by our requirements and our standards. When we find a problem like we did in the Pocono Mountains, we quickly take action to identify the nature and cause of the problem, and remedy the problem with solutions.

Chairman BAKER. But as to a normal day-to-day business practice, you rely on the conduct of the originator, the appraisal, the closing attorney, the home builder, the real estate agent, and their professionalism, to provide to you a product which you can acquire in good faith. That is correct. Mr. Taylor—ladies and gentlemen, please, help us out. We are trying to go somewhere here with this line of questions, and you can tell us how good we are doing later, but let us work a little bit. Mr. Taylor, you indicated from your perspective as the national director of an appraisal organization that the pattern of practice of appraisals in the region, in the county, was, of your opinion, deeply concerning and likely fraudulent conduct. Is that a correct summary of your testimony?

Mr. TAYLOR. Yes, it is, Mr. Baker.

Chairman BAKER. And did you summarize your findings and recommendations in correspondence to the Federal Appraisal Committee as of this date?

Mr. TAYLOR. I believe we have, yes.

Chairman BAKER. Okay. Could I get—please request a copy of that for the Committee's consideration? We would like to see what your findings were and specific recommendations. Mr. Peterson, in your statement, you seemed to indicate that the best weapon against abusive practices is for an educated consumer. In the event of a closing, is it not a standard of fiduciary conduct for the closing attorney, the real estate agent, the home builder to some extent, and specifically the appraiser, to exercise independent authority and judgment in providing that the representations made are accurate and in the fair and balanced interest of the consumer as well as the seller?

Mr. PETERSON. Yes, I would believe it is.

Chairman BAKER. If you would, please, get a microphone so we can—you seemed also to indicate—and for the record, the gentleman answered that question as that is correct. Secondly, you had seemed to represent that the actions in the Poconos, you believe, to be aberrant, not common practice, and that, to a large extent, the significant majority of home closings were customarily in line with professional standards of performance, is that correct?

Mr. PETERSON. I would believe so. Again, I am speaking on behalf of the builders. We do not represent appraisers or real estate agents in that.

Chairman BAKER. That is certainly understandable.

Mr. PETERSON. We are strictly the builders for new construction.

Chairman BAKER. I used to be a home builder myself——

Mr. PETERSON. Right.

Chairman BAKER.—but when I built a house—I am no longer in the business. I have been out of the business for a long time. I have no monetary——

Mr. PETERSON. Right.

Chairman BAKER. But when I built a house and put it on the market, I had a pretty good idea about what the value of that house would likely sell for——

Mr. PETERSON. Right.

Chairman BAKER.—without the need of an appraiser. Would that be true——

Mr. PETERSON. Right.

Chairman BAKER.—of——

Mr. PETERSON. Yes.

Chairman BAKER. Would it also be likely—Mr. Hay, excuse me—that when you take a listing from a builder and put it on the market without the need of an appraiser to tell you the value, based on your practice of experience in the market, you would have some idea as to what the market value of that market value of that property might be?

Mr. HAY. That is true. However, in our market area, there are very few new home constructions, other than maybe a spec home, that actually are listed by a realtor. That is not to say that a realtor does not work with builders and refer clients to them, but typically they are not put into the Multiple Listing Service as—and put on the open market because there is very little speculation building done.

Chairman BAKER. So what you are saying in this case is that many of the homes were built pursuant to a buyer contract of presale?

Mr. HAY. That is true. There are—between the builder and the contract that the builder has with the buyer. They are not listed with a realtor, and then they do not go through a realtor.

Chairman BAKER. There seems to be a conclusion reached by Mr. Taylor that there were abusive and inappropriate, perhaps fraudulent, appraisal methodologies in many closings of Pocono homes. Do you dispute that finding or conclusion, or do you think it has merit?

Mr. HAY. I think it has merit. I do not dispute it at all. I—in our association of realtors, our local association of realtors, Pocono Mountains, works primarily with realtors that are working with existing homes and, in many cases, we do list and sell the homes once they have gone into foreclosure.

Chairman BAKER. Well, Mr. Goldstein indicated his studies produced data that there was a progression in home values over the last decade, and generally Pennsylvania housing values. Notwithstanding the fact there may be a subdivision or a trouble property that would have some debilitating reason for a depreciation in value, from an outsider looking in, if I understand that there have been an aberrantly high number of foreclosures, that the value of the transaction at the time of closing appears to be elevated from a falsified or incorrect appraisal in which a home builder willingly participated along with a realtor in the closing, who both have substantive professional knowledge as to the value of that property on

the open market, with a lender, who then knows they are going to sell it off to a government-sponsored enterprise who has no liability nor the ability to examine each credit condition at closing, how is it possible for that practice to become a widespread methodology of market conduct? There are so many moving parts where one—any one part could say, wait a minute, something is not right here. What is it that you—ladies—please, please. I am trying to help you, if you will just help me. Thank you.

Mr. HAY. Okay. If we could back up a moment, Mr. Chairman. Is the—again, the realtors are normally not involved with new home construction, or not involved with the contract at all in any way, shape or form, with a builder. I am not saying——

Chairman BAKER. I do not know Pennsylvania law. Is it okay for a homebuilder to market his own property without a real estate license?

Mr. HAY. That is correct.

Chairman BAKER. Okay.

Mr. HAY. And that is the way that I would say would be 99.5% of the time.

Chairman BAKER. That is not the case in my state.

Mr. HAY. Okay.

Chairman BAKER. I just——

Mr. HAY. Yeah, realtors are not involved. We do work with—more on the existing home level, not on the new home construction level. And typically in many cases, the buyer has already spoken to a lender prior to engaging a real estate agent, as you probably have seen those advertisements even on national TV, national companies. So it is not untypical for us to have to work with a lender out of California or Georgia or Florida. That is typical.

Chairman BAKER. And——

Mr. HAY. People do go to their——

Chairman BAKER.—as a matter of practice——

Mr. HAY.—licensed——

Chairman BAKER.—within an agency of your size, you do not usually finance purchases yourself?

Mr. HAY. Not at all.

Chairman BAKER. Okay.

Mr. HAY. Not at all. And typically the realtors in the area do not finance. That is not to say that they do not have companies that they refer business to——

Chairman BAKER. Sure.

Mr. HAY.—but they do—again, if there is any financial interest there, they have to be—that has to be disclosed through the rules and regulations and the Licensing Act of the Pennsylvania Real Estate Commission.

Chairman BAKER. Thank you. Mr. Bisenius, when a person is found to have been the victim of fraudulent conduct and a home closing occurs which is subsequently followed by a bankruptcy proceeding, you indicated that—or it was Mr. Oppenheimer—I am sorry—indicated that in pursuit of wrongdoers, there was successful recovery of significant amounts of money. Has any of that money made its way back to consumers, or has that been for the GSE's best interest? If you want to get back to me on that later——

Mr. BISENIUS. Let me do that.

Chairman BAKER. Secondly, with regard to curative work, in the instance where an individual has been the victim of fraud, there is a final judgment against a perpetrator that it was fraud, the individual has gone into bankruptcy, is there any curative work done on that individual's credit record when those facts are determined? Please, let me ask the questions.

Mr. BISENIUS. Not that I am aware of.

Chairman BAKER. Okay. Thank you. Mr. Kanjorski, I have been overly abusive of time, but please, take as much time as you like and I will come back with another round.

Mr. KANJORSKI. Mr. Chairman, I want you to use all the time in the world, because it is important that you get the information. As I discern the testimony of the entire panel, there is no one single cause of a problem here in the Pocono Mountains. It is a multiplicity of causes, and to start off, and I think if you—it comes from a meeting you and I had here at the university maybe a year ago, and when we had maybe 400 of the people involved. To a large extent, am I to understand that there has been a dearth of professional support, either through the representation of an attorney or real estate agent that has been contracted for by the buyer? Most of the individuals that have been quote allegedly defrauded, they did not have the benefit of a real estate agent or an attorney, is that relatively correct? Are there—well, I cannot ask of you, but I can ask of the Fannie Mae/Freddie Mac people, what is the custom across the country? Are there any requirements of state law that, particularly first-home—first-time homebuyers have the advantages of professional services, and a predicate—I will put a predicate in that. I think we are all aware that part of the problem is sometimes a lack of sophistication of knowing what to look for, and an overly anxious desire to acquire the property because it is the escape from maybe the urban area to a pristine area like the Pocono Mountains, so that, as a result, there is that desire to acquire the property, and then a financial illiteracy, if you will, in terms of not themselves knowing necessarily how to price a property because they are from out of town, not having the benefit of a strong or independent appraisal as we would hope be the correcting mechanism, and then further not having the professional representation of the realtor or the attorney? How do we fill that? What do we do? Someone mentioned education. What do——

Mr. OPPENHEIMER. Congressman, the direct answer to your question is that it varies by location when you asked about whether there is legal representation to homeowners. In other jurisdictions around the country, it truly does vary. One thing that you touched on that I think is critically important though is homebuyer education. To the best of our knowledge, many of the homebuyers here in Monroe County were first-time homebuyers. Many of these people did not have any experience previously with the process of buying a home, and many of them did not know enough to look for comparable properties in the area, to know what comparable market value would be for the homes that they were purchasing, nor, Congressman Kanjorski, were many of them familiar with homebuyer inspections and other things that many people take for granted if they have already been through the home buying process many times, which is why Fannie Mae requires for many of our

community lending programs and first-time homebuyer programs, homebuyer education. In fact, many Fannie Mae customers use materials that are published by the Fannie Mae Foundation, in a variety of languages, that help consumers understand the process of buying a home and financing a home. Because what many of us take for granted having purchased homes in the past, is not common knowledge for first-time homebuyers, and I believe that homebuyer education is not just critically important, but will help prevent the recurrence of these problems in other areas throughout the country with more education on the part of first-time homebuyers.

Mr. KANJORSKI. Do the—any of the States actually require some professional representation if you are a first-time homebuyer, or——

Mr. OPPENHEIMER. Not that I am aware of.

Mr. KANJORSKI. In other words, it is caveat emptor?

Mr. OPPENHEIMER. Yes, sir.

Mr. KANJORSKI. And if you can get a purchaser from out of the area, unfamiliar—and I was particularly struck when we had this meeting with Mr. Wilson's group too—that so many of these buyers came from the State of New York where they were accustomed to a Housing Commission in the State of New York. It is much more protective of a homebuyer.

Mr. OPPENHEIMER. I believe attorneys also represent buyers in the State of New York. Attorneys are required at settlement.

Mr. KANJORSKI. Attorneys are required?

Mr. OPPENHEIMER. I believe so.

Mr. KANJORSKI. In the State of New York? So it would not be abusive, at least at a State level, to require representation by counsel, but maybe even on a national level, look at that question. I—you know, we always, and I know Richard is the same I am, we do not want to impose federal jurisdiction in the actions of the various States in the exercise of their property rights because they are quite different. But on the other hand, if we found that this was a uniform question, particularly in first-time homeownership, would it be wise for us to set some standard out there that says that we have to have representation? Because I found it critical in our discussions and the group meetings that I have had with these buyers, that so often the problem that they stepped into was really easily curable or solvable at the very beginning if they had either a realtor or an attorney that was representing them and not the seller, or not the mortgage company, who would have asked the questions, would have alerted them. It would have been over. Now, maybe we should look at, in these marginal areas where we are now attempting to get higher homeownership, and particularly encouraging relocation ownership, where the people are unfamiliar with the area and the customs of the area, and they do not have a contact within the area to refer to, maybe we should look at the potential of the requirement of professional representation. Is that—I do not want to make work for lawyers or for realtors, but maybe having a lawyer in at the closing is going to protect the transaction and the individual with the foreknowledge.

Mr. OPPENHEIMER. I would answer your question, Congressman, by saying that it is a requirement for many of our first-time home-

buyer programs that homebuyer education classes be taken. And the truth of the matter is what some first-time homebuyers do not know can hurt them, as evidenced by what has happened here in Monroe County.

Mr. KANJORSKI. Well I was struck though with Mr. Taylor's testimony. At this time, Mr. Taylor, you see how you can have a response from people when you put the first clause out there? And then you won the audience because obviously your testimony was going to be that you have worked, and your institute has worked, very diligently over the last 3 years to set up high standards of appraisals because we saw that as a major weakness in Monroe County, this idea of the—that the appraiser were not really coming within the parameters of what a fair market price was for whatever reason. Again if you had a part of the problem here, it probably does go to over-exaggerated appraisals, at the very least. Would that have been ascertained by a real estate agent or an attorney if they had participated in the whole closure of the proposition, that they may have looked at it? I know when I practiced law, I could pretty much tell you the value of a home anywhere in the perimeters of the county that I represented. I could just look at it and say, wow, is that over-inflated. And I would imagine that the bar here would have the same familiarity, or certainly the real estate. Why is it that it is that common to have—I mean, that shocks me. I have to say for the audience I have a daughter that moved from Pennsylvania, went to school in California, and then moved to New Mexico. She told me she was going to buy her first-time home and was ready to close on a transaction, where I said, who is your attorney? And then she proceeded to tell me she did not have one because she was smart enough not to have an attorney, or was so encouraged by the seller, and her daddy did an ugly dance and said you will not have any support from me unless you get an attorney, got one, and saved yourself from a horrible transaction. But even lawyers' children and well-educated people make this error of the largest financial transaction of their lives. They think they can avoid the expenditure either for proper legal counsel or real estate expertise. As a result, regardless of what Mr. Taylor's organization does in terms of appraising, unless somebody is to test the appraisal and be alert, they cannot alert the secondary market, they cannot alert the mortgage company, they cannot talk to the builder. It is just a process that builds up and goes along and gets one. And then if there is a failure, it is a horrible failure, as happened here. From the whole panel, a question, anybody jump in. What should the federal government do, and what limits should we put on what we do so that we do not impose upon the States and preempt the States too much?

Mr. TAYLOR. Congressman, if I might start off. One of the questions you asked is would someone be better served having a realtor or an attorney at the closing. I would say to you that they would be best served having an independent appraisal performed, that they would hire the appraiser, not just rely on the appraisal that was being done for the transaction. I would then say, yes, having a realtor there would probably be helpful, and if the attorneys were doing the closings on a consistent basis, I agree with you. I think they would get an idea as to what the values were in the area from

closing so many properties consistently. I do find it was unusual. My wife was from Pennsylvania, and when we were married and buying our first home, she said to me what do you mean we are spending money on an attorney for a closing. And I live in New York, and I said, well, it is required. Are you telling me it is not required in Pennsylvania? She goes we never had one in any of our closings. But she did mention she had an appraiser who did an appraisal for her and actually saved her money on the closing because the price that she was going to pay was too high and they renegotiated the deal.

Mr. OPPENHEIMER. Congressman, this is the front page of the "Philadelphia Inquirer" real estate section yesterday. The title is First-Time Homebuyers Beware. There are so many risks and issues that need to be addressed for first-time homebuyers, that we at Fannie Mae strongly favor a federal anti-predatory lending law that would be applied in every state in the country to protect consumers from the practices that are predatory in nature in the marketplace today. Fannie Mae is but one investor, but since 2000, we have put guidelines and restrictions in place for loans that we purchase or securities that restrict prepayment penalties and balloon payments, that prohibit steering borrowers from lower cost loans to higher cost loans, that prohibit excessive charges and fees, and that prohibit single premium credit life insurance payments. Those practices are still very common in the marketplace today, and there are probably others that I am not mentioning, but we would strongly favor and support a strong federal anti-predatory lending law.

Mr. KANJORSKI. Well, as you may know, we are working on that legislation right now. But one of the things that disturbs me about it is that, you know, we can identify a particular problem and outlaw it, but the reality is there is a profit in the marketplace for either fraud or near-fraud conveyance of real estate, and invariably someone is going to find a way around whatever we—you know, whatever thou shall not that we pass, they will find a willing way to circumvent that, so I—well, what—of course, we have to look at that on a national scale and are doing so. I do not think there is any—certainly any decision on my part or the co-sponsors that I have that are interested in the issue, and is certainly going to filter through my friends on the Committee, Mr. Baker included. And I hope that out of the consensus—what did you say, 10 percent of the Congress sits on our Subcommittee alone, Mr. Chairman we ought to be able to come up with something that is a standard. But we look forward to working with you on this, and I certainly recommend that you do get together with some of the staff on the Committee and my own staff that are working on this proposition. And part of the bill that we are working on includes a counseling—buyer education. I just do not know how far to go, and I do not want to create something that is required that gets placed into a manufactured appearance. It is so often—I am familiar with some of the prior Congresses on lending obligations, and even myself, you know, I am handling—when I do a transaction personally, I am handed a series of documents to sign which I never read. And it was all because of the magnificence of the Congress that we thought that by creating these documents we would be protecting

people. The reality is you can over-create requirements and documents that ultimately people then do not sign.

Any way, we have to find some real solution to the problem, not just to cover our tail or cover the lender's tail or the appraiser's tail or the seller's, so we have to find a way that makes it practical for people that are, particularly first homebuyers, that they get the attention of a professional to assist them along the line, and that they know what questions to ask, and particular an appraisal, when in doubt, to get it. Right now, I have to say, Mr. Taylor, just my observances in Pennsylvania, and I suspect it is nationwide. Because of the lack of the number of accredited appraisers that exist, there is a tremendous delay out there in funding, and—or in getting appraisals and completing the mortgage process. Sometimes the delay in Pennsylvania is 2, 3 or 4 months, just to get a clearance of getting an appraisal. That very often frustrates the buyer and the mortgager. It slows down the transaction materially.

Mr. TAYLOR. Congressman, if I could respond to that. I think there are time periods when the appraisal process gets slowed down when there is an explosion in the marketplace, as we saw over the last 2 years of interest rates. But I think as far as the number of appraisers out there, there are currently 80,000 licensed and certified appraisers in the United States right now. The problem that we see is that of that 80,000, only approximately 30,000 of those appraisers belong to professional associations. When Title XI was passed in 1989, it contained a so-called anti-discrimination clause within that bill. And that bill basically instructed lenders, or told them that they could hire on a federally-related transaction, any appraiser that was licensed, licensing being a minimum requirement. They then went on to indicate that you could not hold as a requirement that someone belong to a professional association or have attained credentialing by that association as an additional requirement. So what it did really was to prove to appraisers who were working diligently to move forward din their careers and their professionalism, that perhaps they did not need to spend the time, and there was a fleeing from the associations because to be licensed, not to have to belong to an association, not to have to pay dues, not to have to be subject to ethical standards and reviews and potentially punishment and removal from the association, was much easier to agree to just be licensed. Licensing in the States right now requires 90 hours of education, no degrees. The professional association which I am a member of requires 120 hours of education to begin with, and in order to get a designation for residential appraising requires 200 hours, plus substantial number of hours of experience. We really think that the law from the federal end needs to be looked at, to say that the anti-discrimination clause of appraisers has really had a negative impact, and is not accomplishing what it was set out to accomplish. And that was to raise the bar to increase professionalism and to continue to protect the consumer and the federal institutions.

Mr. KANJORSKI. So it would be your recommendation we go back and reexamine what we did in FIRREA, to see whether or not we in fact constricted the use of appraisal as a protective device.

Mr. TAYLOR. Correct, Congressman, and I think that has been looked at. The Senate looked at that recently in testimony also. It

has been 15 years now and the question is did FIRREA accomplish what it set out to accomplish. And it really has created a tangled mess for real estate appraisers such that if one is to try and practice from one State to the other, they must conform to the individual State requirements, and there is no consistency. The federal authority the Appraisal Subcommittee has the right to issue temporary licenses, or to say that an appraiser in New York for instance could do an appraisal in New Jersey without having to be licensed there under a temporary basis. That has not happened. Some States have their own requirements. Some States have rejected designated appraisers in our organization that have gone well beyond minimum credentialing, because they say you do not meet the State requirement, which is hard to imagine. But it has created 54 jurisdictions with 54 sets of rules and regulations, and in some ways has restricted the interstate commerce of appraisers, and has hurt the industry from, again, as I said earlier, encouraging people not to go the extra 10 yards and go and join a professional association and subject yourself to potential disciplinary actions. The States, I think, have also failed, as we have seen here in Pennsylvania, to enforce the laws that have been set out by the States. It often takes years for cases to come to light, and in the interim these bad actors, as we call them, are still continuing to prepare appraisals, still have their licenses. New York, as I indicated in my testimony, had someone who committed a felony, and after spending a year in jail, was re-given his license because he was supposedly rehabilitated.

Mr. KANJORSKI. Very good. Could I just prevail on one more point, Mr. Chairman? One of the situations that is unique somewhat to the Poconos is an extraordinary difference between the new property price and the used property market. And I have been looking at it, not only that it is effective here in the Poconos, but there are policies and engagements across the country in real estate that possibly account for that happening, and also whether we should look into it. One is that we are dealing here with contained or controlled communities to a large extent. In other words, a seller can be selling a lot across the street from a home that is almost identical to the new house to be constructed, and the home is sitting across the street, but the buyer of the new parcel would not be aware of the for sale of that piece of property because there is a denial of putting for sale signs and for advertising, and even if you could put a for sale sign, the neighborhood may be a closed neighborhood so the public cannot get in. And I think, to some extent, that may exacerbate this tremendous difference between the new property price and used property, which sometimes is as much as 50 percent in 3-, 4-, 5-year-old property. Is there anything we should do about it, or—and should we in some way construct with peoples' right to privately construct and give away their rights when they become homeowners, or—I mean how far should we walk down holding the hands of the real estate buyer?

Mr. HAY. If I could address that, Congressman. Typically when the developers initially started a community, they did prohibit—in their deed restrictions did prohibit for sale signs, and that follows obviously the chain of title, and they are still in there. The primary reason, of course, that the original developer, which are long gone

in 99% of our communities here. The primary reason that they wanted the prohibition of the for sale sign is because they did not want the competition of the resale market, so that if they were selling more homes in the area, they did not want that there. That was the primary reason. However there are many of the associations that have allowed that prohibition to stay there and remain today, and in the market that we have today, because it has been so strong, it is not a real big issue, but the concern is, is if that—I guess I could relate back to the early '90s and mid-'90s when we had literally a 7-year supply of homes on the market in any one community, and if there was a for sale sign on every one of those homes, it almost looks like there is something blighted and something wrong with the community when in fact there was not. So that is why there are a lot of the communities do not allow the for sale signs there.

Mr. KANJORSKI. How does that affect the used-market price if people who would be coming into the community do not know what houses are for sale? How do they not get into building a new home when in fact they could acquire a used home——

Mr. HAY. Yeah.

Mr. KANJORSKI.—with significant savings?

Mr. HAY. I think, you know, a lot of it still goes back to the education process because the buyers do not know that the homes are for sale in these communities, and they are just shown the—today, with the Internet availability, they can find homes that are in those communities and for sale. But if there is this homework that has to be done that way and education that has to be given. If I could just jump back on the predatory lending comment. I feel that there is a need for a federal predatory lending legislation, and the reason for that are there is many people that go out on the internet and they get a mortgage company off the internet because of the rate, or everything that sounds good. And so we are not just bound to instate lenders. There are people that are lending that the do come off the internet. I had one that was a lender mortgage company out of New York State. Within the last 2 months, the mortgage broker called me and said we need to do an addendum to the agreement of sale increasing the sale price of the home by $30,000, and that we need to find an appraisal—appraiser that will appraise it for that amount of money. And it was just so that buyers could show that there was—or that they could—and going back to the phantom paperwork, that they could show that there was equity into that home when in fact there really was not. So these people can be found out of state, so that is why I think that something federally needs to be done. On the appraisal side, one of the concerns that I have is some of the lenders utilizing credit ratings and only using an assessed value of the area, not really having an appraisal done at all. That really concerns me because they do not have anybody going out and physically looking at that property to tell what that property is worth. And secondly, some of the lenders, because of the credit rating—someone having a good credit rating, at most, will ask for a drive-by appraisal, and again that is not fair to either the buyer or, in some cases, the seller. So I think those are some of the things that we need to look at, but I appreciate

your work on predatory lending law, but I think we do need to do something federally on that.

Mr. KANJORSKI. Okay. I am going to pass it back to you.

Chairman BAKER. Thank you, Mr. Kanjorski. By way of show of hands—do not stand up, please—how many people are here in the audience today who have either directly or indirectly been affected by what they believe was misrepresentation in home price, just to get some idea. Okay. If you will put your hands down. How many of that number were first-time—let me reverse it. How many of that number were not—you already had owned real estate prior occasions, just—so it was predominantly first-time homebuyers, but there were some experienced homebuyers who also were adversely affected. By way of explanation from my own experience in my home state, we have a requirement that a realtor meet certain licensing requirements, but that you cannot represent but one party in a transaction, either the buyer or the seller. If you are to put yourself in the position of representing both, then you must have both sign a document agreeing to that arrangement, and then you cannot advise either party. I cannot tell the seller what the buyer what—will really pay. I cannot advise the buyer what the seller will really take, because that is a violation of law. If you violate your fiduciary duty, you go to jail. We have a similar requirement for appraisers, and we have to have an independent appraisal done by a third party who has no interest in the transaction other than the appraisal fee. The attorney is under a similar obligation, and the mortgage company has an obligation. So that in all—and we did not just jump ahead of the curve here. We came out of the S&L crisis in the late '80s, so we had people going to jail in every direction. And so as a result of that, we put into effect at the State level a remedy, which in my view of the world, might greatly enhance, along with the appraisal recommendations of Mr. Taylor, where we might need to go. But as to the issue of predatory lending, we first have to design a definition of what is it that is not already currently a violation of law. It appears from what has been described here today, there is sufficient grounds for actions against individuals where you—where the addition of a predatory law would not necessarily make any big difference. However should we pass one, I am understanding that members of the secondary market would want to have an exclusion from liability should there be an abusive practice identified to your portfolio, that you rely on the originator to do the screening. Because otherwise you are going to be at the Georgia model. Then you are going to find yourself not participating in the market at all. Is that correct, Mr. Bisenius?

Mr. BISENIUS. Well, not exactly. The issue only comes down to one whether it is strict—liability or more limited liability. We believe we should be held accountable to a standard where we have to do reasonable due diligence against the people we are doing business with and the practices they are engaging in. And as long as we take reasonable efforts to watch against that, then we think we should be protected from the liability. If we had no quality control, we had no lender approval, we did no due diligence, then we should be subject to the same liabilities in the market——

Chairman BAKER. But that does not go to where you are doing a—you get down to a credit examination of every loan. You—what

you are doing is taking the current business practice and saying that standard shall be applicable going forward, although for mortgage originators at the State level, they will have a higher standard of liability than they do today.

Mr. BISENIUS. That is correct.

Chairman BAKER. Okay. Thank you.

Chairman BAKER. Mr. Peterson, I want to go back to your earlier comments about the homebuilders obligation. Is there any—what is the standard—is there a professional code of conduct, for example, that the Homebuilders Organization has in effect that requires you to utilize any method of what I would call a fiduciary standard—homebuilders may have another description of it. What is your stated professional organization's obligation to your home purchaser?

Mr. PETERSON. Well, number one, as an association, locally we do have some guidelines that our builders and our contractors must sign, saying that they are going to do specific things, that they are going to follow code and stuff. Unfortunately, most of these deal with construction and quality and workmanship. They do not deal with appraisals. They do not deal with financial issues. Now that is something that we can be looking at, but it is hard for us as builders to determine that if we are not licensed appraisers and we are not attorneys, and we ourselves do not know that.

Chairman BAKER. But you know what cost you have going into the home to construct it. You know what normal rates of return——

Mr. PETERSON. right.

Chairman BAKER.—would be on that product.

Mr. PETERSON. Yes.

Chairman BAKER. And if you have something that represents a 200 percent rate of return, maybe a flag goes off there. Is there anything that—there is no bounds from which you as a professional organization—let me make it easy. How about, if you can, get us a copy of your current homebuilding code of conduct and we can examine it and take a look at it.

Mr. PETERSON. And you do have that. That is in your——

Chairman BAKER. Great.

Mr. PETERSON.—package. I—you did receive that today. Again, there is not anything dealing with the appraisal end of it. Maybe that is something that we do need to——

Chairman BAKER. Has there been——

Mr. PETERSON.—look at.

Chairman BAKER.—any curative action, corrective action, penalty assessments, anyone taken out of the organization as a result of identified irregularities of conduct?

Mr. PETERSON. For workmanship and code violations, yes, there have. For appraisals?

Chairman BAKER. Yeah, no. Appraisals is not your business.

Mr. PETERSON. Right. It is not our business. But for workmanship and contractual problems, things like that, we have, but for the financial end, no.

Chairman BAKER. And please, I need to hear what he is telling me so we can get it on the record. I thank you for your interest. Secondly, if you were to go personally to a closing on a home that

you felt was worth $200,000 and the appraiser came back with a $250,000 appraisal. The mortgage lender says that is not my job, it is the appraiser's responsibility. We are going to loan 80 percent of the value. Does everybody just go along their merry way, or what do you feel is the homebuilder's responsibility at that point——

Mr. PETERSON. Right.

Chairman BAKER.—in fairness of value?

Mr. PETERSON. Well, again, from the national level of our federation to our State association and ours, we recommend that the consumer does have a real estate attorney. We do recommend—unfortunately it is not law here in Pennsylvania, and I think maybe that is something that needs to be done here. We also recommend that they do their homework. We actually go out and say to a consumer—and I get many phone calls every day from consumers——

Chairman BAKER. I bet, yeah.

Mr. PETERSON.—saying, you know, do—can you give us a list of builders and stuff like that. And I simply say, look, when you are shopping, shop with more than just one builder. Do not get just nailed with one developer and start looking at just their products. Shop among at least 4 or 5 different builders and developers——

Chairman BAKER. Well, let me——

Mr. PETERSON.—and compare——

Chairman BAKER.—ask the question about marketing responsibility. Would your organization, either for whom you appear here today or in your opinion in a State-wide basis, oppose a requirement that would require a licensed realtor whether the homebuilder was a licensed realtor himself?

Mr. PETERSON. Yes.

Chairman BAKER. And from your view, I understand that is another layer of cost, another layer of bureaucracy, so forth——

Mr. PETERSON. Right.

Chairman BAKER.—but there is a code of conduct which goes with being established as a State licensed realtor that if you misrepresent values or your actions mislead either buyers or sellers, then there is accountability.

Mr. PETERSON. Yes.

Chairman BAKER. Would you find that a reform that would be unacceptable to homebuilders?

Mr. PETERSON. No. Personally and locally here, I believe that we would support something like that. Our concern is, though, is that as you bring more red tape into that process, it will delay the process for the homeowner to be able to buy their home and close. So there needs to be a balance there of where the safeguards are there, but also you do not tie up the process with a lot of red tape.

Chairman BAKER. My experience is generally the realtors waiting on the homebuilder to get the paint color right, so I do not know that you have a big problem with the realtor hanging around waiting on that. I would—unless Mr. Hay has a different view. You would not object to that process, would you, sir?

Mr. HAY. No. I would not, no.

Chairman BAKER. Mr. Kanjorski?

Mr. KANJORSKI. Does anyone on the panel, and we almost have all been dealing with the Pocono mountain problem for 3 or 4

years, does anyone have any insight or identifiable things that have not thus are been mentioned that we should be considering?

Ms. MCGRATH. Yes.

Mr. KANJORSKI. Well, let me get Ms. McGrath, and then come to you, Mr. Wilson.

Mr. WILSON. Okay.

Ms. MCGRATH. Thank you. What I would like to address is something that—I am originally from New York City. I was 38 years in the legal industry there. And when I came here to Pennsylvania, I purchased in an upscale community. It was supposed to be a private community with a private golf course with a private country club. After the sale of my community to a new developer, he rewrote everything. We are now a public golf course. Our private country club is now a public restaurant. We have people in and out. It is no longer a private community. However, we are still paying the taxes as if this was all of our private stuff and has never been handed over to the developer. This happens here not only in my community, but it has happened in other communities. Country Club of the Poconos, when those people purchased, they were promised a utopia. It was never developed into the utopia that it was. There are no laws to enforce this, because here in Pennsylvania, the highest command of government you have is your developer. They are higher than the Constitution of the United States of America. They write their own laws. They serve the laws. You go to your township officials, you go to your Senator, you go to your commissioners, and you are told you have to go to your developer. So that needs to be addressed.

Mr. KANJORSKI. Mr. Wilson?

Mr. WILSON. I want to reflect back on the recommendations in reference to federal regulation. I think the only thing that is going to stop housing fraud, predatory lending, is going to be stiff criminal and civil penalties. Someone has to go to jail. Until you put somebody in jail, you are not going to stop it. You can pat them on the hand. You can pat them on the head. But up until somebody is going to realize that if you inflate an appraisal, and based on some of the facts I have seen. For instance, I am going to submit evidence an application whereby a homeowner was given a loan for $188,000 from a bank. The application was not signed. It was not even filled out. The bank writes back and tells the homeowner that this is what was submitted to us by your broker. Now if that is not blatant crimes and criminal, and inflating something intentionally by $20,000 and $30,000, and causing young families, old people, to be homeless, what is a crime? I mean where is justice in America? My position is this. Based on what I have done for the last 3 years, so many families and so many problems, there has to be laws put in place that will hold each and every builder, appraisal, title company, bank, totally accountable for their actions. Should the homeowner participate or collaborate, he should be held accountable, even if it is me. But the type of fraud that I have seen, there is no question in my mind, being trained in college in criminology and law enforcement, there is no doubt that the type of documents that I reviewed—as the FBI said to me 2 years ago when I called their office. I am not going to call the agent's name. He said, Mr. Wilson, the facts and the evidence that you guys are looking for are in the

documentation that you have in your closing documents. You do not need to look any further.

Now when I started to review those documents, I began to uncover things, not as an expert, but as a homeowner—a new homeowner, because there was a lot of people who purchase homes that were not first-time homeowners. There are a lot of people who owned 2 and 3 homes, got robbed. Right there from New Jersey. So now when you are dealing with criminality, and when you are dealing with criminals who have perfected crime and how to manipulate the public, you are dealing with something that the average homeowner is not going to be able to deal with, whether he is educated or not. You need the education, no doubt. You need the counseling. But the reality of it is until there are laws put in place on the federal or state level, that it is going to actually make these people aware that if you commit this crime, the chances are you are going to put between 5 to 10 or 20 years for committed, it is not going to stop. We can talk about predatory lending all we want.

Mr. KANJORSKI. Let me just ask—let me just take the national experts here. You have now heard everything here about Monroe County in Pennsylvania. Do you see a pattern in other areas of the United States that are similar to this one?

Mr. TAYLOR. Congressman, if I could answer.

Mr. KANJORSKI. Yes.

Mr. TAYLOR. When we are discussing predatory lending and legal-federal legislation in that area, as recently as 2003—in the fall of 2003, Tom Watson and 5 others from the Federal Institutions Lending Institutions reissued a statement that was issued in 1994 requiring that there be a separation between those processing and handling mortgage lending and appraisers. So that document had been issued back in 1994. They felt it necessary to reissue it in 2003. And recent discussions at an ABA conference I attended 2 weeks ago indicated that a high percentage are not following that mandate because there is no enforcement and no penalty. And I think unless there are enforcements and penalties issued for trying to coerce appraisers into reaching values, who are not separating the powers between those ordering appraisals and those receiving them and using them for loans, we will continue to have abuses in the system, just as we have seen here in Monroe. and we have seen it in other parts of the country as well, where appraisers are being coerced by mortgage brokers, by institutions looking to file and get mortgages who are involved in the transactions. I mean what happened here was probably the extreme case of fraud with the connections between the appraiser and the builder and the mortgage broker in this. But I think we need to have strong penalties for those engaging, and we need to have a system of reporting because right now the best an appraiser can do is as—I guess it was Nancy Reagan said, just say no. And they have done that time and time again, but they are threatened with being blacklisted. They are threatened with non-payment. They are threatened with basically being strangled out of business in the local area. So again I think it is important for the government to consider that, and again go back to consider the enforcement of the rules. The rules are there. They are not being enforced, and they need to be enforced and have teeth in them before they become meaningful.

Mr. BISENIUS. What I have heard today is something we see a pattern of around the country. While in the Poconos, the magnitude of the fraud and improprieties that occurred in the lending practice goes beyond what we see in many areas, we have seen similar types of scams, similar types of things going on in other parts of the country. It appears that as long as there is, as you said, profit to be made, someone will try and find a way to scam. There are laws which, if enforced, could protect us. As I mentioned, we have a fraud investigation unit. We regularly make referrals to the appropriate criminal authorities in order to pursue these folks. And many times we are successful at having them prosecuted and having them put in jail, but not as frequently as it occurs. We also do maintain an exclusionary list. We do not let certain mortgage participants who have committed fraud in the past be part of transactions with us. So we have attempted, through both the exclusionary list and our fraud investigation unit, to punish those responsible for perpetrating fraud. It is critical from our perspective that we continue to educate consumers and educate lenders. There are many lenders that do not fully understand all the rules and regulations, even though they are part of the industry. I think there are many lenders that do not understand the need for the independence in the appraisal process, and therefore feel like they are doing the right thing. I think further educating lenders as we have attempted to do through some of publications like "Discover Gold Through Quality", educating consumers through such things as "Don't Borrow Trouble", a publication we put out to educate consumers, as well as "Credit Smart", "Credit Smart Espanol", which are designed to help consumers understand what their rights and responsibilities are in the transaction, go a long ways. So educate the consumers, educate the originators, and hold those responsible accountable for their actions is the way we see success.

Chairman BAKER. Thank you. I would like to thank each of our witnesses here today. Your insights have been most helpful to us in understanding the scope and depth of the problem that has occurred here, and addresses policy concerns on the national level. Let me assure everyone that all statements will be carefully reviewed by Committee staff. This will not be the concluding hearing on this matter. We will return to Washington, but I assure Mr. Kanjorski we will continue to work diligently on the identified problems of concern. To those who feel they have not been treated professionally in the conduct of their home purchase, it is my hope that state officials will pursue wrong doers with available tools with some sense of urgency. It is clear to me that there is more than sufficient facts to warrant actions being taken against the responsible individuals. With that closing comment, unless Mr. Kanjorski has further statement——

Mr. KANJORSKI. Just to say, Mr. Chairman, that I thank you for taking the time out of your schedule to come here to Monroe County. I hope that the citizens of Monroe County at all levels, the homeowners, the industry, the Chamber of Commerce, the realtors, the legal bar, and the financing institutions, recognize that we have serious problems here in Monroe County, but they are not so large and overpowering that we do not have a good par. Monroe County is a very good success story for growth. What we want to

do is perfect it to a much higher success story, and your attention to this issue will certainly help us accomplish that. On the other hand, we do not want to negatively affect the economy or the success of Monroe County in the future. Thank you for coming, Mr. Chairman.

Chairman BAKER. Thank you, Mr. Kanjorski. With that statement, our meeting stands adjourned.

[Whereupon, at 12:30 p.m., the Subcommittee was adjourned.]

A P P E N D I X

June 14, 2004

OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

BROKEN DREAMS IN THE POCONOS: THE RESPONSE OF THE SECONDARY MARKETS AND IMPLICATIONS FOR FEDERAL LEGISLATION

MONDAY, JUNE 14, 2004

Mr. Chairman, I am very pleased that we are meeting today in Northeastern Pennsylvania to examine Monroe County's housing markets. I also want to personally commend you, Mr. Chairman, for bringing our panel to East Stroudsburg University. I hope that you will agree with me that President Dillman and his staff have done an excellent job in preparing for today's hearing. Your decision to leave Washington and come here also demonstrates that Democrats and Republicans can work cooperatively to address pressing public policy problems in a thoughtful and thorough manner.

In recent years, the press has extensively reported about how abusive practices have directly and profoundly affected hundreds, if not thousands, of families in Northeastern Pennsylvania, particularly in Monroe County. During the last decade, far too many homeowners in the Poconos have unfortunately faced foreclosure, run into difficulties with their mortgages, and encountered problems in buying a home.

The *Pocono Record* initially identified in 2001 a disturbing pattern of home foreclosures and mortgage problems. Since then, the allegations of abusive business practices have continued to grow. We have regularly read stories of fraudulent transactions, faulty appraisals, questionable lending practices, and broken dreams. We have also learned that while the foreclosure-to-sales rate was less than one percent nationwide in 2002, it stood at an astonishing 29 percent in Monroe County for the same period.

At the time I first learned of the difficulties in Monroe County's housing markets, I convened a group of experts, including representatives from Fannie Mae and Freddie Mac, to determine the extent of these problems and how we could help the affected homeowners. These examinations ultimately revealed that some of the many problematic loans originated in the Poconos had in fact been sold by the originator and, in some cases, purchased by the two government-sponsored enterprises in the secondary market. I am pleased that both entities took swift action to address these problems and worked to help many families keep their homes.

In addition to executives at Fannie Mae and Freddie Mac, we will hear today from several affected homeowners, local advocates and industry leaders, and national experts who are trying to develop solutions to ensure equitable lending practices for all Americans. I am particularly pleased that we will have a chance later this morning to hear from Ira Goldstein with the Reinvestment Fund, who was hired by the Pennsylvania Department of Banking to conduct an investigation into the problems of the Pocono housing markets.

Secretary William Schenck, selected by Governor Rendell to head the Banking Department, has reinvigorated the Commonwealth's efforts to respond to the reported problems

in Monroe County. Learning more about some of the initial observations in the study commissioned by Secretary Schenck in advance of its formal release will significantly improve the quality of this hearing and help everyone involved to gain a better background understanding of these matters.

Mr. Chairman, as you have previously noted, the reported problems in the Pocono housing markets deserve national attention because they are national in scope. I agree. As we proceed today and in the weeks ahead, it is moreover important that we find solutions to the obstacles faced by honest, hardworking people who want to achieve the American Dream of owning a home.

Hopefully, today's hearing will also further our bipartisan efforts in Washington to develop legislation to increase homebuyer and homeowner protections. As you know, Mr. Chairman, the Financial Services Committee in recent months has begun to examine abuses in mortgage lending and the need to update federal laws to protect homeowners against such practices. As a result of today's hearing, I hope that we will not only learn more about appraisal practices, subprime lending, housing counseling, and mortgage servicing, but also discover what steps we might take to address each of these matters legislatively.

In sum, Mr. Chairman, I again commend you for convening today's hearing. We have before us a diverse group of knowledgeable individuals and national experts who will help us to understand these matters and determine what actions we should take in Washington to develop legislation to abate the problems of abusive lending and improve consumer protection. Without question, the observations of today's witnesses about these matters will help me in forming my opinions on these issues.

STATEMENT OF DONALD J. BISENIUS

SENIOR VICE PRESIDENT
CREDIT POLICY AND PORTFOLIO MANAGEMENT

FREDDIE MAC

BEFORE THE SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES

OF THE

HOUSE OF REPRESENTATIVES

June 14, 2004

Testimony of Donald J. Bisenius
June 14, 2004

Thank you, Chairman Baker, Ranking Member Kanjorski and Members of the Subcommittee. It is a pleasure to be here today.

My name is Donald J. Bisenius. I am Senior Vice President, Credit Policy and Portfolio Management at Freddie Mac. In this position, I am responsible for establishing and implementing a comprehensive credit risk management framework for Freddie Mac. This includes establishing the standards Freddie Mac uses for determining those institutions from which we will purchase mortgage loans and the terms of those purchases.

I welcome the opportunity to be here today to discuss the steps Freddie Mac has taken in responding to the serious loan origination improprieties and fraudulent activities associated with certain loans made on properties located in the Pocono Mountains of Pennsylvania. Freddie Mac opposes any action that denies homebuyers fair treatment in the purchase of decent, safe and affordable housing.

I commend the Subcommittee for its leadership in promoting responsible lending practices. Congressman Baker has a long history of diligence and vigilance on critical financial services matters.

I would like to recognize Congressman Kanjorski for his tireless dedication to working with affected and concerned parties in developing solutions that will help reduce the likelihood of the situation in the Poconos recurring anywhere in the country. I should go further to note the Congressman's lengthy record of service to affordable housing and economic development in general. I am honored to appear in his district at this important field hearing.

Congressman Baker and Congressman Kanjorski's many years of seniority on the Committee give them a unique vantage point for seasoned, effective public policy advocacy.

Freddie Mac's mission is to ensure a stable supply of low-cost mortgages for America's families – whenever and wherever they need them. For more than 30 years, Freddie Mac has helped meet the home financing needs of families at all income levels, in all communities, and in all parts of the country.

We recognize our special responsibility to homebuyers, the public, the Congress and investors. Freddie Mac is a leader in developing and promoting responsible lending practices and we are a leader in combating mortgage fraud. We have instituted the secondary mortgage market's most comprehensive set of measures designed to protect consumers from predatory lending practices. And, we have a comprehensive quality control program that helps Freddie Mac and lenders combat fraud associated with mortgage lending.

Today, in my comments to this Subcommittee, I will focus on three areas:

- Freddie Mac's extensive credit risk management practices, including our rigorous quality control program that helps us identify loans with suspicious or fraudulent characteristics and helps lenders establish quality control practices that safeguard against fraud;
- The substantial steps Freddie Mac has taken, and continues to follow and enhance, after discovering the fraudulent mortgage activities in the Poconos; and
- Our commitment to the fight against predatory lending practices

Before I turn to these areas, allow me to say a few words about the situation in the Poconos. By some accounts, since the mid-1990s, more than one in five families with mortgages in the Pocono Mountains of Pennsylvania have undergone foreclosure proceedings allegedly attributable to loan origination improprieties and fraud perpetrated by primary market individuals and entities.[1] Numerous allegations of wrongdoing have been leveled against various mortgage originators, servicers, appraisers and others in the real estate community.[2]

As a company whose mission is to expand affordable homeownership opportunities, Freddie Mac is dedicated to promoting responsible credit underwriting and appraisal practices for all of America's families who seek to achieve the dream of homeownership. Fraudulent mortgage originations have an adverse impact on America's families and the communities in which they live. Our policies, procedures and programs are designed to help Freddie Mac and others in the mortgage finance system better detect fraudulent and suspicious activities. We are committed to working with participants in the mortgage finance system to help prevent fraudulent activities and to help more families realize the full benefits of long-term homeownership.

Freddie Mac's rigorous risk management framework

The prevention, detection and resolution of mortgage fraud and improprieties are an integral part of Freddie Mac's business operations.

Freddie Mac has in place a comprehensive risk management program through which we evaluate rigorously the quality of the mortgage lenders and servicers with whom we do business and the characteristics of the loans we have purchased—whether or not the borrower is making timely payments. Our quality control program helps us identify loans with suspicious or fraudulent characteristics and helps lenders establish quality control practices that safeguard against fraud.

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[1] *See* "Blue Skies and Green Yards, All Lost to Red Ink," New York Times, Section 1, Column 3, Metropolitan Desk, April 11, 2004 and "Hanging On, From Predawn to Way Past Dusk," New York Times, Section B, Column 2, Metropolitan Desk, April 12, 2004.
[2] *See* Commonwealth of Pennsylvania v. Percudani, 844 A.2d 35 (Pa. Commw. Ct. 2004).

Before Freddie Mac will purchase mortgage loans from an institution, or allow an institution to service mortgage loans for Freddie Mac, the institution must meet our eligibility requirements.

Our institutional eligibility requirements help ensure that the companies that sell or service mortgage loans for us have the organizational structure, financial resources, quality controls and personnel expertise to originate and service mortgages that are acceptable to Freddie Mac. We perform background reviews of an institution's management by checking records of various regulatory, licensing, and court authorities. In these ways, Freddie Mac seeks to make sure that the management and business practices of the mortgage loan sellers and servicers with whom we do business are sound and reputable.

A Freddie Mac mortgage loan seller or servicer must originate and service mortgages in conformance with the requirements in Freddie Mac's Single-Family Seller/Servicer Guide[3] and other contract requirements at all times. Our Guide requires our mortgage loan sellers to operate a quality control program to monitor and evaluate the integrity of their origination processes and to adjust and improve their production processes. We require our mortgage loan sellers to notify us in writing within 30 days anytime the seller determines that a quality control finding affects the eligibility for purchase of a mortgage loan sold to Freddie Mac.

Freddie Mac has a comprehensive framework in place designed to assist us in detecting fraudulent and suspicious activity. We periodically conduct on-site reviews of the operational processes and controls of our mortgage loan sellers and servicers to ensure that their management and business practices continue to meet our high standards. Our operational risk reviews include detailed testing of our mortgage loan seller's broker and correspondent approval and monitoring processes, compliance with prudent underwriting practices, collateral evaluation processes (including appraiser approval and monitoring processes), and quality control programs. These tests and others are designed to ensure that mortgage loan sellers can originate acceptable quality mortgage loans that meet Freddie Mac's standards.

As part of our fraud prevention and detection efforts, Freddie Mac routinely evaluates samples of the mortgage loans we have purchased to check for conformance with contract requirements. We also routinely evaluate samples of those mortgage loans we have purchased that are in default due to nonpayment or that are considered "non-performing" because the borrower is not making timely payments.

[3] Freddie Mac requires each mortgage seller to represent and warrant to Freddie Mac that the mortgages they sell to Freddie Mac—whether originated by the seller or by a third party—comply with Freddie Mac's Guide and other contract requirements and were originated in accordance with all applicable laws and regulations.

Freddie Mac evaluates numerous characteristics of these loans to ascertain whether suspicious or fraudulent activity may have occurred. To aid in the discovery of the possibility of inflated property valuations, we also regularly run loans through automated valuation models.

In the event we suspect fraud or discover an irregularity regarding a performing or non-performing mortgage loan, Freddie Mac conducts further investigation to determine the reason for the suspicious characteristic. It is our policy to refer to our internal fraud investigation area all suspicious patterns or trends that might indicate the presence of fraudulent activity.

Freddie Mac has long been a leader in the fight against mortgage fraud. In 1989, we created the first fraud investigation unit in the secondary mortgage market. Our fraud investigation area specializes in conducting intensive investigation of mortgage fraud and works closely with internal and external parties in determining the existence of such fraud.

Freddie Mac has established a toll-free Fraud Hotline for reporting suspected fraudulent activity. We created and maintain an "Exclusionary List" of individuals and companies that have been excluded from participating in transactions involving Freddie Mac loans, either directly or indirectly.[4]

Our team of professional investigators aggressively investigates and pursues individuals and companies who may have committed fraudulent acts. To date, the efforts of our Fraud Unit have led to:

- 464 individuals and 255 companies added to the Freddie Mac Exclusionary List
- Over 100 indictments by federal and state prosecutors
- 76 convictions
- Nearly $75 million in civil judgments, and $20 million in criminal restitution orders
- Recovery of nearly 70 percent of all of our fraud losses

Although Freddie Mac's Fraud Unit is not a law enforcement agency, we refer most of our major cases to the Federal Bureau of Investigation (FBI) and the United States Attorney's offices. In addition to working with the FBI, we also work with state and local law enforcement agencies. In most of these cases, we have provided substantial assistance and expertise in establishing and addressing the fraud.

[4] Freddie Mac's mortgage loan sellers and servicers must warrant to Freddie Mac that no individual or company on the Exclusionary List is involved in the origination or servicing of a loan sold to, or serviced for, Freddie Mac. The Exclusionary List is updated and distributed to mortgage sellers and servicers monthly. Freddie Mac prohibits further distribution of the Exclusionary List to third parties because it contains confidential information.

Freddie Mac promotes fraud awareness and works with others in the industry and in law enforcement on anti-fraud initiatives. We actively participate in industry-wide training seminars and training sessions that focus on fraud prevention. In addition, we actively participate in anti-fraud task forces in several cities across the country (currently Atlanta, Indianapolis, Kansas City, Chicago and Las Vegas). We are also regular participants in the training of new FBI agents at the FBI's headquarters in Quantico, Virginia.

Once we have determined that fraud has occurred, Freddie Mac may take a variety of steps to remedy or resolve the situation, depending on the particular set of facts and circumstances. Among other steps, Freddie Mac may require the mortgage seller to repurchase a loan, terminate our business relationships with the individuals or companies involved, refer the matter to state or local regulators, or refer the matter to federal, state or local authorities for possible criminal or civil action. In all cases, Freddie Mac is fully committed to working closely with criminal and civil authorities toward resolving the matter.

Freddie Mac is also firmly committed to helping participants in the mortgage finance industry establish comprehensive quality control practices that safeguard against fraud and improper business practices. Freddie Mac has developed and makes available to all of its mortgage sellers and servicers information about best practices for quality controls. Our publication entitled, "Discover Gold Through Quality" helps mortgage loan sellers and servicers learn how to develop and maintain a comprehensive quality control program, effectively manage their wholesale operations and prevent and mitigate fraud losses. This publication is available online at www.freddiemac.com/singlefamily/ and is attached to this testimony.

Freddie Mac's response to the discovery of fraudulent activities in the Poconos

Let me now turn to the substantial steps Freddie Mac has taken, and continues to follow and enhance, after discovering the fraudulent mortgage activities in the Poconos.

Freddie Mac discovered the fraudulent activities related to the Poconos mortgage loans through our quality control program and our fraud investigations area. In addition, we were notified by a lender of the possibility of fraudulent loans in the Poconos with inflated appraisals.

When allegations of significant loan origination improprieties arose, Freddie Mac issued an "Industry Letter" alerting the primary market of serious allegations of fraud in connection with loan originations in the Poconos.[5] The Industry Letter recommended that primary market lenders exercise due diligence and remain vigilant in establishing and maintaining lending practices that help borrowers achieve affordable homeownership.

[5] Industry Letter, "Allegations of loan origination improprieties and fraud," distributed to all Freddie Mac Sellers and Servicers, August 20, 2001.

The Industry Letter also emphasized Freddie Mac's strong commitment to helping reduce the likelihood of mortgage fraud in any part of the country and underscored our dedication to pursuing our own investigation of the Poconos loans. I am attaching this Industry Letter to this testimony.

After determining the existence of fraud, Freddie Mac held accountable the primary market participants who were involved. We placed several individuals and companies on our "Exclusionary List" so that they were excluded from participating in transactions involving Freddie Mac loans, either directly or indirectly.[6] Parties on the Freddie Mac Exclusionary List may not be involved in the origination or servicing of loans sold to Freddie Mac, and Freddie Mac's mortgage loan sellers and servicers must warrant to Freddie Mac that no party on the Exclusionary List is involved in the origination or servicing of a loan sold to, or serviced for, Freddie Mac.

Freddie Mac worked closely with the primary market to facilitate a process whereby the primary market was able to provide many Poconos borrowers with the appropriate assistance and corrective measures that would enable them to keep their homes. Freddie Mac suspended all foreclosure activity on the affected Poconos loans so that the borrowers and the primary market lenders would have sufficient time and opportunity to work through the problems associated with these fraudulent loans. The primary market ultimately adjusted borrowers' loan balances to reflect the fair market value of the properties secured by the loans.

Freddie Mac representatives met with borrowers and their representatives in an effort to help the situation by responding to their questions, addressing their concerns and providing assistance through imparting information. Freddie Mac established a special toll-free Poconos Hotline for responding specifically to Poconos borrowers' questions and concerns.

Throughout the period of investigation and discovery of the fraudulent activities in the Poconos, Freddie Mac worked closely with criminal and civil authorities, providing them with extensive information and expertise in developing criminal and civil cases. Because Freddie Mac was one of the first entities to recognize, investigate and address the Poconos situation, Freddie Mac had a considerable amount of useful knowledge and information.

Internally, Freddie Mac assembled cross-divisional teams that were responsible for responding quickly and appropriately to the situation unfolding in the Poconos. On the basis of our experience with the Poconos situation, we have refined this model and incorporated it into our business operations for responding to potential and emerging fraudulent activities. We have also enhanced our focus on operational risk as demonstrated by our expansion of on-site evaluations of mortgage loan sellers and servicers.

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[6] These individuals and entities were placed on the Exclusionary List after notice and an opportunity to present to Freddie Mac in writing their arguments and facts as to why they should not be placed on the List.

Freddie Mac's commitment to the fight against predatory lending practices

Freddie Mac requires all mortgage loan sellers and servicers to originate and service every mortgage loan they sell to us, or service for us, in conformance with the contract requirements in our Seller/Servicer Guide and other contract requirements and in conformance with all applicable laws and regulations.

Freddie Mac has instituted the secondary mortgage market's most comprehensive set of measures designed to protect consumers from predatory lending practices. These measures include educational campaigns in communities across the country, corporate policies, and targeted mortgage products.

The fraudulent activities that occurred in the Poconos and that have occurred elsewhere in the country serve to reinforce Freddie Mac's unwavering commitment to combating predatory lending practices.

Helping potential borrowers better understand the mortgage lending process is one way to protect borrowers from predatory lending practices. Freddie Mac has expanded the Don't Borrow Trouble℠ campaign, pioneered in Boston by Boston Mayor Thomas M. Menino and the Massachusetts Community & Banking Council, to reach more than 30 localities nationwide. Don't Borrow Trouble is the first comprehensive consumer awareness and foreclosure prevention campaign of its kind. Don't Borrow Trouble combines an extensive public education campaign with comprehensive counseling services to help homeowners avoid scams and resolve any financial difficulties they may be experiencing in an informed and prudent manner.

Freddie Mac has also adopted policies that demonstrate our firm commitment to promoting responsible lending practices.

- Mandatory arbitration clauses – Freddie Mac announced in 2003 that, effective August 1, 2004, we would no longer invest in sub-prime mortgages originated on or after that date that contain mandatory arbitration clauses that deny borrowers access to the court system. Freddie Mac is among the first secondary mortgage investors to adopt such a policy.

- Prepayment penalties – Since 2000, Freddie Mac has not purchased mortgages that impose a prepayment premium for a term of more than five years. In March 2002, we announced that we would no longer purchase sub-prime mortgages with a prepayment premium of more than three years. Freddie Mac was the first secondary market financial institution to adopt such a stringent policy on prepayment mortgages.

- High-cost HOEPA loans – Freddie Mac does not purchase high-rate or high-fee loans that are covered by the Home Ownership and Equity Protection Act of 1994 (HOEPA). Freddie Mac was the first secondary market institution to adopt this policy.

- Single premium credit insurance – Freddie Mac does not purchase mortgages containing a prepaid single-premium credit life, credit disability, credit unemployment or credit property insurance policy obtained in connection with the origination of the mortgage, regardless of whether the premium is financed in the mortgage amount or paid from the borrower's funds.

- Credit reporting – Freddie Mac requires all lenders servicing Freddie Mac loans to report monthly borrower mortgage payments to all four major credit repositories. As a result, the repositories will have on file not only negative information about borrowers who fail to make mortgage payments, but also positive information about borrowers who are making timely payments on their mortgages. This may permit borrowers to obtain lower-cost loans as their credit history improves.

In addition to these educational programs and policies promoting responsible lending practices, Freddie Mac is also bringing benefits to borrowers who otherwise might fall victim to predatory lending practices by providing a wider range of mortgage products that make credit less costly and more sustainable. We regularly introduce innovative loan products aimed at giving borrowers with impaired credit greater mortgage choices and initiatives that help borrowers avoid the pitfalls of predatory lending.

Freddie Mac has also taken a leadership role in the development of innovative outreach initiatives designed to provide consumers with information on the use of credit, to make them aware of their financial options and to help them avoid borrowing pitfalls. CreditSmart® and CreditSmart® Español are innovative financial education curricula developed by Freddie Mac in conjunction with several Historically Black Colleges and Universities. These initiatives help consumers understand, build and maintain better credit, thereby preparing them for homeownership and other personal financial goals. CreditSmart® workshops are being provided across the country through our national partnerships.

Conclusion

Freddie Mac has always opposed any action that denies homebuyers fair treatment in the purchase of decent, safe and affordable housing. We have long been a leader in the fight against mortgage fraud. Freddie Mac created the first fraud investigation unit in the secondary market because we are dedicated to helping reduce the likelihood of mortgage fraud.

Our comprehensive risk management framework is designed to help us evaluate the quality of the mortgage lenders and servicers with whom we do business and the characteristics of the loans we have purchased.

After discovering the fraudulent activities in the Poconos, we held accountable the primary market participants who were involved, and we worked closely with the primary market to facilitate a process whereby the primary market was able to provide many Poconos borrowers with the appropriate assistance and corrective measures that would enable them to keep their homes.

Freddie Mac has also instituted the secondary mortgage market's most comprehensive set of measures designed to promote responsible lending practices. Our public education campaigns help potential borrowers better understand the mortgage lending process. We have been among the first secondary mortgage market institutions to adopt anti-predatory lending policies and we have developed a range of mortgage products aimed at making credit less costly and more sustainable.

Thank you for the opportunity to appear today. I look forward to working with you, Congressman Kanjorski, and the members of the Committee, as you consider legislation to help reduce the likelihood of mortgage fraud and predatory lending practices.

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Freddie Mac

We Open Doors℠

Discover*Gold*
Through Quality

Fraud Prevention Best Practices

Available at: ***www.freddiemac.com/dgtq***

Chapter 1 – Preventing, Detecting and Resolving Fraud

1.1 Introduction

Freddie Mac's Investigation Unit was created in 1989 to assist in the prevention, detection and resolution of mortgage fraud. We are committed to helping you, and others in the mortgage industry to combat fraud. Working together, we can keep our housing finance system stable and financially strong.

Although your fraud prevention and detection efforts should not be limited to your quality control area, your quality control program is an excellent place to strengthen those efforts.

One way to combat fraud is to provide all appropriate employees in your organization with the following:

- Clear directives as to their responsibility when they suspect fraud,
- An awareness of the major types of fraud,
- An understanding of underwriting *red flags* and their use. See Chapter 2, Mortgage Screening Checklist, in this section of *Discover Gold Through Quality*, and
- A list of resources available to them to detect and investigate fraud.

This chapter will give you guidelines to help you prevent, detect and resolve mortgage fraud in your business operations.

1.2 Fraud Hotline

To report incidents of fraud that might affect Freddie Mac, please contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8.

1.3 Preventing Fraud

Efforts to prevent and detect fraud should be made in a number of areas, such as:

- Employee training,
- Prudent underwriting,
- Quality control and
- Servicing procedures.

1.3.1 Employee Training

Employee training programs that are effective in the fight against fraud:

- Provide employees with the information to help them recognize the *red flags* that may signal the need for more review. See Chapter 2, Mortgage Screening Checklist, of this section of *Discover Gold Through Quality*,
- Help employees understand the most common fraud schemes and
- Ensure that your work force is familiar with your company's standards for ethical conduct.

1.3.2 Prudent Underwriting

Prudent underwriting often will be the cornerstone of your efforts to fight fraud. Prudent underwriting includes:

- Knowing your brokers,

  See Chapter 5 of the Wholesale Originations Best Practices section of *Discover Gold Through Quality*.

- Knowing your appraisers, builder clients, real estate agents and others with whom you conduct business,
- Following comprehensive written procedures,
- Screening all loans through Freddie Mac's Exclusionary List, which you can find on GoldWorks® and MIDANET®,
- Staffing your organization in a way that ensures quality before quantity and
- Encouraging your employees to adhere to the axiom, "If it doesn't make sense, don't make the loan."

1.3.3 Quality Control

To ensure that your fraud prevention and detection efforts are working, you should group and analyze your quality control results according to:

- Branch office,
- Loan officer,
- Broker,
- Underwriter,
- Real estate agent,
- Product and
- Geographic area.

In addition, you should:

- Consider pre-funding quality control for high-risk loans,
- Target all early payment defaults for reverification and review,
- Continually improve your quality control policies and procedures,
- Immediately report adverse findings to senior management if you suspect fraud and
- Immediately report adverse findings to us.

1.3.4 Servicing Procedures

A number of things can be done in the servicing area to help you fight fraud, such as:

- Recognizing and investigating adverse default trends,
- Noting changes in who is making payments on loans,
- Noting address changes by the borrower and
- Performing due diligence reviews before acquiring servicing.

1.4 Detecting and Investigating Fraud

To assist you in identifying fraudulent mortgages, Freddie Mac is providing the following descriptions of several possible fraud schemes. We do not represent this information to be all-inclusive. There are more types of fraud than described in this section, and there will be new schemes.

1.4.1 Straw Borrower Scheme

A straw borrower is an individual used to serve as a cover for a questionable transaction. The use of a straw borrower will occur when the true identity or motivation of the actual borrower must be kept secret to gain loan approval.

For example, the actual borrower may NOT:

- Qualify for the mortgage,
- Intend to occupy the property as a principal residence or
- Be eligible for a special-purpose loan program, (for example, an investor).

Some of the following *red flags* may occur in straw borrower transactions:

- A quit claim deed is used either right before, or soon after, loan closing.
- Investment property is represented as owner-occupied.
- There is no credit history on the borrower.
- Someone signed on the borrower's behalf.
- Names were added to the purchase contract.
- There are sales to a relative or related party.
- No sales agent is involved.
- There is an indication of default by the property seller.

1.4.2 Builder Bailout Scheme

Builder bailouts occur when the builder or developer is motivated to move property quickly in a depressed real estate market.

Some of the following *red flags* may occur in builder bailouts:

- The builder is willing to "do anything" to sell property.
- The borrower is barely qualified or unqualified.
- The sales price and appraisal are inflated.
- No-money-down sales are included.
- "Silent" second mortgages are involved.
- The sales price is adjusted upwards.
- The source of funds is questionable.
- There is a reference to secondary financing on HUD-1 or purchase contract.
- Parties to the transaction are affiliated.

1.4.3 Flips

Flips occur when ownership of one property changes several times in a brief period. Flips are often used to artificially inflate the value of the property to obtain larger loans than what might otherwise be possible and to skim the equity off of the property. Flips also are used to conceal the identity of the true buyer or seller of the property.

Some of the following *red flags* may occur in flips:

- Ownership changes two or more times in a brief period of time.
- Two or more closings occur almost simultaneously.
- The property has been owned by the seller for a short time.
- The property seller is not on title.
- There is a reference to double escrow or other HUD-1 form.
- Parties to the transaction are affiliated.

1.4.4 List of Investigative Resources

You should provide your staff with the information on resources available to investigate suspected misrepresentation and/or fraud in the mortgage file.

1.5 Resolution

Once fraud affecting Freddie Mac has been detected, contact our **Fraud Hotline** at (800) 437-2838 or (800) 4 FRAUD 8.

In addition, the following steps may be taken:

- Require the broker to repurchase the loan,
- Begin foreclosure proceedings in accordance with the mortgage documents,
- Terminate business or employment relationships,
- Initiate civil actions,
- Refer the matter to state or local mortgage regulators,
- Refer the matter to local, state or federal authorities for possible criminal action or
- If your institution is federally insured, file a Suspicious Activity Report.

1.6 Freddie Mac Exclusionary List

The Freddie Mac Exclusionary List is updated and distributed monthly. It contains the names and addresses of individuals and companies that have been excluded from participating in transactions involving Freddie Mac loans, either directly or indirectly. Freddie Mac's Seller/Servicers and our contractors must warrant that no person or entity on the Exclusionary List is involved in the origination or servicing of a loan sold to or serviced for Freddie Mac. (See Guide Section 6.11)

The Exclusionary List must not be distributed to third parties because it contains confidential information. There are no exceptions to this policy. Individuals accessing or using the Exclusionary List are required to maintain the confidential nature of the information on the Exclusionary List. By accessing or using the Exclusionary List, the user agrees to indemnify Freddie Mac for any loss, damage or expense resulting from the users' failure to maintain the confidentiality of the information on the List.

The Exclusionary List is available to Freddie Mac Seller/Servicers via GoldWorks® and MIDANET®.

Industry Letter

August 20, 2001

SUBJECT: Allegations of loan origination improprieties and fraud

TO: All Freddie Mac Sellers and Servicers

Freddie Mac

As a company whose mission is providing homeownership opportunities for all Americans, Freddie Mac abhors any action that denies homebuyers fair treatment in the purchase of decent, safe and affordable housing. Freddie Mac is committed to working with mortgage originators, Servicers and others in the real estate community to help more families become successful long-term homeowners and realize the full benefits of homeownership.

Recently, we have become aware of serious allegations of loan origination improprieties and fraud in certain parts of the country. Over the past several months, there have been highly publicized allegations of improprieties in connection with loan originations in certain areas of the Pocono mountains of eastern Pennsylvania. These allegations have been made primarily in local newspapers and in various lawsuits, including a class action lawsuit filed on behalf of Borrowers in the United States District Court for the Middle of Pennsylvania. The lawsuit accuses certain local builders and lenders of "inducing customers" to purchase new construction houses "at prices well in excess of the houses' actual fair market value."

Freddie Mac takes these allegations seriously and is actively pursuing its own investigation. Our work in these situations moves ahead with great energy and commitment on our part. At this time, we are gathering data from multiple sources and taking time to fully and fairly analyze information pertinent to each area of concern. We are also working closely with law enforcement agencies in these areas.

In light of these allegations, we urge you to continue exercising due diligence and to remain vigilant in establishing and maintaining lending practices that help the Borrowers you serve and the communities in which they live. We also encourage you to take advantage of resources to combat these problems, regardless of where you are originating loans.

Fraudulent mortgage originations have an adverse impact on individual Borrowers, neighborhoods and communities, raising costs for lenders and ultimately all homebuyers. Freddie Mac has always strongly supported ideas and efforts aimed at the prevention of fraud. As an example, we support the concept championed by the Mortgage Bankers Association and the National Association of Mortgage Brokers of an identification system to track the performance of mortgage originators and identify any irregularities. Freddie Mac has a number of resources available to assist you and your Borrowers in combating fraud—visit **http://www.freddiemac.com/singlefamily/** for details.

--continued--

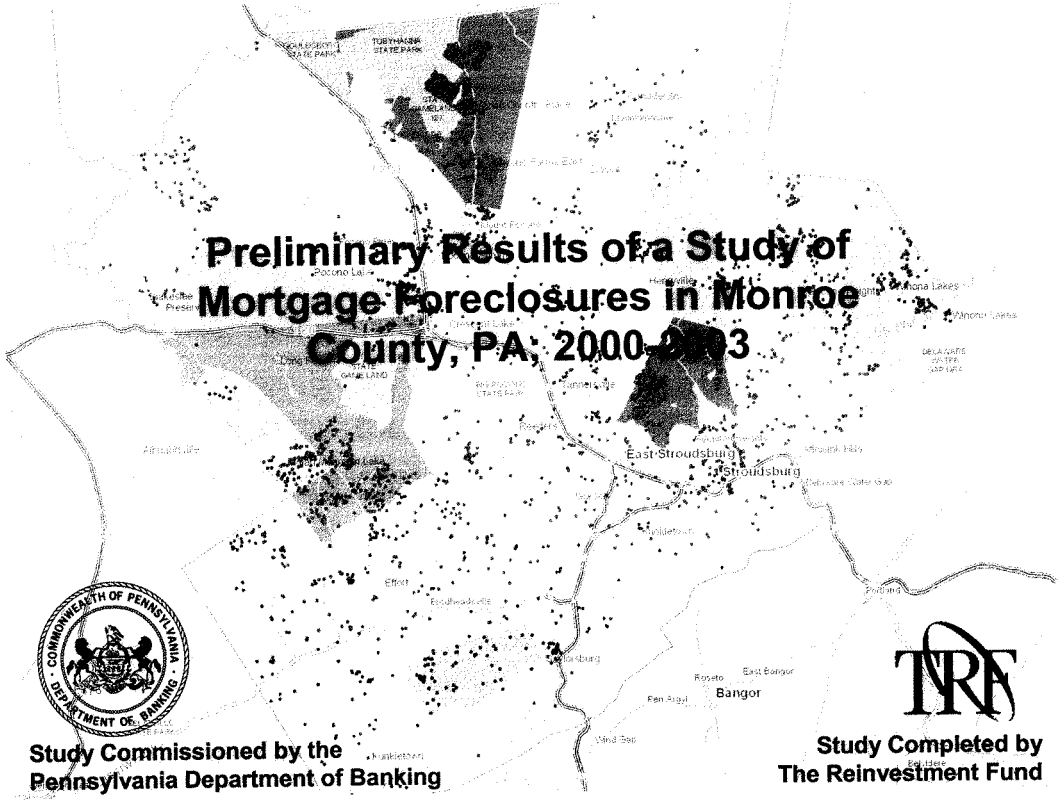
Freddie Mac is committed to our mission of providing homeownership opportunities for all Americans. We know that many organizations associated with the American housing finance system share our commitment. If you have information about any alleged mortgage origination improprieties or fraud, please contact the Freddie Mac Fraud Hotline at (800) 437-2838.

Sincerely,

Paul T. Peterson

Paul T. Peterson
Executive Vice President
Single-Family Group

Preliminary Results of a Study of Mortgage Foreclosures in Monroe County, PA; 2000-2003



Study Commissioned by the
Pennsylvania Department of Banking

Study Completed by
The Reinvestment Fund

Description of the Study

- In January 2004, The Commonwealth of Pennsylvania Department of Banking and the Pennsylvania Housing Finance Agency hired The Reinvestment Fund (TRF) to design and execute a study of mortgage foreclosures in Monroe County.

- This study will provide the Commonwealth with a set of facts upon which it may undertake appropriate action.

Data Sources

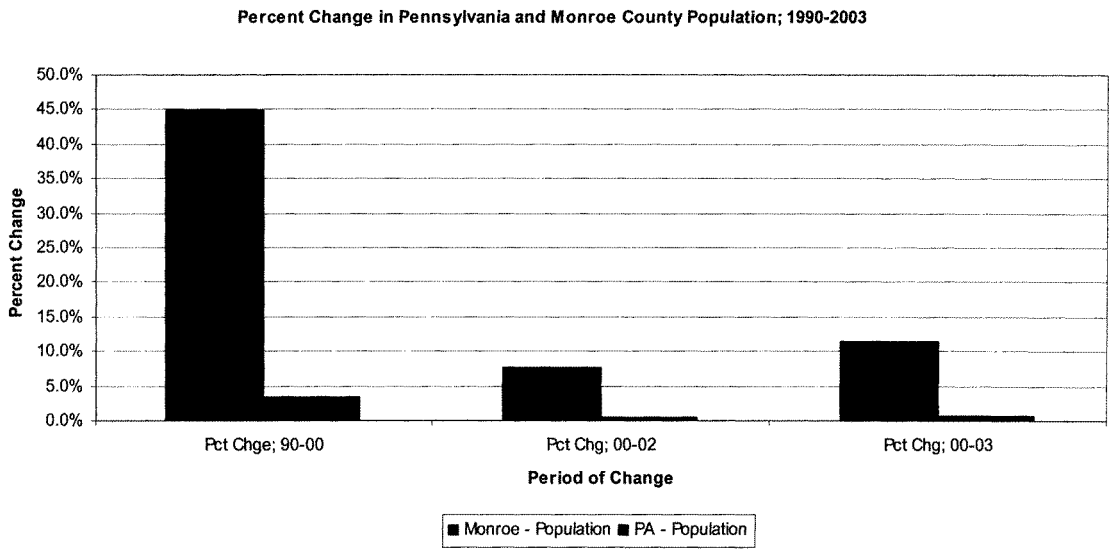
- Foreclosure Filings from the Prothonotary of Monroe County
- Property specific sale and mortgage data
- Homeowners Emergency Mortgage Assistance Program (HEMAP) data
- U.S. Census of Population and Housing

Study Status

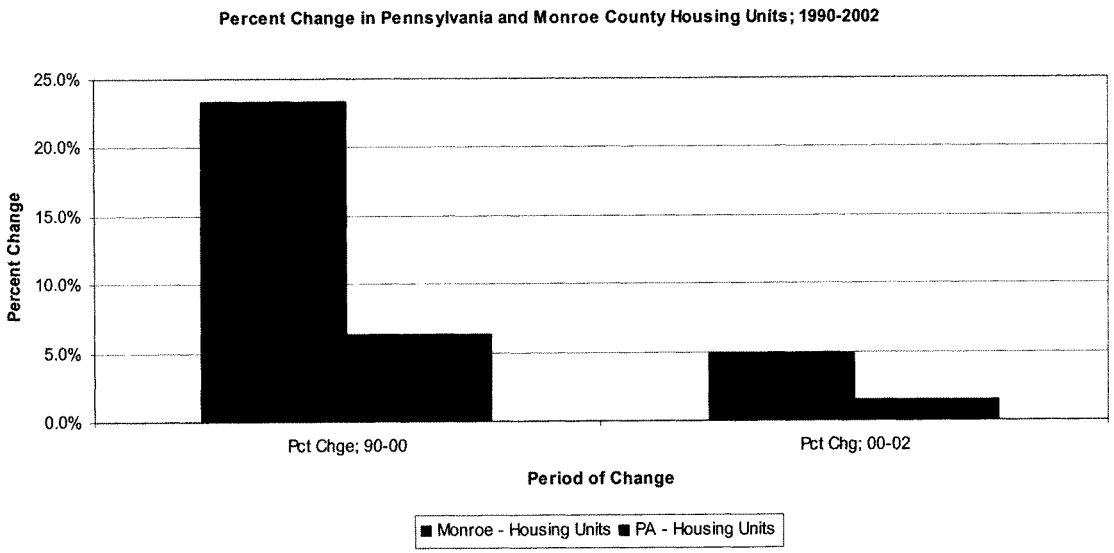
- The Commonwealth will release its final work July, 2004.

- When released, the study will not only provide the fact-basis for Commonwealth action, but a series of affirmative steps the Commonwealth will take.

Preliminary Findings

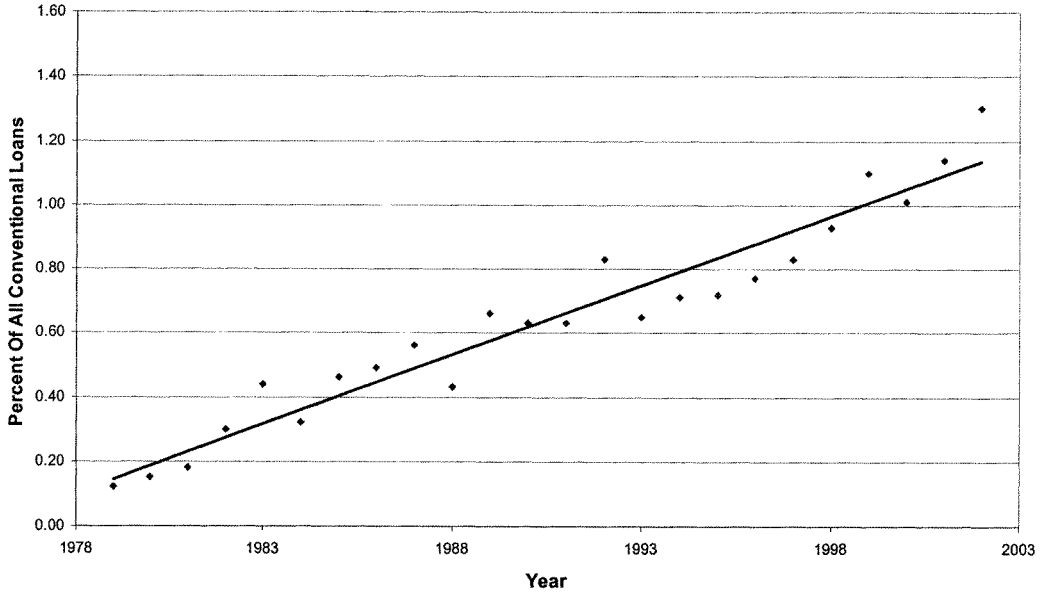


Pennsylvania is a relatively slow growth state increasing its population by 3.4% between 1990 and 2000. Monroe County is the 2nd fastest growing county in Pennsylvania increasing its population by almost 45% between 1990 and 2000 and by another 11% (estimated) by 2003.

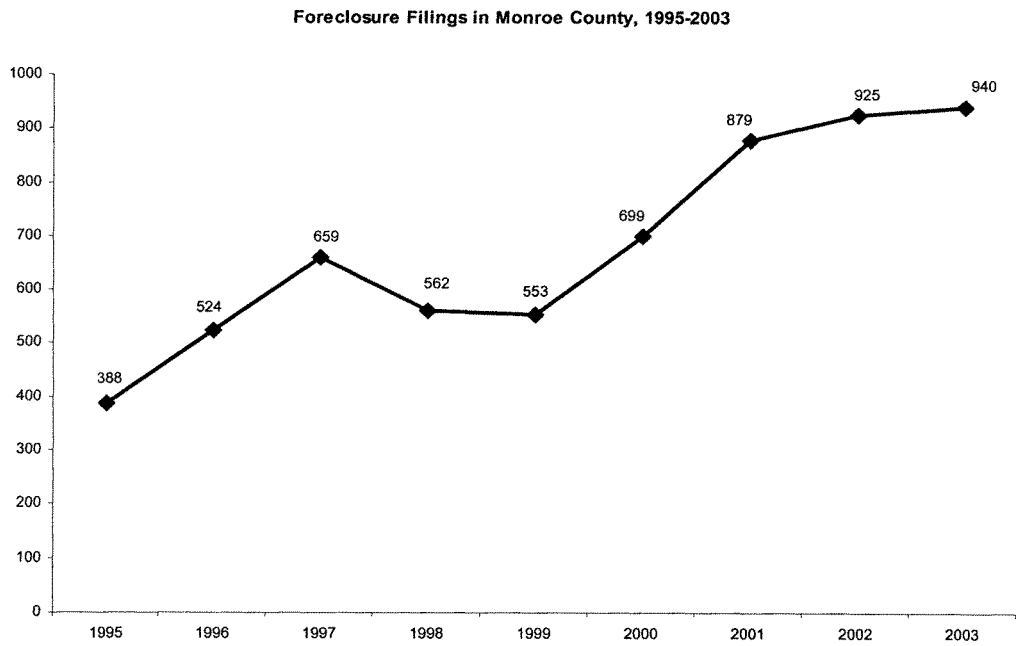


Consistent with its strong population growth in Monroe County, the number of housing units grew by almost 25% between 1990 and 2000 and by another 5% by 2002.

Percent Of All Conventional Loans In Foreclosure At The End Of The Quarter; Pennsylvania, 1979-2002

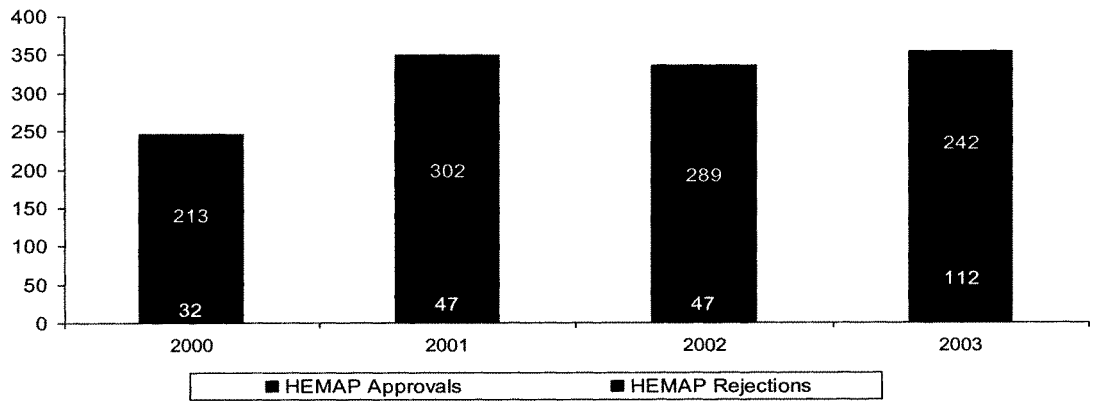


Pennsylvania's foreclosure rate for conventional loans, as reported by The Mortgage Bankers Association of America, has risen by approximately 50% since 2000. While FHA and VA loans are not reflected in these data, the subprime rate of foreclosure stands orders of magnitude above the prime rate.

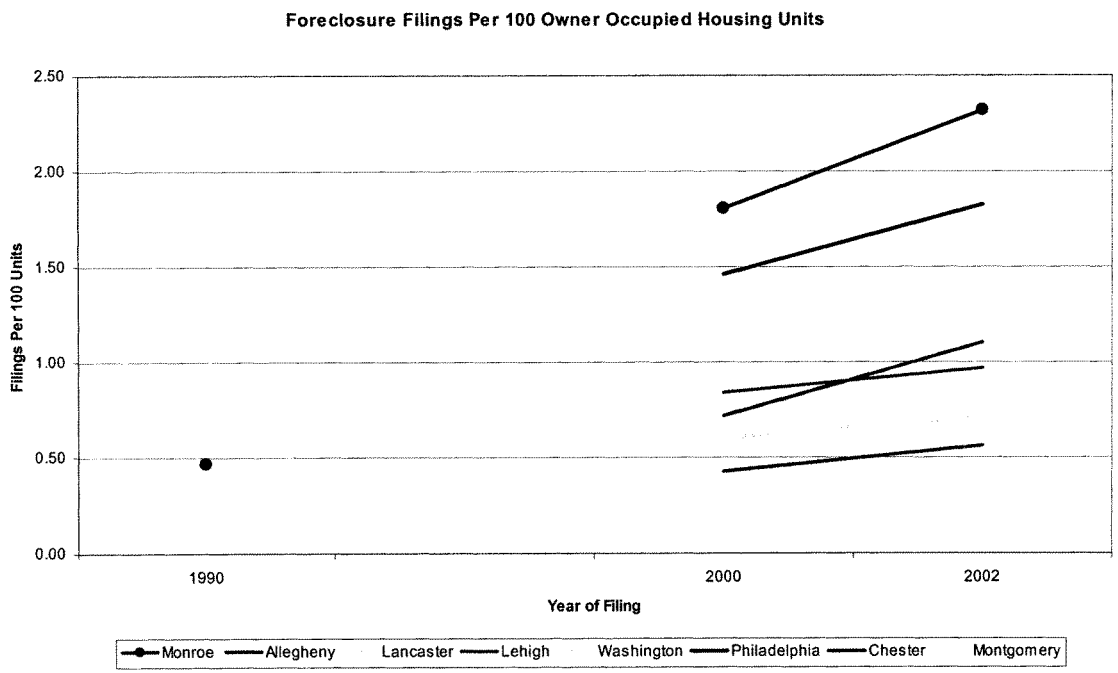


The annual number of mortgage foreclosure filings in Monroe County rose from approximately 388 in 1995 to 940 in 2003. Cumulatively over that time period, more than 6,100 households were subject to foreclosure; more than 2,700 since 2000.

Number of Applications, Approvals and Rejections to the Commonwealth of Pennsylvania's Homeowners Emergency Mortgage Assistance (HEMAP) Program, 2000-2003

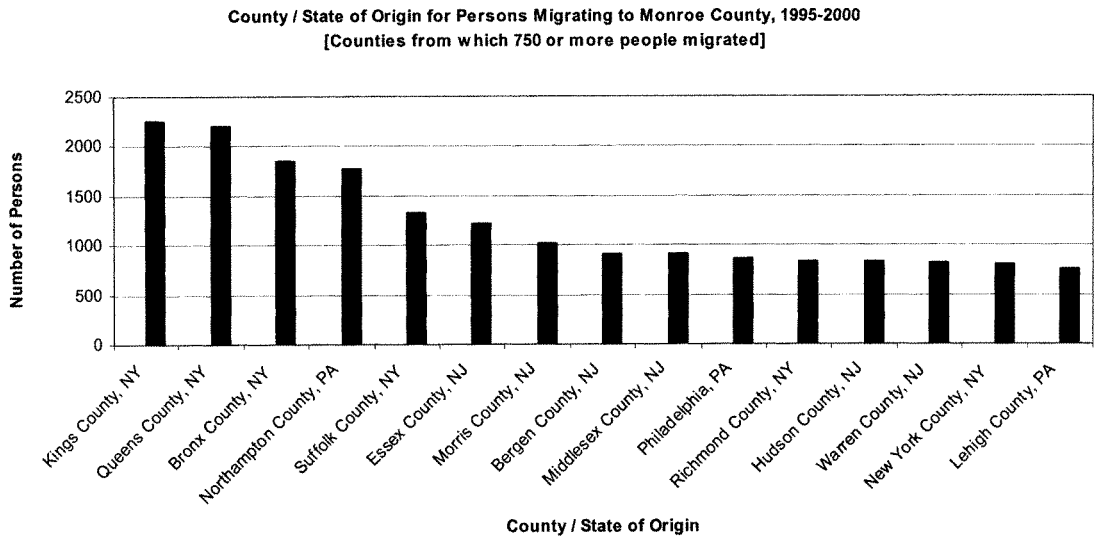


But for the assistance provided to homeowners by the State's HEMAP program, another 318 families might have been subject to foreclosure.



With all of the population and housing unit growth in Monroe County, might we not expect a rise in the number of foreclosures? Is the rise proportionate to the growth in units? NO.

Is the growth in foreclosures in Monroe County inconsistent with other parts of the Commonwealth? Yes, both in terms of the number of foreclosures and the rate of increase.

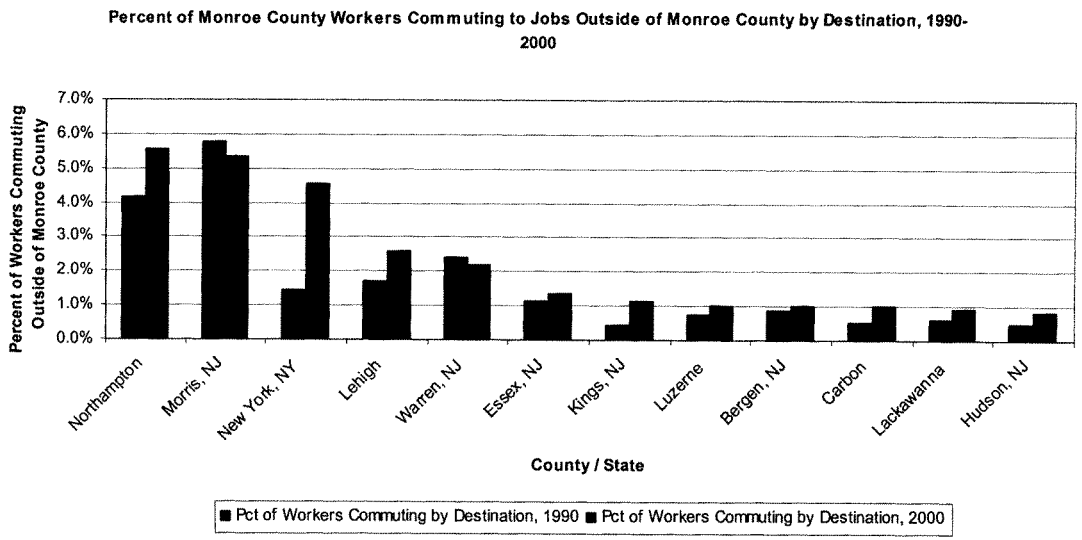


Population growth in Monroe County is largely fueled by domestic migration. Monroe County has become the home to tens-of- thousands of households from NY and NJ since 1995.

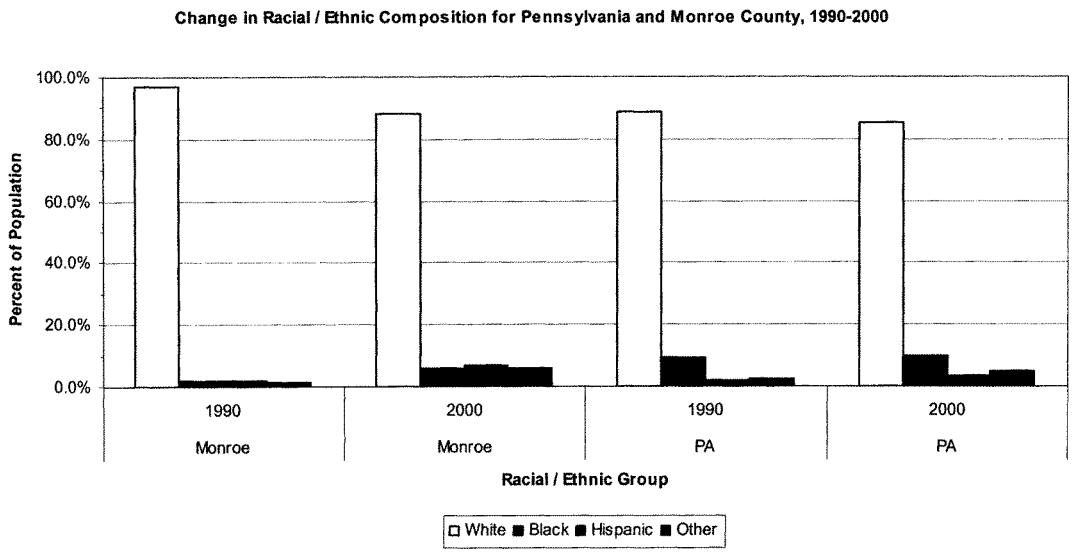
Comparison of New Migrants to Existing Monroe County Residents

In comparison to previously existing Monroe County residents, new migrants from New York (*19.1% of households migrating between 1995-2000*) and New Jersey (*15.7% of households migrating between 1995 and 2000*) are more likely to be:

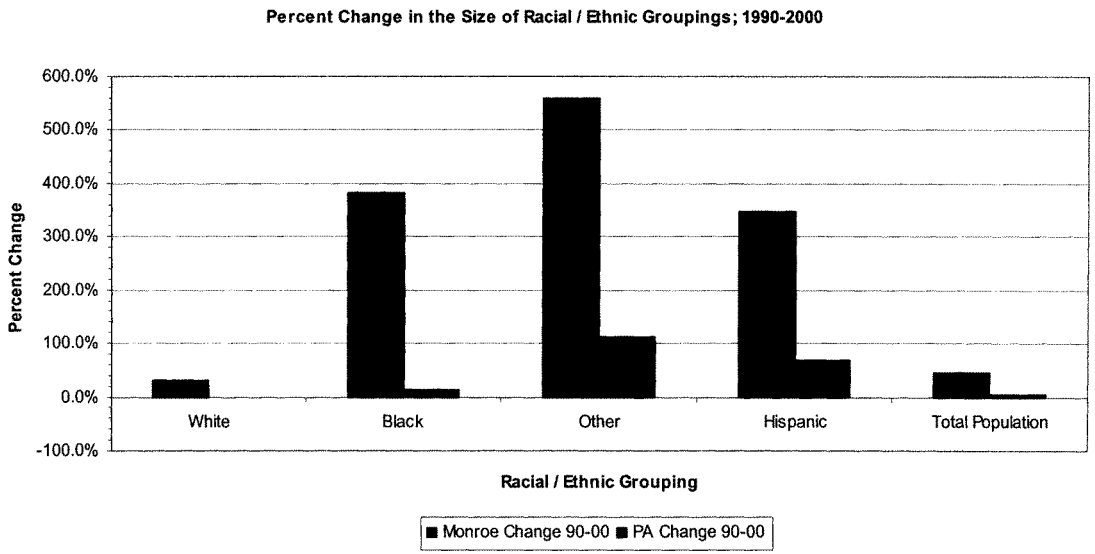
- Married
- With children
- Higher income
- Residents of newer construction housing
- Black and Hispanic



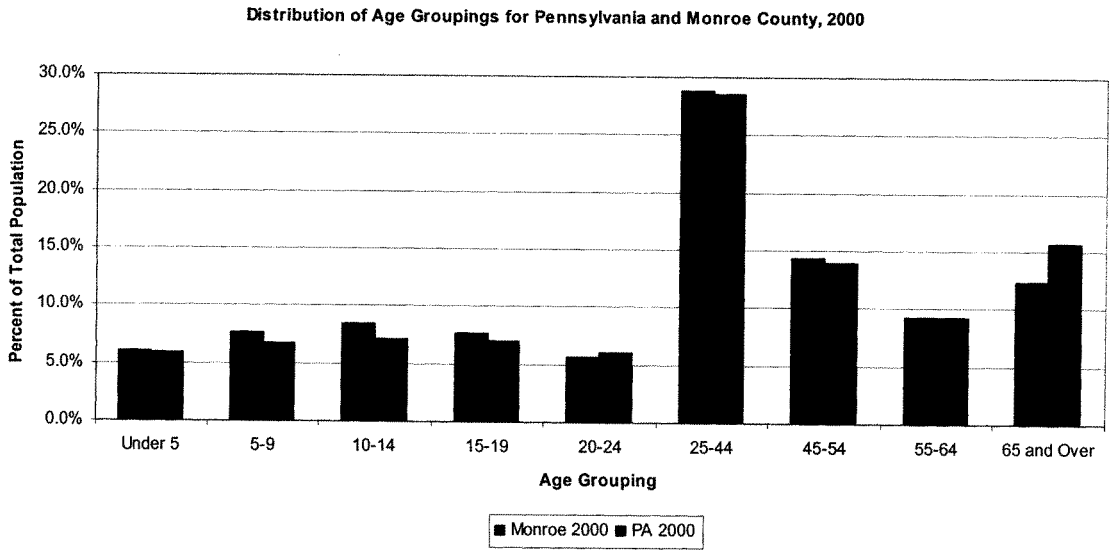
While many households moved to Monroe County for all of the benefits it offers (e.g., quality schools, an opportunity to become a homeowner, safety, etc.), many continued to commute more than four hours per day back to NY and NJ for work.



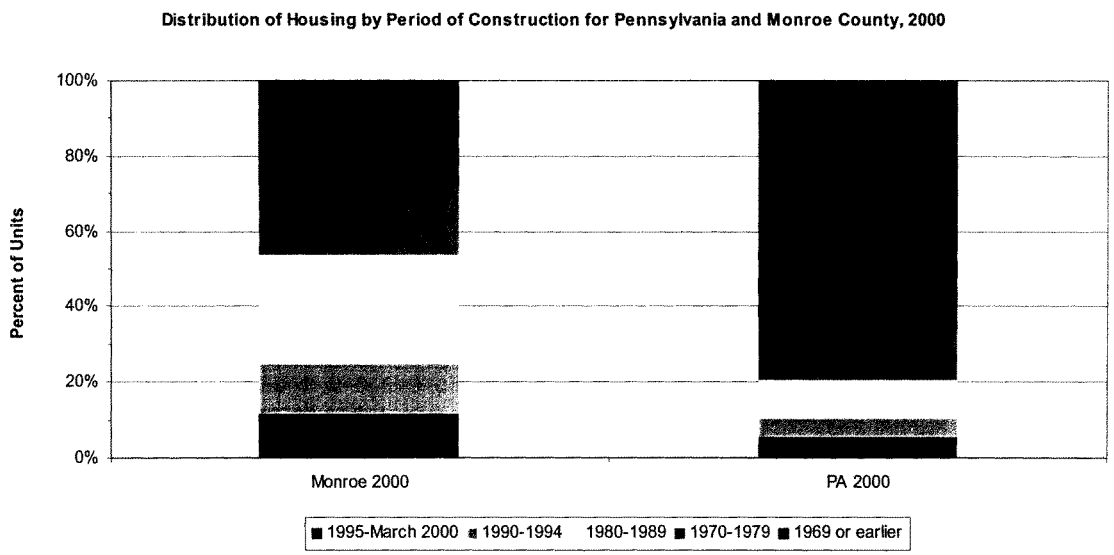
The racial composition of Monroe county, like that of the Commonwealth, reflects a greater racial and ethnic diversity since 1990.



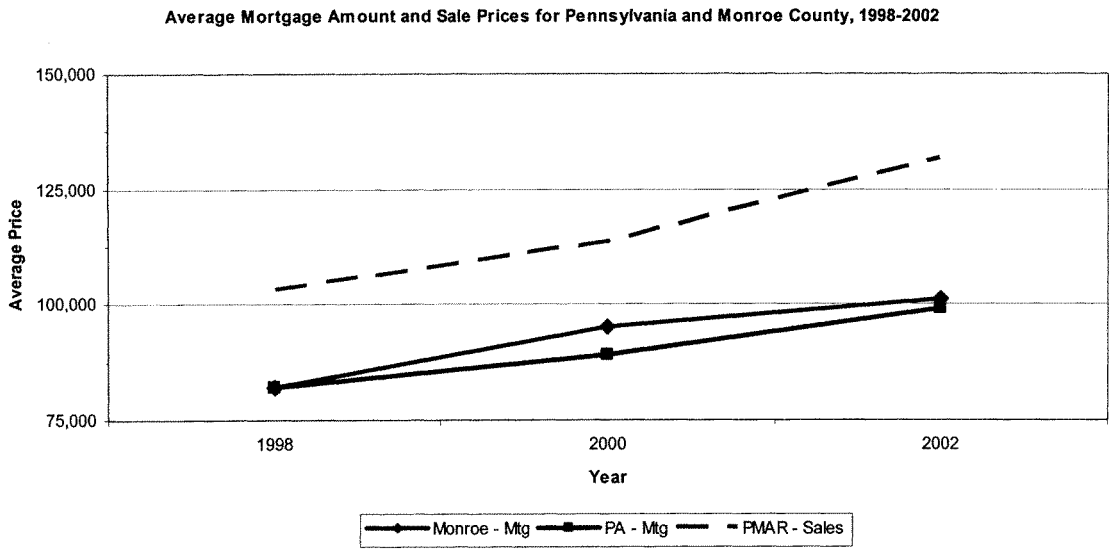
Monroe County's diversity is fueled by triple-digit growth in the minority population coupled with slower growth in the White population.



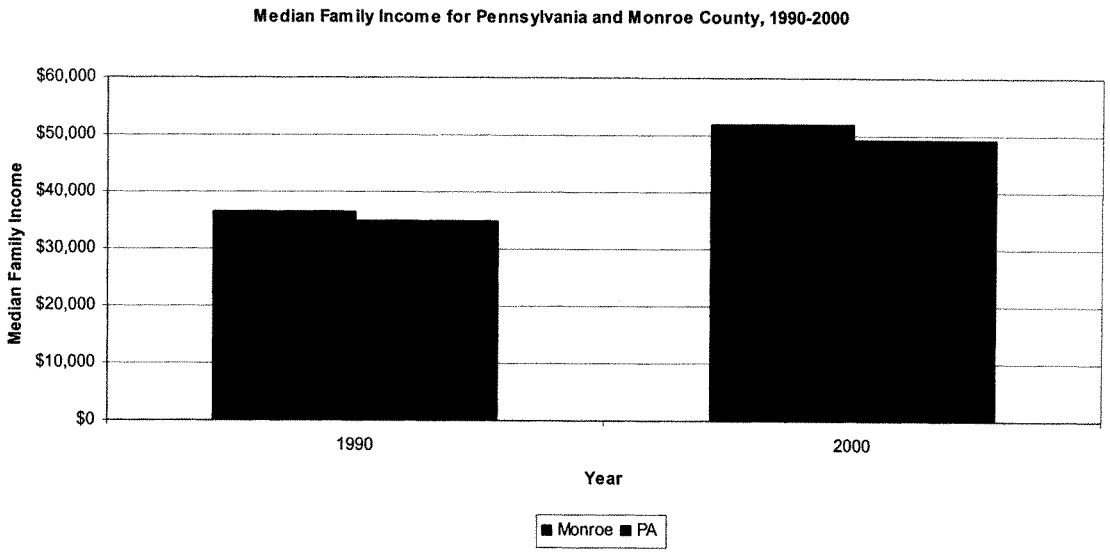
While Pennsylvania is aging quickly and is now one of the oldest states in the United States, Monroe County has seen growth among school-aged children and those aged 25-54.



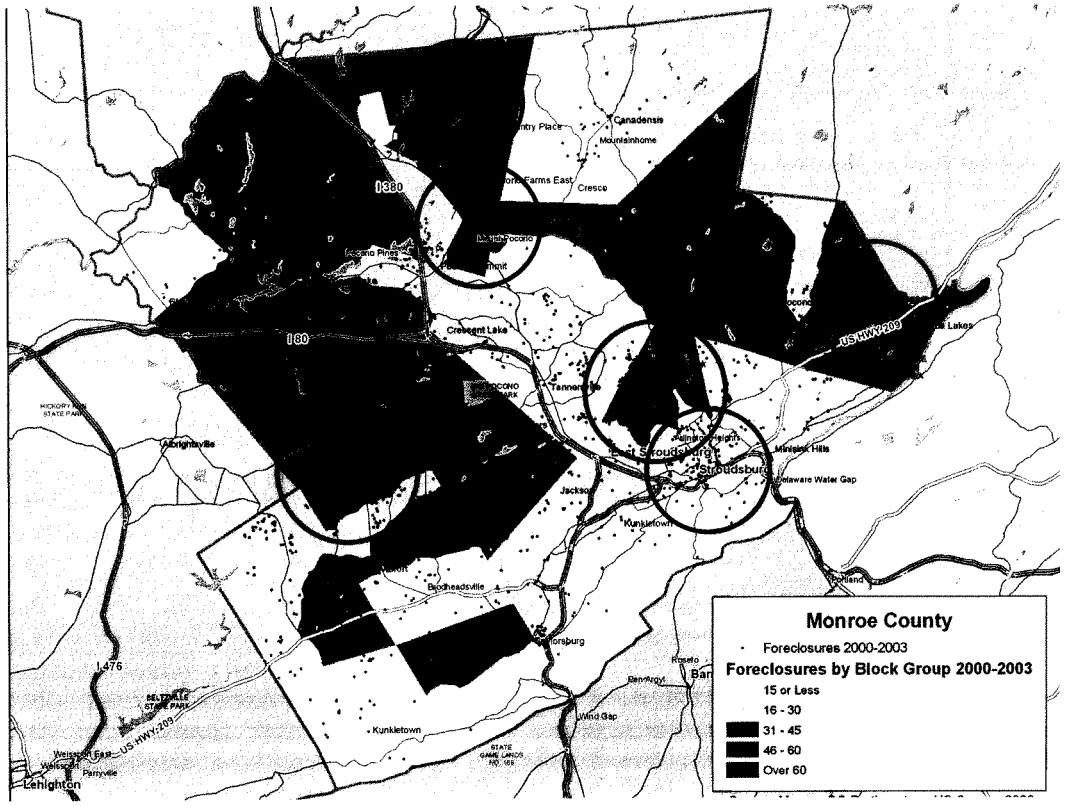
Compared to Pennsylvania, a substantially greater share of the housing in Monroe County was built in the 80s and 90s.

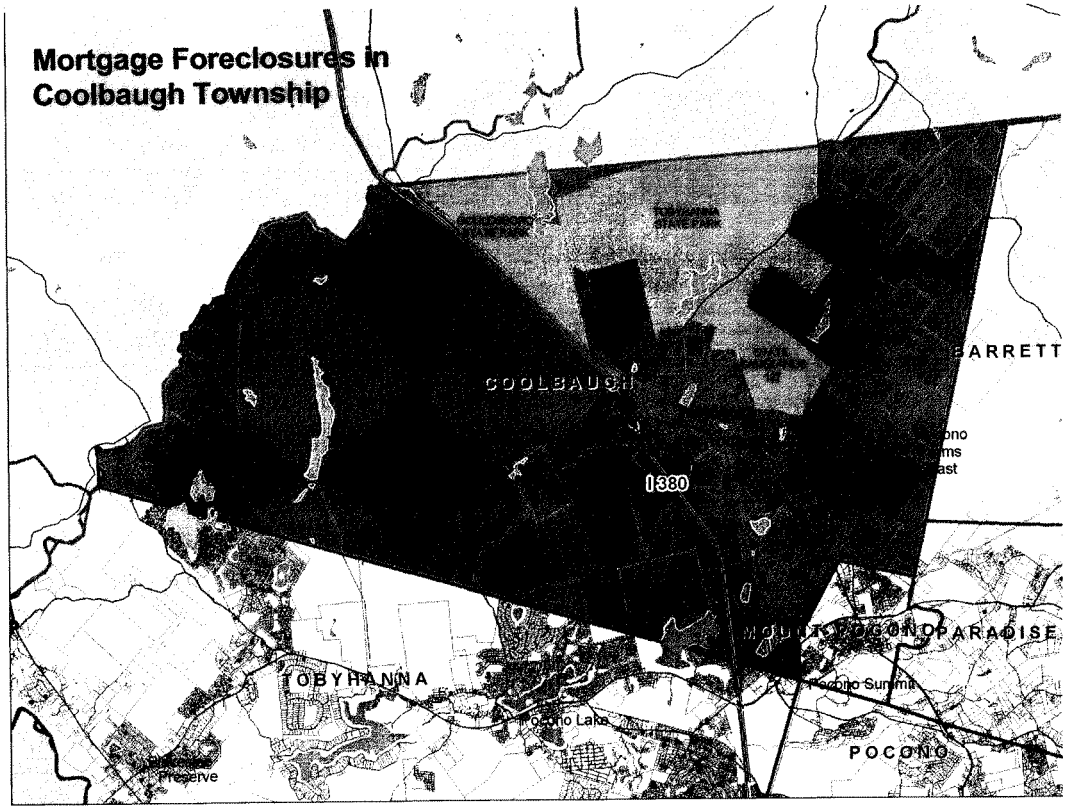


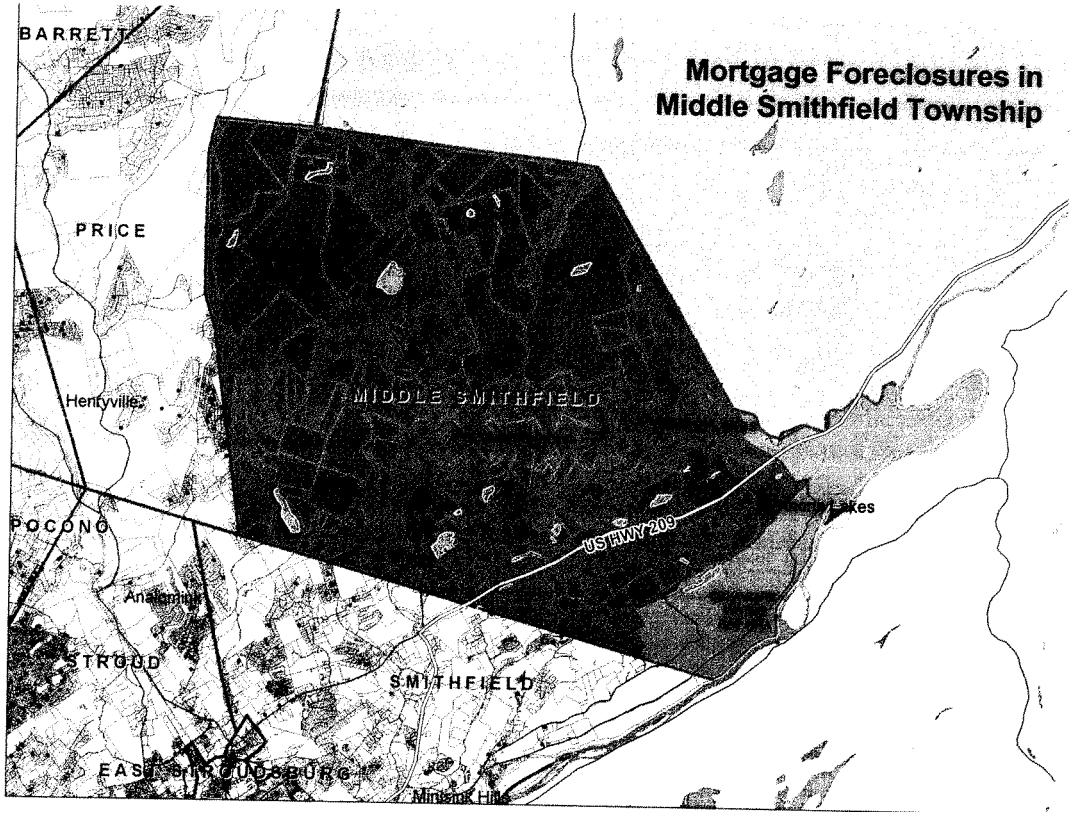
Home prices in the Commonwealth and in Monroe County have risen in real (inflation-adjusted) terms, although prices in Monroe County now exceed the Commonwealth average.

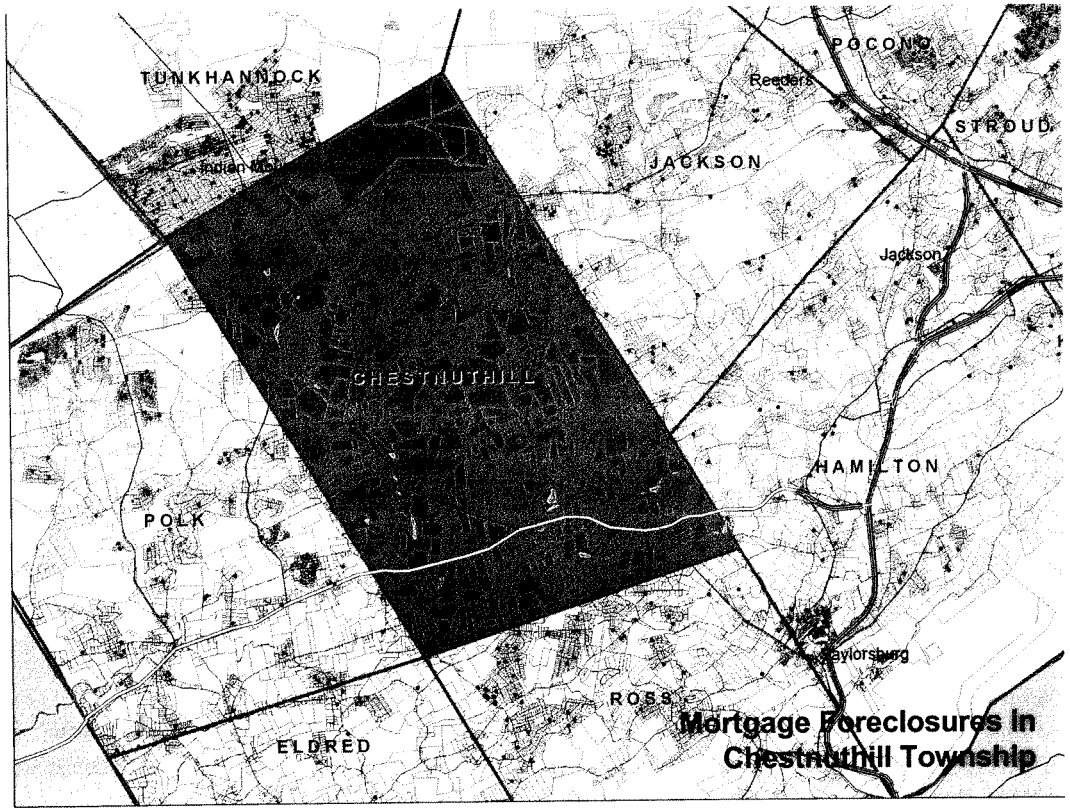


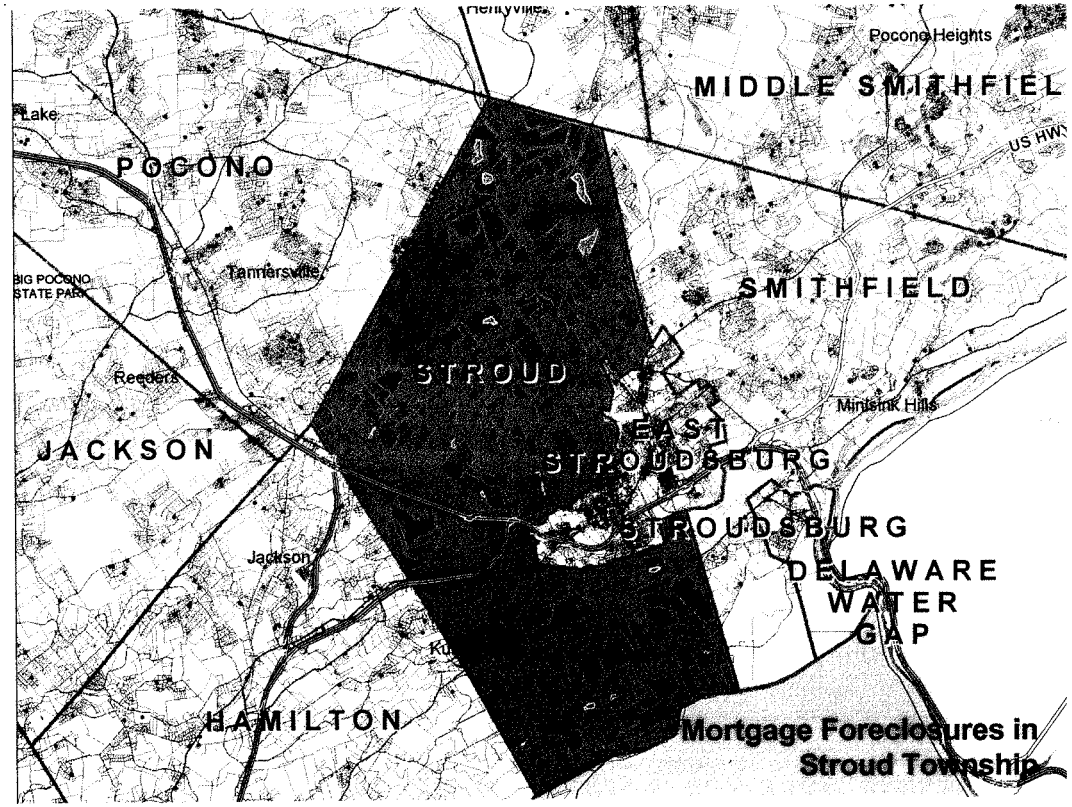
Median family income is higher in Monroe County than it is across the Commonwealth and it rose more quickly in real (inflation-adjusted) terms.

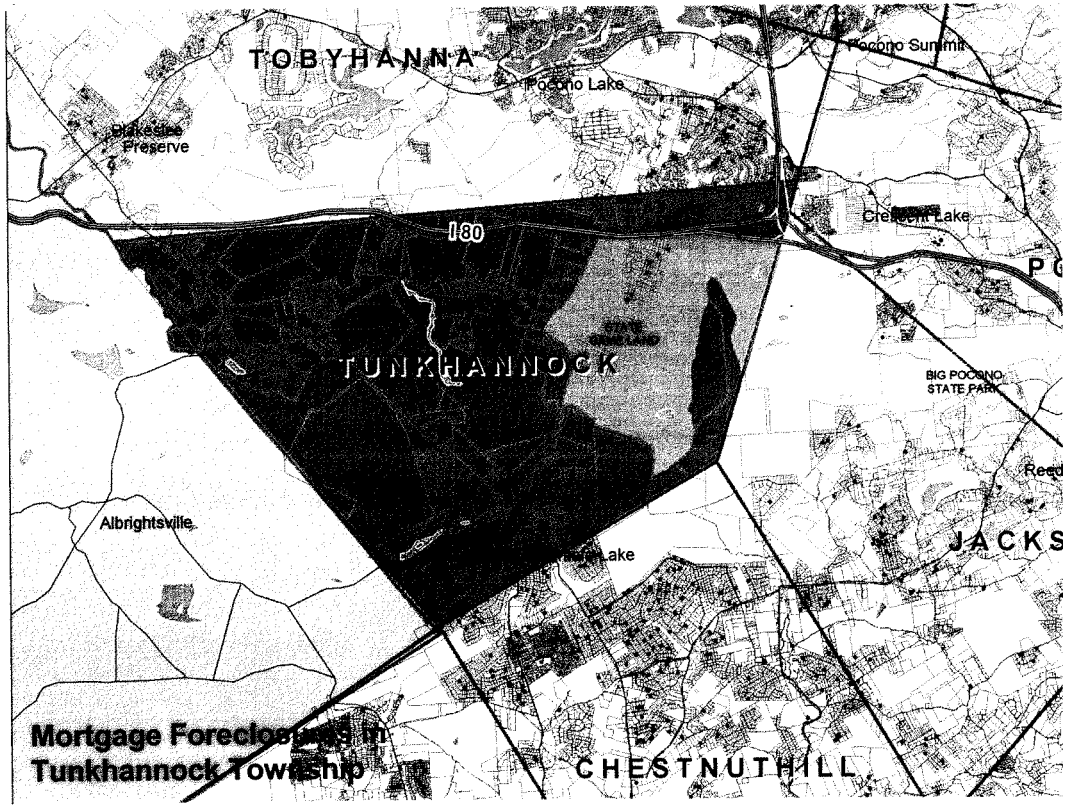

Monroe County
Foreclosures 2000-2003
Foreclosures by Block Group 2000-2003
15 or Less
16 - 30
31 - 45
46 - 60
Over 60
Canadensis
Mountainhome
Cresco
Crescent Lake
Tannersville
Stroudsburg
East Stroudsburg
Mineral Hills
Delaware Water Gap
Jackson
Kunkletown
Bodmeadsville
Wind Gap
Bangor
Roseto
Bangor
Kunkletown
Brightwood
Lehighton
Weissport East
Weissport
Parryville
MELTZER LAKE STATE PARK
HICKORY RUN STATE PARK
STATE GAME LANDS NO. 168
US HWY 209
US HWY 209
I 380
I 80
I 476


Mortgage Foreclosures in
Coolbaugh Township
COOLBAUGH
BARRETT
I 380
MOUNT POCONO
PARADISE
TOBYHANNA
Pocono Lake
Pocono Summit
POCONO
Preserve

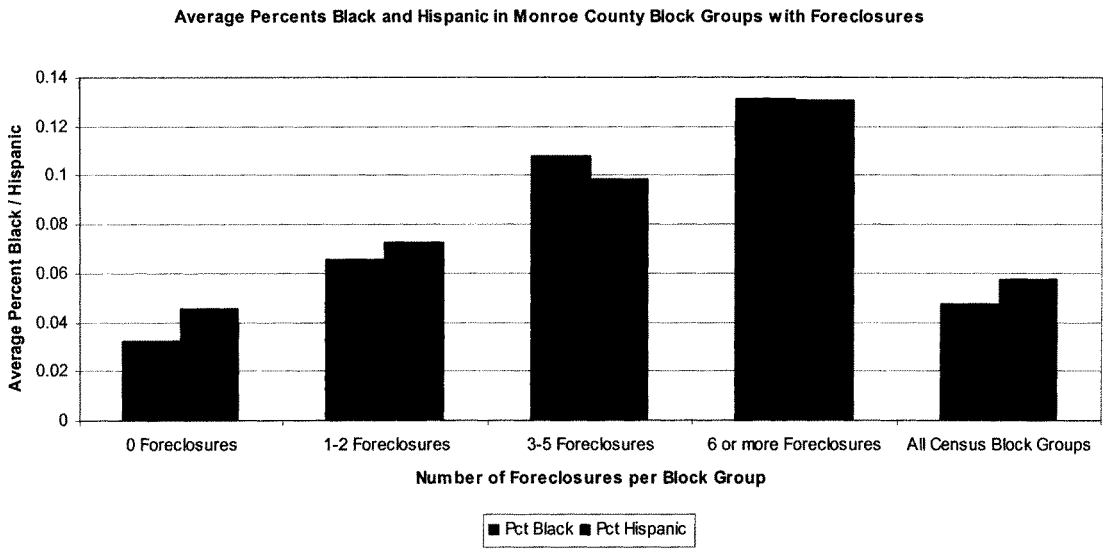

Mortgage Foreclosures in
Middle Smithfield Township
BARRETT
PRICE
Henryville
POCONO
Analomink
STROUD
EAST STROUDSBURG
SMITHFIELD
MIDDLE SMITHFIELD
US HWY 209
Minisink Hills


TUNKHANNOCK
Indian Mtn
POCONO
Reeders
STROUD
JACKSON
Jackson
CHESTNUTHILL
HAMILTON
POLK
Taylorsburg
ROSS
ELDRED
Mortgage Foreclosures In
Chestnuthill Township


Pocono Heights
MIDDLE SMITHFIEL
POCONO
Tannersville
BIG POCONO
STATE PARK
SMITHFIELD
STROUD
Reeders
Mintsink Hills
EAST
STROUDSBURG
JACKSON
STROUDSBURG
Jackson
DELAWARE
WATER
GAP
HAMILTON
Mortgage Foreclosures in
Stroud Township



Mortgage Foreclosures in Tunkhannock Township



The greatest concentrations of mortgage foreclosures occur in Census block groups with higher percentages of African Americans and Hispanics.

Plans Going Forward

- The Department of Banking will release this study on or before July 31, 2004.

- When The Department of Banking releases the study, simultaneously it will announce a set of action steps – based on the facts uncovered in this study – designed to address the current problem and to make it unlikely that this kind of problem will occur again.

- During the Fall of 2004, TRF will complete its work for The Department of Banking on a statewide study of mortgage foreclosures. This study will form the basis for a set of systemic (i.e., legislative, policy and programmatic) changes in Pennsylvania.

STATEMENT OF ROBERT C. HAY

BEFORE THE
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES
U.S. HOUSE OF REPRESENTATIVES

FIELD HEARING ON POCONOS HOUSING:
THE INVOLVEMENT OF THE SECONDARY MARKETS AND IMPLICATIONS FOR FEDERAL LEGISLATION

JUNE 14, 2004

Good morning Mr. Chairman and Congressman Kanjorski and members of the House Financial Services Capital Markets Subcommittee. Thank you for the opportunity to present testimony on the very important subject of home buying and achieving the Great American Dream of Homeownership. Let me first recognize your efforts, Congressman Kanjorski, for your leadership in safeguarding the economic viability of the real estate industry by cosponsoring the Community Choice in Real Estate Act, HR 111. Through your leadership, this legislation has garnered 252 cosponsors and will keep large banking conglomerates from engaging in real estate brokerage and management activities. It is time for Congress to act to finalize this legislation.

By way of background, I am a lifelong resident of Monroe County and have been a licensed real estate practitioner for the last 28 years. I have also been a member of the Pennsylvania Association of REALTORS, a statewide trade association representing nearly 29,000 real estate licensees, since 1976. Aside from my activity on the state level of the Association, I participate on the local and national levels as well, serving on various committees and task forces as invited.

Even though I am currently Broker/Owner of a small independent firm, I still work with buyers and sellers on a daily basis. Let me give you a perspective on the home buying process, how we work with buyers, and the various disclosures we must use.

On the first substantial meeting, all real estate licensees must review a "Consumer Notice" (a copy of which is attached and marked as Exhibit "A"). The Consumer Notice educates consumers of real estate about the business relationships that might be available to them and, in effect, puts the consumer on notice to exercise discretion in revealing information to a licensee before a relationship is formed. The consumer is asked to sign the form and licensees must retain a copy in our file pursuant to the Real Estate Licensing and Registration Act (RELRA).

Should a buyer make an inquiry by phone, the licensee can provide a verbal summary, with language dictated by law (Exhibit "B") prior to asking any qualifying questions or answering questions about a specific property.

The second step to the process is establishing a Business Relationship with the buyer. Pennsylvania law specifically authorizes the types of business relationships that a real estate licensee can have with a consumer: seller agency, buyer agency, dual agency, designated agency, and transaction licensee. This disclosure protects the consumer because they know who the agent is representing in the transaction. A Business Relationships Agreement is attached for your reference (Exhibit "C").

After establishing a business relationship with the buyer, we utilize a Multiple Listing Service (MLS) to show buyers homes that meet their criteria currently available on the market, no matter who the properties are listed with. As a REALTOR and a participant of the MLS, we have a unilateral agreement to cooperate with each other. This is very beneficial to both buyers and sellers.

Once a buyer finds a property that they wish to purchase, we enter into an Agreement of Sale (Exhibit "D"), which spells out the price and other terms of the offer. The Agreement is typically subject to a mortgage contingency and various inspections. We are often asked for name of lenders, home inspectors, attorneys, insurance companies, etc. We normally give a few selections to the buyer. Should we have any financial interest in the recommendations we make, we must disclose that fact.

Without walking you through step-by-step, that summarizes the buying process. The real estate market continues to be very strong across Pennsylvania and especially here in this region. Last year, more homes were bought and sold nationally than any previous year in history—that's more than 6 million existing homes and just over 1 million new homes. There is a great demand for homes with a very limited supply. There is legislation pending in Congress that would increase the supply of affordable housing. That legislation is the Renewing the Dream Tax Credit bill, H.R. 829, which would provide tax credits to developers and investors of affordable housing--housing built or rehabilitated for those individuals and families at or below 80% of the area median income. I thank you for your cosponsorship of this important legislation and hope that Congress will act to make this proposal a reality for millions of Americans who seek to won their own home. This supply and demand has increased home prices for the last several years. With home prices increasing, it helps the homeowner that has minimum equity in their property. There are some, however, that just cannot sell high enough to pay off their debt. This is not limited to the people that just built a home, it applies to many that have re-financed their homes and pulled equity out.

Recently, there have been many discussions of predatory lending, which has no clear definition. This practice needs to be addressed legislatively, but the remedy must be balanced. It must protect the consumer but not hinder some of the sub-prime lending programs that have helped so many buyers who deserve a second chance.

Buying a home is one of the most important purchases an individual will ever make. Before embarking on this course, whether building a new home or buying an existing one, buyers should come to the table prepared. This can easily be done by picking up a home guide magazine or browsing the internet to gain knowledge of market values. Buyers must also take into account consideration of the cost of commuting, not only financially, but mentally and socially.

People move to the Pocono Mountain area primarily for our schools, our environment, the cost of housing and taxes. Even though there have been some that have experienced "Broken Dreams," thousands have realized their American Dream of Homeownership and have enjoyed a good home-buying experience. These individuals benefit by living in one of the most beautiful places in our great country.

Thank you again for the opportunity to testify and I would be happy to answer any questions.

CONSUMER NOTICE

Exhibit "A"

CN

THIS IS NOT A CONTRACT

Pennsylvania Law requires real estate brokers and salespersons (licensees) to advise consumers who are seeking to sell or purchase residential or commercial real estate or tenants who are seeking to lease residential or commercial real estate where the licensee is working on behalf of the tenant of the business relationships permitted by the Real Estate Licensing and Registration Act. **This notice must be provided to the consumer at the first contact where a substantive discussion about real estate occurs unless an oral disclosure has been previously provided. If the oral disclosure was provided, this notice must be provided at the first meeting or the first time a property is shown to the consumer by the broker or salesperson.**

Before you disclose any information to a licensee, be advised that unless you select an agency relationship, the licensee is NOT REPRESENTING YOU. A business relationship of any kind will NOT be presumed but must be established between the consumer and the licensee.

Any licensee who provides you with real estate services owes you the following duties:

- Exercise reasonable professional skill and care which meets the practice standards required by the Act.
- Deal honestly and in good faith.
- Present, in a reasonably practicable period of time, all offers, counteroffers, notices, and communications to and from the parties in writing. The duty to present written offers and counteroffers may be waived if the waiver is in writing.
- Comply with Real Estate Seller Disclosure Act.
- Account for escrow and deposit funds.
- Disclose all conflicts of interest in a reasonably practicable period of time.
- Provide assistance with document preparation and advise the consumer regarding compliance with laws pertaining to real estate transactions.
- Advise the consumer to seek expert advice on matters about the transaction that are beyond the licensee's expertise.
- Keep the consumer informed about the transaction and the tasks to be completed.
- Disclose financial interest in a service, such as financial, title transfer and preparation services, insurance, construction, repair or inspection, at the time service is recommended or the first time the licensee learns that the service will be used.

A licensee may have the following business relationships with the consumer:

Seller Agency:

Seller agency is a relationship where the licensee, upon entering into a written agreement, works only for a seller/landlord.
Seller's agents owe the additional duties of:

- *Loyalty* to the seller/landlord by acting in the seller's/landlord's best interest.
- *Confidentiality,* except that a licensee has a duty to reveal known material defects about the property.
- Making a *continuous and good faith effort* to find a buyer for the property, except while the property is subject to an existing agreement.
- Disclosure to other parties in the transaction that the licensee has been engaged as a seller's agent.

A seller's agent may compensate other brokers as *subagents* if the seller/landlord agrees in writing. Subagents have the same duties and obligations as the seller's agent. Seller's agents may also compensate buyer's agents and transaction licensees who do not have the same duties and obligations as seller's agents.

If you enter into a written agreement, the licensees in the real estate company owe you the additional duties identified above under seller agency. The exception is designated agency. See the designated agency section in this notice for more information.

Buyer Agency:

Buyer agency is a relationship where the licensee, upon entering into a written agreement, works only for the buyer/tenant.
Buyer's agents owe the additional duties of:

- *Loyalty* to the buyer/tenant by acting in the buyer's/tenant's best interest.
- *Confidentiality,* except that a licensee is required to disclose known material defects about the property.
- Making a *continuous and good faith effort* to find a property for the buyer/tenant, except while the buyer/tenant is subject to an existing contract.
- Disclosure to other parties in the transaction that the licensee has been engaged as a buyer's agent.

A buyer's agent may be paid fees, which may include a percentage of the purchase price, and, even if paid by the seller/landlord, will represent the interests of the buyer/tenant.

If you enter into a written agreement, the licensees in the real estate company owe you the additional duties identified above under buyer agency. The exception is designated agency. See the designated agency section in this notice for more information.

Dual Agency:

Dual agency is a relationship where the licensee acts as the agent for both the seller/landlord and the buyer/tenant in the same transaction with the written consent of all parties. Dual agents owe the additional duties of:

- Taking no action that is *adverse or detrimental* to either party's interest in the transaction.

- Unless otherwise agreed to in writing, making a *continuous and good faith effort* to find a buyer for the property and a property for the buyer, unless either are subject to an existing contract.
- *Confidentiality,* except that a licensee is required to disclose known material defects about the property.

Designated Agency:

In designated agency, the employing broker may, with your consent, designate one or more licensees from the real estate company to represent you. Other licensees in the company may represent another party and shall not be provided with any confidential information. The designated agent(s) shall have the duties as listed above under seller agency and buyer agency.

In designated agency, the employing broker will be a dual agent and have the additional duties of:

- Taking reasonable care to protect any confidential information disclosed to the licensee.
- Taking responsibility to direct and supervise the business activities of the licensees who represent the seller and buyer while taking no action that is adverse or detrimental to either party's interest in the transaction.

The designation may take place at the time that the parties enter into a written agreement, but may occur at a later time. Regardless of when the designation takes place, the employing broker is responsible for ensuring that confidential information is not disclosed.

Transaction Licensee:

A transaction licensee is a broker or salesperson who provides communication or document preparation services or performs other acts for which a license is required **WITHOUT being the agent or advocate** for either the seller/landlord or the buyer/tenant. Upon signing a written agreement or disclosure statement, a transaction licensee has the additional duty of limited confidentiality in that the following information may not be disclosed:

- The seller/landlord will accept a price less than the asking/listing price.
- The buyer/tenant will pay a price greater than the price submitted in a written offer.
- The seller/landlord or buyer/tenant will agree to financing terms other than those offered.

Other information deemed confidential by the consumer shall not be provided to the transaction licensee.

OTHER INFORMATION ABOUT REAL ESTATE TRANSACTIONS

The following are negotiable and shall be addressed in an agreement/disclosure statement with the licensee:

- The duration of the employment, listing agreement or contract.
- The fees or commissions.
- The scope of the activities or practices.
- The broker's cooperation with other brokers, including the sharing of fees.

Any sales agreement must contain the zoning classification of a property except in cases where the property is zoned solely or primarily to permit single family dwellings.

A Real Estate Recovery Fund exists to reimburse any person who has obtained a final civil judgment against a Pennsylvania real estate licensee owing to fraud, misrepresentation, or deceit in a real estate transaction and who has been unable to collect the judgment after exhausting all legal and equitable remedies. For complete details about the Fund, call (717) 783-3658.

ACKNOWLEDGMENT

I acknowledge that I have received this disclosure.

Date: _____

Print (Consumer)	**Print (Consumer)**
Signed (Consumer)	**Signed (Consumer)**
Address (optional)	**Address (optional)**
Phone Number (optional)	**Phone Number (optional)**

I certify that I have provided this document to the above consumer.

Date: _____

Print (Licensee)

Signed (Licensee)

Adopted by the State Real Estate Commission at 49 Pa. Code §35.336.

ORAL DISCLOSURE

Exhibit "B"

Act 47 of 2000 permits licensees to provide an oral disclosure of the Consumer Notice on the telephone provided it is followed up with a written Consumer Notice at the first meeting with a consumer.

NOTE: This oral disclosure may not be used by owners/landlords, their employees, or their agents.

The language of the oral disclosure is as follows and must be read verbatim:

"The Real Estate Disclosure Law requires that I provide you with a written consumer notice that describes the various business relationship choices that you may have with a real estate licensee. Since we are discussing real estate without you having the benefit of the Consumer Notice, I have the duty to advise you that any information you give me at this time is not considered to be confidential, and any information you give me will not be considered confidential unless and until you and I enter into a business relationship. At our first meeting I will provide you with a written consumer notice which explains those business relationships and my corresponding duties to you."

Exhibit "C"

BR

BUSINESS RELATIONSHIP
BETWEEN BROKER AND BUYER

This form recommended and approved for, but not restricted to use by, members of the Pennsylvania Association of REALTORS® (PAR).

BROKER (Company) _____

LICENSEE(S)

Buyer has read and received the Consumer Notice as adopted by the State Real Estate Commission at 49 Pa. Code §35.336 and the Notices to Buyers in this agreement. Pennsylvania law requires that this business relationship between Broker and Buyer be in writing and signed by Buyer.

Note: The terms "buyer," "seller," and "buy" also will be construed to mean "tenant," "landlord," and "rent," respectively, throughout this agreement.

BUSINESS RELATIONSHIP AS DESCRIBED IN THE CONSUMER NOTICE

Does Buyer have a business relationship with another broker? ☐ **Yes** ☐ **No**

Broker and Buyer agree to the following business relationship as allowed by Broker's Company policy:

☐ **SELLER AGENT** (for properties listed with Broker)/**SUBAGENT FOR SELLER** (for properties listed with other companies).

☐ **TRANSACTION LICENSEE** (for properties not listed with Broker; however, if property is listed under an agency contract with Broker, Broker is a Seller's Agent).

☐ **BUYER AGENT** (for properties listed with Broker and other companies, and for properties not listed with any broker) Broker will be Buyer's Agent under the terms agreed to in the Buyer Agency Contract below.

EXCLUSIVE BUYER AGENCY CONTRACT

1. **TERM**
   This Contract applies to any property that Buyer chooses to buy during the term of this Contract. Buyer will not enter into a Buyer Agency Contract with another broker/licensee that begins before the Ending Date of this Contract.
   Starting Date: This Contract starts when signed by Buyer and Broker, unless otherwise stated here:
   _____
   Ending Date: This Contract ends _____.
   (A) If Buyer is negotiating or has entered into an Agreement of Sale, this Contract ends upon settlement.
   (B) If Buyer is negotiating or has signed a lease, this Contract ends upon possession.
2. **BROKER'S FEE**
   (A) It is Broker's policy to accept compensation offered by the listing broker and/or the seller. Broker may be paid a fee that is a percentage of the purchase price (or in the case of a lease, a percentage of the total amount of rent due over the term of the lease). Even though Broker's Fee may be paid by a seller or listing broker, Broker will continue to represent the interests of Buyer.
   (B) If the amount received in paragraph 2(A) is less than _____, then Buyer will pay Broker the difference, or include it as a term of the Agreement of Sale for the seller to pay.
   (C) 1. **Broker's Fee is earned if Buyer enters into a sale or lease agreement during the term of this Contract, whether brought about by Broker, Broker's agents or by any other person, including Buyer.**
   2. If Buyer enters into a sale/lease agreement for a property after the Ending Date of this Contract, Buyer will pay Broker's Fee:
   (a) if the sale/lease is a result of Broker's actions during the term of this Contract, OR
   (b) if the property was seen during the term of this Contract, AND
   (c) Buyer is not under an exclusive buyer agency contract with another broker at the time Buyer enters into a sale/lease agreement.
3. **DUAL AGENCY**
   Buyer agrees that Broker may also represent the seller of the property that Buyer might buy. The Broker is a DUAL AGENT when representing both the seller and the buyer in the sale of a property.
4. **DESIGNATED AGENCY**
   ☐ **Not Applicable.**
   ☐ **Applicable.** Broker may designate licensees to represent the separate interests of Buyer and the seller. Licensee (identified above) is the Designated Agent, who will act exclusively as the Buyer Agent. If Licensee is also the Seller Agent, then Licensee is a DUAL AGENT.
5. **TRANSFER OF THIS CONTRACT**
   Buyer agrees that Broker may transfer this Contract to another broker. Broker will notify Buyer immediately in writing if Broker transfers this Contract to another broker.
6. **OTHER**
   _____

ENTIRE AGREEMENT

This is the entire agreement between Broker and Buyer. Any verbal or written agreements that were made before are not a part of this agreement. Any changes or additions to this agreement must be in writing and signed by Broker and Buyer.

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NOTICE BEFORE SIGNING: IF BUYER HAS LEGAL QUESTIONS, BUYER IS ADVISED TO CONSULT AN ATTORNEY.

BUYER _____ DATE _____

E-mail _____

BROKER (Company Name)

BobHay.com Realtors
9 South Seventh Street
Stroudsburg, PA 18360
Phone: 570-476-2420, Fax: 570-476-1467

E-mail _____

ACCEPTEDBY _____ **DATE** _____

NOTICES TO BUYERS

The following Notices apply to buyers working with Buyer's Agents, Seller's Agents or Subagents for Seller, or Transaction Licensees.

Buyer acknowledges that Buyer has received and understands **the Consumer Notice adopted by the Pennsylvania State Real Estate Commission at 49 Pa. Code §35.336. The Consumer Notice, including the duties, definitions of business relationships, and statements identifying cooperation with other brokers, possibilities of dual agency and designated agency stated therein, and notice of the Real Estate Recovery Fund and zoning classification, are incorporated here as part of this disclosure as though written here in their entirety.**

The terms and length of the business relationship, the fees, and the range of services that Broker will provide are determined as a result of negotiations between Broker and Buyer and have not been set or recommended by any association of REALTORS®.

SERVICES TO SELLER
Broker may provide services to a seller for which Broker may accept a fee. Such services may include, but are not limited to, listing fees; deed/document preparation; ordering certifications required for closing; financial services; title transfer and preparation services; ordering insurance, construction, repair, or inspection services. Broker will disclose to Buyer if any fees are to be paid by the seller.

OTHER BUYERS
Licensee may show or present the same properties to other buyers.

CONFLICT OF INTEREST
A *conflict of interest* is when Broker or Licensee has financial or personal interest in the property where Broker or Licensee cannot put Buyer's interest before any other. If Broker, or any of Broker's licensees, has a *conflict of interest*, Broker will notify Buyer in a timely manner.

DEPOSIT MONEY
(A) Broker will keep (or will give to the listing broker, who will keep) all deposit monies that Broker/Licensee receives in an escrow account as required by real estate licensing laws and regulations. Buyer agrees that Broker may wait to deposit any uncashed check that is received as deposit money until Buyer's offer has been accepted.
(B) If Buyer joins Broker/Licensee in a lawsuit for the return of deposit monies, Buyer will pay Licensee's and Broker's attorneys' fees and costs.

CIVIL RIGHTS ACTS
Federal and state laws make it illegal for a seller, broker, or anyone to use RACE, COLOR, RELIGION or RELIGIOUS CREED, SEX, DISABILITY (physical or mental), FAMILIAL STATUS (children under 18 years of age), AGE (40 or older), NATIONAL ORIGIN, USE OR HANDLING/

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TRAINING OF SUPPORT OR GUIDE ANIMALS, or the FACT OF RELATIONSHIP OR ASSOCIATION TO AN INDIVIDUAL KNOWN TO HAVE A DISABILITY as reasons for refusing to sell, show, or rent properties, loan money, or set deposit amounts, or as reasons for any decision relating to the sale or rental of property.

EXPERTISE OF REAL ESTATE AGENTS

Pennsylvania Real Estate Agents are required to be licensed by the Commonwealth of Pennsylvania and are obligated to disclose adverse factors about a property that are reasonably apparent to someone with expertise in the marketing of real property.

(A) If Buyer wants information regarding specific conditions or components of the property which are outside the Agent's expertise, the advice of the appropriate professional should be sought.

(B) If Buyer wants financial, legal, or any other advice, Buyer is encouraged to seek the services of an accountant, lawyer, or other appropriate professional.

BUYER'S OPTIONS

Unless Buyer and the seller agree otherwise, real estate is sold in its present condition. It is Buyer's responsibility to satisfy himself or herself that the condition of the property is satisfactory. Buyer may request that the property be inspected, at Buyer's expense, by qualified professionals to determine the condition of the structure or its components. Areas of concern may include, but are not limited to, the following: electrical; plumbing, heating, ventilating, air conditioning; appliances and fixtures; water infiltration, basement; roof leakage; boundaries; asbestos, urea formaldehyde foam insulation, carbon monoxide, radon, and environmental hazards or substances; wood-destroying insect infestation; on-site water service and/or sewage system; and lead-based paint. Buyer's request for any inspection should be made to Broker before entering into an Agreement of Sale or lease.

Buyer is advised that information regarding properties considered for purchase by Buyer has been provided by the seller or seller's broker. Such information may include, but is not limited to, the information on the Seller's Property Disclosure Statement, including environmental conditions; MLS information, including information regarding restrictions, taxes, assessments, association fees, zoning restrictions, dimensions, boundaries (if identified); and marketing information. Unless otherwise noted, Broker has not verified the accuracy of this information, and Buyer is advised to investigate its accuracy.

FEES

Buyer understands that, as either a Seller Agent/Subagent for Seller or Transaction Licensee, Broker may receive a fee from the seller. Broker's office policy allows for cooperation with other brokers who may compensate Broker based on a percentage of the purchase price. As a Seller Agent/Subagent for Seller or a Transaction Licensee, Broker may not charge any fee to Buyer without a signed written agreement

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Exhibit "D"

STANDARD AGREEMENT FOR THE SALE OF REAL ESTATE A/S - 2K

This form recommended and approved for, but not restricted to use by, members of the Pennsylvania Association of REALTORS® (PAR).

SELLER'S BUSINESS RELATIONSHIP WITH PA LICENSED BROKER

BROKER (Company) _____ **PHONE** _____
ADDRESS _____ **FAX** _____
BROKER IS THE AGENT FOR SELLER. Designated Agent(s) for Seller, if applicable: _____
OR
Broker is NOT the Agent for Seller and is a/an: ☐ AGENT FOR BUYER ☐ TRANSACTION LICENSEE

BUYER'S BUSINESS RELATIONSHIP WITH PA LICENSED BROKER

BROKER (Company) _____ **PHONE** _____
ADDRESS _____ **FAX** _____
BROKER IS THE AGENT FOR BUYER. Designated Agent(s) for Buyer, if applicable: _____
OR
Broker is NOT the Agent for Buyer and is a/an: ☐ AGENT FOR SELLER ☐ SUBAGENT FOR SELLER ☐ TRANSACTION LICENSEE

When the same Broker is Agent for Seller and Agent for Buyer, Broker is a Dual Agent. All of Broker's licensees are also Dual Agents UNLESS there are separate Designated Agents for Buyer and Seller. If the same Licensee is designated for Seller and Buyer, the Licensee is a Dual Agent.

1. **This Agreement,** dated June 10, 2004, is between **SELLER(S):**

_____

called "Seller," and
BUYER(S):

_____

called "Buyer."

2. **PROPERTY (1-98) Seller hereby agrees to sell and convey to Buyer, who hereby agrees to purchase:**
ALL THAT CERTAIN lot or piece of ground with buildings and improvements thereon erected, if any, known as:

_____

in the _____ **of** _____,
County of _____ **in the Commonwealth of Pennsylvania, Zip Code** _____
Identification (e.g., Tax ID #; Parcel #; Lot, Block; Deed Book, Page, Recording Date)

_____

3. **TERMS (1-02)**
(A) **Purchase Price** _____
_____ **U.S. Dollars**
which will be paid to Seller by Buyer as follows:
1. Cash or check at signing this Agreement: _____ $ _____
2. Cash or check within _____ days of the execution of this Agreement: _____ $ _____
3. _____ $ _____
4. Cash, cashier's or certified check at time of settlement: _____ $ _____

TOTAL $ _____

(B) Deposits paid on account of purchase price to be held by Broker for Seller, unless otherwise stated here:

_____

(C) Seller's written approval to be on or before: _____
(D) Settlement to be on _____, or before if Buyer and Seller agree.
(E) Conveyance from Seller will be by fee simple deed of special warranty unless otherwise stated here:

_____

(F) Payment of transfer taxes will be divided equally between Buyer and Seller unless otherwise stated here:

_____

(G) At time of settlement, the following will be adjusted pro-rata on a daily basis between Buyer and Seller, reimbursing where applicable: taxes (see Information Regarding Tax Proration); rents; interest on mortgage assumptions; condominium fees

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and homeowner association fees, if any; water and/or sewer fees, if any, together with any other lienable municipal service. The charges are to be pro-rated for the period(s) covered: Seller will pay up to and including the date of settlement; Buyer will pay for all days following settlement, unless otherwise stated here:

_____

4. FIXTURES & PERSONAL PROPERTY (1-00)

(A) INCLUDED in this sale and purchase price are all existing items permanently installed in the Property, free of liens, including plumbing; heating; lighting fixtures (including chandeliers and ceiling fans); water treatment systems; pool and spa equipment; garage door openers and transmitters; television antennas; shrubbery, plantings and unpotted trees; any remaining heating and cooking fuels stored on the Property at the time of settlement; wall to wall carpeting; window covering hardware, shades and blinds; built-in air conditioners; built-in appliances; and the range/oven unless otherwise stated. Also included:

_____

(B) LEASED items (not owned by Seller):

_____

(C) EXCLUDED fixtures and items:

_____

5. DATES/TIME IS OF THE ESSENCE (1-02)

(A) The said date for settlement and all other dates and times referred to for the performance of any of the obligations of this Agreement are agreed to be of the essence of this Agreement and are binding.

(B) For the purposes of this Agreement, number of days will be counted from the date of execution, by excluding the day this Agreement was executed and including the last day of the time period.

(C) The date of settlement is not extended by any other provision of this Agreement and may only be extended by mutual written agreement of the parties.

(D) Certain time periods are pre-printed in this Agreement as a convenience to the Buyer and Seller. Any pre-printed time periods are negotiable and may be changed by striking out the pre-printed text and inserting a different time period acceptable to all parties.

6. MORTGAGE CONTINGENCY (1-02)

☐ WAIVED. This sale is **NOT** contingent on mortgage financing.

☐ ELECTED

(A) This sale is contingent upon Buyer obtaining mortgage financing as follows:

1. Amount of mortgage loan $ _____
2. Minimum Term _____ years
3. Type of mortgage _____
4. Interest rate _____ %; however, **Buyer agrees to accept the interest rate as may be committed by the mortgage lender,** not to exceed a maximum interest rate of _____ %.
5. Discount points, loan origination, loan placement and other fees charged by the lender as a percentage of the mortgage loan (excluding any mortgage insurance premiums or VA funding fee) not to exceed _____ % (0% if not specified) of the mortgage loan.

The interest rate and fees provisions required by Buyer are satisfied if a mortgage lender makes available to Buyer the right to guarantee an interest rate at or below the Maximum Interest Rate specified herein with the percentage fees at or below the amount specified herein. Buyer gives Seller the right, at Seller's sole option and as permitted by the mortgage lender and applicable laws, to contribute financially, without promise of reimbursement, to the Buyer and/or mortgage lender to make the above terms available to Buyer.

(B) Within _____ DAYS (10 days if not specified) of the execution of this Agreement, Buyer will make a completed, written mortgage application for the mortgage terms specified above to a responsible mortgage lender. **The Broker for Buyer, if any, otherwise the Broker for Seller, is authorized to communicate with the mortgage lender for the purposes of assisting in the mortgage loan process.**

(C) 1. **Mortgage commitment date** _____ . If a written commitment is not received by Seller by the above date, **Buyer and Seller agree to extend the mortgage commitment date until Seller terminates this Agreement in writing by notice to Buyer.**

2. Upon receipt of a mortgage commitment, Buyer will promptly deliver a copy of the commitment to Seller.
3. Seller has the option to terminate this Agreement in writing, after the mortgage commitment date if the mortgage commitment:
   a. Is not valid until the date of settlement, OR
   b. Is conditioned upon the **sale and settlement of any other property,** OR
   c. Contains any other condition not specified in this Agreement that is not satisfied and/or removed in writing by the mortgage lender within ___7___ DAYS after the **mortgage commitment date in paragraph 6 (C) (1).**
4. If this Agreement is terminated as specified in paragraphs 6 (C) (1) or (3), or the mortgage loan is not obtained for settlement, all deposit monies paid on account of purchase price will be returned to Buyer. Buyer will be responsible

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for any premiums for mechanics' lien insurance and/or title search, or fee for cancellation of same, if any; AND/OR any premiums for flood insurance, mine subsidence insurance and/or fire insurance with extended coverage, or cancellation fee, if any; AND/OR any appraisal fees and charges paid in advance to the mortgage lender.

(D) If the mortgage lender requires repairs to the Property, Buyer will, upon receipt, deliver a copy of the mortgage lender's requirements to Seller. Seller will, within ___5___ DAYS of receipt of the mortgage lender's requirements, notify Buyer whether Seller will make the required repairs at Seller's expense.

1. If Seller chooses to make the required repairs, Buyer will accept the Property and agree to the RELEASE set forth in paragraph 25 of this Agreement.
2. If Seller chooses not to make the required repairs, **or if Seller fails to respond within the time given,** Buyer will, within ___5___ DAYS, notify Seller in writing of Buyer's choice to terminate this Agreement OR make the required repairs at Buyer's expense and with Seller's permission, which will not be unreasonably withheld. If Seller denies Buyer permission to make the required repairs, Buyer may, within ___5___ DAYS of Seller's denial, terminate this Agreement, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

(E) **Seller Assist**

☐ NOT APPLICABLE

☐ APPLICABLE. Seller will pay:

☐ $ _____, maximum, toward Buyer's costs as permitted by the mortgage lender.

☐ _____

FHA/VA, IF APPLICABLE

(F) It is expressly agreed that notwithstanding any other provisions of this contract, Buyer will not be obligated to complete the purchase of the Property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise unless Buyer has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Veterans Administration, or a Direct Endorsement Lender setting forth the appraised value of the Property of not less than $ _____ (the dollar amount to be inserted is the sales price as stated in this Agreement). Buyer will have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value nor the condition of the Property. Buyer should satisfy himself/herself that the price and condition of the Property are acceptable.

Warning: Section 1010 of Title 18, U.S.C., Department of Housing and Urban Development and Federal Housing Administration Transactions, provides, "Whoever for the purpose of . . . influencing in any way the action of such Department, makes, passes, utters, or publishes any statement, knowing the same to be false . . . shall be fined under this title or imprisoned not more than two years, or both."

(G) **U.S. Department of Housing and Urban Development (HUD) NOTICE TO PURCHASERS: Buyer's Acknowledgement**

☐ Buyer has received the HUD Notice "For Your Protection: Get a Home Inspection" (see Notices and Information on Property Condition Inspections). Buyer understands the importance of getting an independent home inspection and has thought about this before signing this Agreement.

Buyer's Initials_____ **Date**_____

(H) **Certification** We the undersigned, Seller(s) and Buyer(s) party to this transaction each certify that the terms of this contract for purchase are true to the best of our knowledge and belief, and that any other agreement entered into by any of these parties in connection with this transaction is attached to this Agreement.

7. **INSPECTIONS (1-02)**

(A) Seller agrees to permit inspections by authorized appraisers, reputable certifiers, insurer's representatives, surveyors, municipal officials and/or Buyer as may be required by the mortgage lender, if any, or insuring agencies. Seller further agrees to permit any other inspections required by or provided for in the terms of this Agreement. Buyer has the right to attend all inspections.

(B) Buyer reserves the right to make a pre-settlement walk-through inspection of the Property. Buyer's right to make this inspection is not waived by any other provision of this Agreement.

(C) Seller will have heating and all utilities (including fuel(s)) on for the inspections.

(D) All inspectors, including home inspectors, are authorized by Buyer to provide a copy of any reports to Broker for Buyer.

8. **PROPERTY INSPECTION CONTINGENCY (1-02)**

Other provisions of this Agreement may provide for inspections and/or certifications that are not waived or altered by Buyer's election here.

☐ WAIVED. Buyer understands that Buyer has the option to request inspections of the Property (see Property Inspection Notices and Environmental Notices). BUYER WAIVES THIS OPTION and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED

(A) Within _____ DAYS (15 days if not specified) of the execution of this Agreement, Buyer, at Buyer's expense, may choose to have inspections and/or certifications completed by licensed or otherwise qualified professionals (see Property Inspection

Notices and Environmental Notices). This contingency does not apply to the following existing conditions and/or items:

_____

(B) Should Buyer elect to have a home inspection of the Property, as defined in the Pennsylvania Home Inspection Law, (see Information Regarding the Home Inspection Law) such home inspection shall be performed by a full member in good standing of a national home inspection association, or by a person supervised by a full member of a national home inspection association, in accordance with the ethical standards and code of conduct or practice of that association.

(C) If Buyer is not satisfied with the condition of the Property as stated in any written report, Buyer will:

☐ **Option 1. Within the time given for completing inspections:**

1. Accept the Property with the information stated in the report(s) and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
2. Terminate this Agreement in writing by notice to Seller, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
3. Enter into a mutually acceptable written agreement with Seller providing for any repairs or improvements to the Property and/or any credit to Buyer at settlement, as may be acceptable to the mortage lender, if any.

Should efforts to reach a mutually acceptable agreement fail, Buyer must choose to accept the Property or terminate this Agreement **within the time given for completing inspections** and according to the provisions in paragraph 8(C) (Option 1) 1 and 2.

☐ **Option 2. Within the time given for completing inspections:**

1. Accept the Property with the information stated in the report(s) and agree to the RELEASE set forth in paragraph 25 of this Agreement, UNLESS the total cost to correct the conditions contained in the report(s) is more than $ _____ .
2. If the total cost to correct the conditions contained in the report(s) EXCEEDS the amount specified in paragraph 8(C) (Option 2) 1, **Buyer will deliver the report(s) to Seller within the time given for inspection.**
   a. Seller will, within ___7___ DAYS of receiving the report(s), inform Buyer in writing of Seller's choice to:
      (1) Make repairs before settlement so that the remaining cost to repair conditions contained in the report(s) is less than or equal to the amount specified in paragraph 8 (C) (Option 2) 1.
      (2) Credit Buyer at settlement for the difference between the estimated cost of repairing the conditions contained in the report(s) and the amount specified in paragraph 8 (C) (Option 2) 1. This option must be acceptable to the mortgage lender, if any.
      (3) Not make repairs and not credit Buyer at settlement for any costs to repair conditions contained in the report(s).
   b. If Seller chooses to make repairs or credit Buyer at settlement as specified in paragraph 8 (C) (Option 2) 2, Buyer will accept the Property and agree to the RELEASE set forth in paragraph 25 of this Agreement.
   c. If Seller chooses not to make repairs and not to credit Buyer at settlement, or **if Seller fails to choose any option within the time given,** Buyer will, within ___5___ DAYS:
      (1) Accept the Property with the information stated in the report(s) and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
      (2) Terminate this Agreement in writing by notice to Seller, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

9. WOOD INFESTATION INSPECTION CONTINGENCY (1-02)

☐ WAIVED. Buyer understands that Buyer has the option to request that the Property be inspected for wood infestation by a certified Pest Control Operator. BUYER WAIVES THIS OPTION and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED

(A) Within _____ DAYS (15 days if not specified) of the execution of this Agreement, Buyer, at Buyer's expense, will obtain a written "Wood-Destroying Insect Infestation Inspection Report" from a certified Pest Control Operator and will deliver it and all supporting documents and drawings provided by the Pest Control Operator to Seller. The report is to be made satisfactory to and in compliance with applicable laws, mortage lenders, and/or Federal Insuring and Guaranteeing Agency requirements, if any. The inspection will include all readily visible and accessible areas of all structures on the Property except the following structures, which will not be inspected:

_____

(B) If the inspection reveals evidence of active infestation(s), Seller agrees, at Seller's expense and before settlement, to treat for active infestation(s), in accordance with applicable laws.

(C) If the inspection reveals damage from active infestation(s) or previous infestation(s), Buyer, at Buyer's expense, has the option to obtain a written report by a professional contractor, home inspection service, or structural engineer that is limited to structural damage to the Property caused by wood-destroying organisms and a proposal to repair the damage. Buyer will deliver the structural damage report and corrective proposal to Seller within ___7___ DAYS of delivering the original inspection report.

(D) Within ___5___ DAYS of receiving the structural damage report and corrective proposal, Seller will advise Buyer whether Seller will repair, at Seller's expense and before settlement, any structural damage from active or previous infestation(s).

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(E) If Seller chooses to repair structural damage revealed by the report, Buyer agrees to accept the Property as repaired and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

(F) If Seller chooses not to repair structural damage revealed by the report **or fails to respond within the time given**, Buyer, within ___5___ DAYS, will notify Seller in writing of Buyer's choice to:

1. Accept the Property with the defects revealed by the inspection, without abatement of price, and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
2. Make the repairs before settlement, if required by the mortgage lender, if any, at Buyer's expense and with Seller's permission, which will not be unreasonably withheld, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement. If Seller denies Buyer permission to make the repairs, Buyer may, within ___5___ DAYS of Seller's denial, terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
3. Terminate this Agreement, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

10. RESIDENTIAL LEAD-BASED PAINT HAZARD REDUCTION ACT NOTICE REQUIRED FOR PROPERTIES BUILT BEFORE 1978 (1-02)

☐ NOT APPLICABLE

☐ APPLICABLE

(A) **Seller represents that** Seller has no knowledge concerning the presence of lead-based paint and/or lead-based paint hazards in or about the Property, unless checked below.

☐ Seller has knowledge of the presence of lead-based paint and/or lead-based paint hazards in or about the Property. (Provide the basis for determining that lead-based paint and/or hazards exist, the location(s), the condition of the painted surfaces, and other available information concerning Seller's knowledge of the presence of lead-based paint and/or lead-based paint hazards.)

_____

(B) **Records/Reports:** Seller has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in or about the Property, unless checked below.

☐ Seller has provided Buyer with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in or about the Property. (List documents)

_____

(C) **Buyer's Acknowledgment:** Buyer has received the pamphlet *Protect Your Family from Lead in Your Home* and has read the Lead Warning Statement contained in this Agreement (See Environmental Notices). Buyer has reviewed Seller's disclosure of known lead-based paint and/or lead-based paint hazards, as identified in paragraph 10(A) and has received the records and reports pertaining to lead-based paint and/or lead-based paint hazards identified in paragraph 10(B).

Buyer's Initials_____ **Date**_____

(D) **RISK ASSESSMENT/INSPECTION:** Buyer acknowledges that before Buyer is obligated to buy a residential dwelling built before 1978, Buyer has ___10___ DAYS to conduct a risk assessment or inspection of the Property for the presence of lead-based paint and/or lead-based paint hazards.

☐ WAIVED. Buyer understands that Buyer has the right to conduct a risk assessment or inspection of the Property to determine the presence of lead-based paint and/or lead-based paint hazards. BUYER WAIVES THIS RIGHT and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED

1. Buyer, at Buyer's expense, chooses to obtain a risk assessment and/or inspection of the Property for lead-based paint and/or lead-based paint hazards. The risk assessment and/or inspection will be completed within ___10___ DAYS of the execution of this Agreement.
2. **Within the time set forth above for obtaining the risk assessment and/or inspection of the Property for lead-based paint and/or lead-based paint hazards, Buyer may deliver to Seller** a written list of the specific hazardous conditions cited in the report and those corrections requested by Buyer, along with a copy of the risk assessment and/or inspection report.
3. Seller may, within ___7___ DAYS of receiving the list and report(s), submit a written corrective proposal to Buyer. The corrective proposal will include, but not be limited to, the name of the remediation company and a projected completion date for corrective measures. Seller will provide certification from a risk assessor or inspector that corrective measures have been satisfactorily completed on or before the projected completion date.
4. Upon receiving the corrective proposal, Buyer, within ___5___ DAYS, will:
   a. Accept the corrective proposal and the Property in writing, and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.
5. **Should Seller fail to submit a written corrective proposal within the time set forth** in paragraph 10(D)3 of this Agreement, Buyer, within ___5___ DAYS, will:
   a. Accept the Property in writing, and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price

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will be returned promptly to Buyer and this Agreement will be VOID.

6. **Buyer's failure to exercise any of Buyer's options within the time limits specified in this paragraph will constitute a WAIVER of this contingency and Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement.**

(E) **Certification:** By signing this Agreement, Buyer and Seller certify the accuracy of their respective statements, to the best of their knowledge.

11. STATUS OF RADON (1-02)

(A) **Seller represents that** Seller has no knowledge concerning the presence or absence of radon unless checked below.

☐ 1. Seller has knowledge that the Property was tested on the dates, by the methods (e.g., charcoal canister, alpha track, etc.), and with the results of all tests indicated below:

DATE	TYPE OF TEST	RESULTS (picocuries/liter or working levels)

COPIES OF ALL AVAILABLE TEST REPORTS will be delivered to Buyer with this Agreement. SELLER DOES NOT WARRANT EITHER THE METHODS OR RESULTS OF THE TESTS.

☐ 2. Seller has knowledge that the Property underwent radon reduction measures on the date(s) and by the method(s) indicated below:

DATE	RADON REDUCTION METHOD

(B) **RADON INSPECTION CONTINGENCY**

☐ WAIVED. Buyer understands that Buyer has the option to request that the Property be inspected for radon by a certified inspector (see Environmental Notices: Radon). BUYER WAIVES THIS OPTION and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED. Buyer, at Buyer's expense, has the option to obtain, from a certified inspector, a radon test of the Property, and will deliver a copy of the test report to Seller within _____ DAYS (15 days if not specified) of the execution of this Agreement. (See Environmental Notices: Radon)

1. If the test report reveals the presence of radon below 0.02 working levels (4 picocuries/liter), Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement.
2. If the test report reveals the presence of radon at or exceeding 0.02 working levels (4 picocuries/liter), Buyer will, within ___7___ DAYS of receipt of the test results:

☐ **Option 1**

a. Accept the Property in writing and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
b. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
c. Submit a written, corrective proposal to Seller. The corrective proposal will include, but not be limited to, the name of the certified mitigation company; provisions for payment, including retests; and a projected completion date for corrective measures.
   (1) Within ___5___ DAYS of receiving the corrective proposal, Seller will:
      (a) Agree to the terms of the corrective proposal in writing, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
      (b) Not agree to the terms of the corrective proposal.
   (2) Should Seller not agree to the terms of the corrective proposal or if Seller **fails to respond within the time given,** Buyer will, within ___5___ DAYS, elect to:
      (a) Accept the Property in writing and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
      (b) Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

☐ **Option 2**

a. Accept the Property in writing and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
b. Submit a written, corrective proposal to Seller. The corrective proposal will include, but not be limited to, the name of the certified mitigation company; provisions for payment, including retests; and a projected completion date for corrective measures. Seller will pay a maximum of $ _____ toward the total cost of remediation and retests, which will be completed by settlement.
   (1) If the total cost of remediation and retests EXCEEDS the amount specified in paragraph 11(B) (Option 2) b, Seller will, within ___5___ DAYS of receipt of the cost of remediation, notify Buyer in writing of Seller's choice to:
      (a) Pay for the total cost of remediation and retests, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
      (b) Contribute toward the total cost of remediation and retests only the amount specified in paragraph 11(B) (Option 2) b.
   (2) If Seller chooses not to pay for the total cost of remediation and retests, or if Seller **fails to choose either option**

within the time given, Buyer will, within ____5____ DAYS, notify Seller in writing of Buyer's choice to:

(a) Pay the difference between Seller's contribution to remediation and retests and the actual cost therof, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR

(b) Terminate this Agreement, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

12. STATUS OF WATER (1-02)

(A) Seller represents that the Property is served by:

- ☐ Public Water
- ☐ On-site Water
- ☐ Community Water
- ☐ None
- ☐ _____

(B) **WATER SERVICE INSPECTION CONTINGENCY**

☐ WAIVED. Buyer acknowledges that Buyer has the option to request an inspection of the water service for the Property. BUYER WAIVES THIS OPTION and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED

1. Buyer has the option, within _____ DAYS (15 days if not specified) of the execution of this Agreement and at Buyer's expense, to deliver to Seller a written inspection report by a qualified, professional water testing company of the quality and/or quantity of the water service.
2. Seller agrees to locate and provide access to the on-site (or individual) water system, if applicable, at Seller's expense, if required by the inspection company. Seller also agrees to restore the Property, at Seller's expense, prior to settlement.
3. If the report reveals that the water service does not meet the minimum standards of any applicable governmental authority and/or fails to satisfy the requirements for quality and/or quantity set by the mortgage lender, if any, then Seller will, within ____7____ DAYS of receipt of the report, notify Buyer in writing of Seller's choice to:
   a. Upgrade the water service to the minimum acceptable levels, before settlement, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Not upgrade the water service.
4. If Seller chooses not to upgrade the service to minimum acceptable levels, or **fails to respond within the time given,** Buyer will, within ____5____ DAYS, either:
   a. Accept the Property and the water service and, if required by the mortgage lender, if any, and/or any governmental authority, upgrade the water service before settlement or within the time required by the mortgage lender, if any, and/or any governmental authority, at Buyer's expense and with Seller's permission, which will not be unreasonably withheld, and agree to the RELEASE set forth in paragraph 25 of this Agreement. If Seller denies Buyer permission to upgrade the water service, Buyer may, within ____5____ DAYS of Seller's denial, terminate this Agreement in writing. If Buyer terminates this Agreeement, all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
   b. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

13. STATUS OF SEWER (1-02)

(A) Seller represents that the Property is served by:

- ☐ Public Sewer
- ☐ Individual On-lot Sewage Disposal System (See Sewage Notice 1)
- ☐ Individual On-lot Sewage Disposal System in Proximity to Well (See Sewage Notice 1; see Sewage Notice 4, if applicable)
- ☐ Community Sewage Disposal System
- ☐ Ten-acre Permit Exemption (See Sewage Notice 2)
- ☐ Holding Tank (See Sewage Notice 3)
- ☐ None (See Sewage Notice 1)
- ☐ None Available/Permit Limitations in Effect (See Sewage Notice 5)
- ☐ _____

(B) **INDIVIDUAL ON-LOT SEWAGE DISPOSAL INSPECTION CONTINGENCY**

☐ WAIVED. Buyer acknowledges that Buyer has the option to request an individual on-lot sewage disposal inspection of the Property. BUYER WAIVES THIS OPTION and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

☐ ELECTED

1. Buyer has the option, within _____ DAYS (15 days if not specified) of the execution of this Agreement and at Buyer's expense, to deliver to Seller a written inspection report by a qualified, professional inspector of the individual on-lot sewage disposal system.
2. Seller, at Seller's expense, agrees, if and as required by the inspection company, to locate, provide access to, and empty the individual on-lot sewage disposal system. Seller also agrees to restore the Property, at Seller's expense, prior to

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settlement.

3. If the report reveals defects that do not require expansion or replacement of the existing sewage disposal system, Seller will, within ___7___ DAYS of receipt of the report, notify Buyer in writing of Seller's choice to:
   a. Correct the defects before settlement, including retests, at Seller's expense, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Not correct the defects.
4. If Seller chooses not to correct the defects, or if Seller **fails to respond within the time given,** Buyer will, within ___5___ DAYS, either:
   a. Accept the Property and the system and, if required by the mortgage lender, if any, and/or any governmental authority, correct the defects before settlement or within the time required by the mortgage lender, if any, and/or any governmental authority, at Buyer's sole expense and with Seller's permission, which will not be unreasonably withheld, and agree to the RELEASE set forth in paragraph 25 of this Agreement. If Seller denies Buyer permission to correct the defects, Buyer may, within ___5___ DAYS of Seller's denial, terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
   b. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.
5. If the report reveals the need to expand or replace the existing individual on-lot sewage disposal system, Seller may, within ___25___ DAYS of receipt of the report, submit a corrective proposal to Buyer. The corrective proposal will include, but not be limited to, the name of the remediation company; provisions for payment, including retests; and a projected completion date for corrective measures. Within ___5___ DAYS of receiving Seller's corrective proposals, **or if no corrective proposal is received within the time given,** Buyer will:
   a. Agree to the terms of the corrective proposal, if any, in writing, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Accept the Property and the system and, if required by the mortgage lender, if any, and/or any governmental authority, correct the defects before settlement or within the time required by the mortgage lender, if any, and/or any governmental authority, at Buyer's sole expense and with Seller's permission, which will not be unreasonably withheld, and agree to the RELEASE set forth in paragraph 25 of this Agreement. If Seller denies Buyer permission to correct the defects, Buyer may, within ___5___ DAYS of Seller's denial, terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID, OR
   c. Terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

14. NOTICES, ASSESSMENTS & CERTIFICATES OF OCCUPANCY (1-02)

(A) Seller represents, as of Seller's execution of this Agreement, that no public improvement, condominium or homeowner association assessments have been made against the Property which remain unpaid and that no notice by any government or public authority has been served upon Seller or anyone on Seller's behalf, including notices relating to violations of zoning, housing, building, safety or fire ordinances which remain uncorrected, and that Seller knows of no condition that would constitute violation of any such ordinances which remains uncorrected, unless otherwise specified here:

_____

(B) Seller knows of no other potential notices (including violations) and assessments except as follows:

_____

(C) In the event any notices (including violations) and assessments are received after execution of this Agreement and before settlement, Seller will notify Buyer in writing, within ___5___ DAYS of receiving the notice or assessment, that Seller will:
1. Comply with notices and assessments at Seller's expense, in which case Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
2. Not comply with notices and assessments at Seller's expense.
3. If Seller chooses not to comply with notices and assessments, or **fails within the time given to notify Buyer if Seller will comply,** Buyer will notify Seller within ___5___ DAYS in writing that Buyer will either:
   a. Comply with the notices and assessments at Buyer's expense and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Terminate this Agreement, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.
   If Buyer fails to notify Seller within the time given, Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement.

(D) Buyer is advised that access to a public road may require issuance of a highway occupancy permit from the Department of Transportation.

(E) If required by law, within ___15___ DAYS of the execution of this Agreement Seller will order for delivery to Buyer, on or before settlement:

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1. A certification from the appropriate municipal department or departments disclosing notice of any uncorrected violation of zoning, housing, building, safety or fire ordinances, AND/OR
2. A certificate permitting occupancy of the Property. In the event repairs/improvements are required for the issuance of the certificate, Seller will, within ____5____ DAYS of Seller's receipt of the requirements, notify Buyer of the requirements and whether Seller will make the required repairs/improvements at Seller's expense.

If Seller chooses to make the required repairs/improvements, Buyer agrees to accept the Property as repaired and agrees to the RELEASE set forth in paragraph 25 of this Agreement. If Seller chooses not to make the required repairs/improvements, Buyer will, within ____5____ DAYS, notify Seller in writing of Buyer's choice to terminate this Agreement OR make the repairs/improvements at Buyer's expense and with Seller's permission, which will not be unreasonably withheld. If Seller denies Buyer permission to make the required repairs or if **Seller fails to respond within the time given,** Buyer may, within____5____ DAYS, terminate this Agreement in writing, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

15. TITLE, SURVEYS, & COSTS (1-02)

(A) The Property is to be conveyed free and clear of all liens, encumbrances, and easements, EXCEPTING HOWEVER the following: existing deed restrictions, historic preservation restrictions or ordinances, building restrictions, ordinances, easements of roads, easements visible upon the ground, easements of record, privileges or rights of public service companies, if any; otherwise the title to the above described real estate will be good and marketable and such as will be insured by a reputable Title Insurance Company at the regular rates.

(B) Buyer will pay for the following: (1) Title search, title insurance and/or mechanics lien insurance, or fee for cancellation of same, if any; (2) Flood insurance, fire insurance with extended coverage, mine subsidence insurance, and fee for cancellation of same, if any; (3) Appraisal fees and charges paid in advance to mortgage lender, if any; (4) Buyer's customary settlement costs and accruals.

(C) Any survey or surveys which may be required by the Title Insurance Company or the abstracting attorney for the preparation of an adequate legal description of the Property (or the correction thereof) will be secured and paid for by Seller. Any survey or surveys desired by Buyer or required by the mortgage lender will be secured and paid for by Buyer.

(D) In the event Seller is unable to give a good and marketable title and such as will be insured by a reputable Title Company at the regular rates, as specified in paragraph 15(A), Buyer will have the option of: (1) taking such title as Seller can give with no change to the purchase price; or (2) being repaid all monies paid by Buyer to Seller on account of purchase price and being reimbursed by Seller for any costs incurred by Buyer for any inspections or certifications obtained according to the terms of the Agreement, and for those items specified in paragraph 15(B) items (1), (2), (3) and in paragraph 15(C), in which case there will be no further liability or obligation on either of the parties hereto and this Agreement will become VOID.

16. ZONING CLASSIFICATION (1-02)

Failure of this Agreement to contain the zoning classification (except in cases where the property {and each parcel thereof, if subdividable} is zoned solely or primarily to permit single-family dwellings) will render this Agreement voidable at the option of the Buyer, and, if voided, any deposits tendered by the Buyer will be returned to the Buyer without any requirement for court action.

Zoning Classification: _____

☐ ELECTED. Within ____15____ DAYS of the execution of this Agreement, Buyer will verify that the existing use of the Property as _____ is permitted. In the event the use is not permitted, **Buyer will, within the time given for verification,** notify Seller in writing that the existing use of the Property is not permitted and this Agreement will be VOID, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer. **Buyer's failure to respond within the time given will constitute a WAIVER of this contingency and all other terms of this Agreement remain in full force and effect.**

17. COAL NOTICE

☐ NOT APPLICABLE

☐ APPLICABLE

THIS DOCUMENT MAY NOT SELL, CONVEY, TRANSFER, INCLUDE OR INSURE THE TITLE TO THE COAL AND RIGHTS OF SUPPORT UNDERNEATH THE SURFACE LAND DESCRIBED OR REFERRED TO HEREIN, AND THE OWNER OR OWNERS OF SUCH COAL MAY HAVE THE COMPLETE LEGAL RIGHT TO REMOVE ALL SUCH COAL AND IN THAT CONNECTION, DAMAGE MAY RESULT TO THE SURFACE OF THE LAND AND ANY HOUSE, BUILDING OR OTHER STRUCTURE ON OR IN SUCH LAND. (This notice is set forth in the manner provided in Section 1 of the Act of July 17, 1957, P.L. 984.) "Buyer acknowledges that he may not be obtaining the right of protection against subsidence resulting from coal mining operations, and that the property described herein may be protected from damage due to mine subsidence by a private contract with the owners of the economic interests in the coal. This acknowledgment is made for the purpose of complying with the provisions of Section 14 of the Bituminous Mine Subsidence and the Land Conservation Act of April 27, 1966." Buyer agrees to sign the deed from Seller which deed will contain the aforesaid provision.

18. POSSESSION (1-02)

(A) Possession is to be delivered by deed, keys and:

1. Physical possession to vacant Property free of debris, with all structures broom-clean, at day and time of settlement, AND/OR

2. Assignment of existing lease(s), together with any security deposits and interest, at time of settlement, if Property is leased at the execution of this Agreement or unless otherwise specified herein. Buyer will acknowledge existing lease(s) by initialing said leases(s) at time of execution of this Agreement.

(B) Seller will not enter into any new leases, written extension of existing leases, if any, or additional leases for the Property without the written consent of Buyer.

19. RECORDING (3-85) This Agreement will not be recorded in the Office for the Recording of Deeds or in any other office or place of public record and if Buyer causes or permits this Agreement to be recorded, Seller may elect to treat such act as a breach of this Agreement.

20. ASSIGNMENT (3-85) This Agreement will be binding upon the parties, their respective heirs, personal representatives, guardians and successors, and to the extent assignable, on the assigns of the parties hereto, it being expressly understood, however, that Buyer will not transfer or assign this Agreement without the written consent of Seller.

21. DEPOSIT & RECOVERY FUND (1-02)

(A) Deposits paid by Buyer within ___30___ DAYS of settlement will be by cash, cashier's or certified check. Deposits, regardless of the form of payment and the person designated as payee, will be paid in U.S. Dollars to Broker or party identified in paragraph 3(B), who will retain them in an escrow account until consummation or termination of this Agreement in conformity with all applicable laws and regulations. Any uncashed check tendered as deposit monies may be held pending the acceptance of this offer.

(B) Upon termination of this Agreement, the Broker holding the deposit monies will release the deposit monies in accordance with the terms of a fully executed written agreement between Buyer and Seller.

(C) In the event of a dispute over entitlement to deposit monies, a broker holding the deposit monies is required by the Rules and Regulations of the State Real Estate Commission (49 Pa. Code §35.327) to retain the monies in escrow until the dispute is resolved. In the event of litigation for the return of deposit monies, a broker will distribute the monies as directed by a final order of court or the written Agreement of the parties. Buyer and Seller agree that, in the event any broker or affiliated licensee is joined in litigation for the return of deposit monies, the attorneys' fees and costs of the broker(s) and licensee(s) will be paid by the party joining them.

(D) A Real Estate Recovery Fund exists to reimburse any persons who have obtained a final civil judgment against a Pennsylvania real estate licensee owing to fraud, misrepresentation, or deceit in a real estate transaction and who have been unable to collect the judgment after exhausting all legal and equitable remedies. For complete details about the Fund, call (717) 783-3658, or (800) 822-2113 (within Pennsylvania) and (717) 783-4854 (outside Pennsylvania).

22. CONDOMINIUM / PLANNED COMMUNITY (HOMEOWNER ASSOCIATION) RESALE NOTICE (1-02)

☐ NOT APPLICABLE

☐ APPLICABLE: CONDOMINIUM. Buyer acknowledges that the Property is a unit of a condominium that is primarily run by a unit owners' association. §3407 of the Uniform Condominium Act of Pennsylvania requires Seller to furnish Buyer with a Certificate of Resale and copies of the condominium declaration (other than plats and plans), the bylaws, and the rules and regulations of the association.

☐ APPLICABLE: PLANNED COMMUNITY (HOMEOWNER ASSOCIATION). Buyer acknowledges that the Property is part of a planned community as defined by the Uniform Planned Community Act. (See Definition of Planned Community Notice). §5407(a) of the Act requires Seller to furnish Buyer with a copy of the Declaration (other than plats and plans), the bylaws, the rules and regulations of the association, and a Certificate containing the provisions set forth in §5407(a) of the Act.

THE FOLLOWING APPLIES TO PROPERTIES THAT ARE PART OF A CONDOMINIUM OR A PLANNED COMMUNITY.

(A) Within ___15___ DAYS of the execution of this Agreement, Seller will submit a request to the association for a Certificate of Resale and the documents necessary to enable Seller to comply with the Act. The Act provides that the association is required to provide these documents within 10 days of Seller's request.

(B) Seller will promptly deliver to Buyer all documents received from the association. Under the Act, Seller is not liable to Buyer for the failure or delay of the association to provide the Certificate in a timely manner, nor is Seller liable to Buyer for any erroneous information provided by the association and included in the Certificate.

(C) Buyer may declare this Agreement VOID at any time before Buyer's receipt of the association documents and for 5 days thereafter, OR until settlement, whichever occurs first. Buyer's notice declaring this Agreement void must be in writing; thereafter all deposit monies will be returned to Buyer.

(D) In the event the association has the right to buy the Property (right of first refusal), and the association exercises that right, Seller will reimburse Buyer for all monies paid by Buyer on account of purchase price and for any costs incurred by Buyer for: (1) Title search, title insurance and/or mechanics lien insurance, or fee for cancellation of same, if any; (2) Flood insurance and/or fire insurance with extended coverage, mine subsidence insurance, or fee for cancellation of same, if any; (3) Appraisal fees and charges paid in advance to mortgage lender, if any.

23. MAINTENANCE & RISK OF LOSS (1-02)

(A) Seller will maintain the Property, grounds, fixtures, and any personal property specifically scheduled herein in its present condition, normal wear and tear excepted.

(B) In the event any system or appliance included in the sale of the Property fails and Seller does not repair or replace the item,

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Seller will promptly notify Buyer in writing of Seller's choice to:

1. Repair or replace the failed system or appliance before settlement or credit Buyer at settlement for the fair market value of the failed system or appliance (this option must be acceptable to the mortgage lender, if any). In each case, Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement, OR
2. Not repair or replace the failed system or appliance, and not credit Buyer at settlement for the fair market value of the failed system or appliance. If Seller does not repair, replace or offer a credit for the failed system or appliance, **or if Seller fails to notify Buyer of Seller's choice,** Buyer will notify Seller in writing within ___5___ DAYS or before settlement, whichever is sooner, that Buyer will:
   a. Accept the Property and agree to the RELEASE set forth in paragraph 25 of this Agreement, OR
   b. Terminate this Agreement, in which case all deposit monies paid on account of purchase price will be returned promptly to Buyer and this Agreement will be VOID.

(C) Seller will bear risk of loss from fire or other casualties until time of settlement. In the event of damage by fire or other casualties to any property included in this sale that is not repaired or replaced prior to settlement, Buyer will have the option of rescinding this Agreement and promptly receiving all monies paid on account of purchase price or of accepting the Property in its then condition together with the proceeds of any insurance recovery obtainable by Seller. Buyer is hereby notified that Buyer may insure Buyer's equitable interest in this Property as of the time of execution of this Agreement.

24. WAIVER OF CONTINGENCIES (1-02)

If this Agreement is contingent on Buyer's right to inspect and/or repair the Property, **Buyer's failure to exercise any of Buyer's options within the time limits set forth in this Agreement will constitute a WAIVER of that contingency and Buyer accepts the Property and agrees to the RELEASE set forth in paragraph 25 of this Agreement.**

25. RELEASE (1-02)

Buyer hereby releases, quit claims and forever discharges SELLER, ALL BROKERS, their LICENSEES, EMPLOYEES, and any OFFICER or PARTNER of any one of them and any other PERSON, FIRM, or CORPORATION who may be liable by or through them, from any and all claims, losses or demands, including, but not limited to, personal injuries and property damage and all of the consequences thereof, whether now known or not, which may arise from the presence of termites or other wood-boring insects, radon, lead-based paint hazards, environmental hazards, any defects in the individual on-lot sewage disposal system or deficiencies in the on-site water service system, or any defects or conditions on the Property. Should Seller be in default under the terms of this Agreement, this release does not deprive Buyer of any rights to pursue any remedies that may be available under law or equity. This release will survive settlement.

26. REPRESENTATIONS (1-02)

(A) Buyer understands that any representations, claims, advertising, promotional activities, brochures or plans of any kind made by Seller, Brokers, their licensees, employees, officers or partners are not a part of this Agreement unless expressly incorporated or stated in this Agreement. It is further understood that this Agreement contains the whole agreement between Seller and Buyer and there are no other terms, obligations, covenants, representations, statements or conditions, oral or otherwise of any kind whatsoever concerning this sale. Furthermore, this Agreement will not be altered, amended, changed, or modified except in writing executed by the parties.

(B) **It is understood that Buyer has inspected the Property before signing this Agreement (including fixtures and any personal property specifically scheduled herein), or has waived the right to do so, and has agreed to purchase the Property in its present condition unless otherwise stated in this Agreement. Buyer acknowledges that Brokers, their licensees, employees, officers or partners have not made an independent examination or determination of the structural soundness of the Property, the age or condition of the components, environmental conditions, the permitted uses, or of conditions existing in the locale where the Property is situated; nor have they made a mechanical inspection of any of the systems contained therein.**

(C) Any repairs required by this Agreement will be completed in a workmanlike manner.

(D) Broker(s) may perform services to assist unrepresented parties in complying with the terms of this Agreement.

(E) The headings, captions, and line numbers in this Agreement are meant only to make it easier to find the paragraphs.

27. DEFAULT (1-02)

(A) Seller has the option of retaining all sums paid by Buyer, including the deposit monies, should Buyer:

1. Fail to make any additional payments as specified in paragraph 3; OR
2. Furnish false or incomplete information to Seller, Broker(s), or the mortgage lender, if any, concerning Buyer's legal or financial status, or fail to cooperate in the processing of the mortgage loan application, which acts would result in the failure to obtain the approval of a mortgage loan commitment; OR
3. Violate or fail to fulfill and perform any other terms or conditions of this Agreement.

(B) **Unless otherwise checked in paragraph 27 (C),** Seller may elect to retain those sums paid by Buyer, including deposit monies, in one of the following manners:

1. On account of purchase price, OR
2. As monies to be applied to Seller's damages, OR
3. As liquidated damages for such breach.

(C) ☐ Seller is limited to retaining sums paid by Buyer, including deposit monies, as liquidated damages.

(D) If Seller retains all sums paid by Buyer, including deposit monies, as liquidated damages pursuant to paragraph 27 (B) or (C), Buyer and Seller will be released from further liability or obligation and this Agreement will be VOID.

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632 **28. MEDIATION (7-96)**
633 ☐ NOT AVAILABLE
634 ☐ WAIVED. Buyer and Seller understand that they may choose to mediate at a later date, should a dispute arise, but that
635 there will be no obligation on the part of any party to do so.
636 ☐ ELECTED
637 (A) Buyer and Seller will try to resolve any dispute or claim that may arise from this Agreement through mediation,
638 in accordance with the Rules and Procedures of the Home Sellers/Home Buyers Dispute Resolution System. Any
639 agreement reached through a mediation conference and signed by the parties will be binding.
640 (B) Buyer and Seller acknowledge that they have received, read, and understand the Rules and Procedures of the Home
641 Sellers/Home Buyers Dispute Resolution System. (See Mediation Notice.)
642 (C) This agreement to mediate disputes arising from this Agreement will survive settlement.
643 **29. SPECIAL CLAUSES (1-02)**
644 **(A) The following are part of this Agreement if checked:**
645 ☐ Sale & Settlement of Other Property ☐ Settlement of Other Property Contingency Addendum (PAR Form SOP)
646 Contingency Addendum (PAR Form SSP) ☐ Tenant-Occupied Property Addendum (PAR Form TOP)
647 ☐ Sale & Settlement of Other Property ☐ _____
648 Contingency with Right to Continue ☐ _____
649 Marketing Addendum (PAR Form SSP-CM) ☐ _____
650 **(B)**
651 _____
652
653 **Buyer and Seller acknowledge receiving a copy of this Agreement at the time of signing.**
654
655 **NOTICE TO PARTIES: WHEN SIGNED, THIS AGREEMENT IS A BINDING CONTRACT. Return by facsimile**
656 **transmission (FAX) of this Agreement, and all addenda, bearing the signatures of all parties, constitutes acceptance of this**
657 **Agreement. Parties to this transaction are advised to consult an attorney before signing if they desire legal advice.**
658
659 ☐ **Buyer has received the Consumer Notice as adopted by the State Real Estate Commission at 49 Pa. Code § 35.336.**
660 ☐ **Buyer has received a statement of Buyer's estimated closing costs before signing this Agreement.**
661 ☐ **Buyer has read and understands the notices and explanatory information set forth in this Agreement.**
662 ☐ **Buyer has received a Seller's Property Disclosure Statement before signing this Agreement, if required by law (see**
663 **Information Regarding the Real Estate Seller Disclosure Law).**
664 ☐ **Buyer has received the Deposit Money Notice (for cooperative sales when Broker for Seller is holding deposit money)**
665 **before signing this Agreement.**
666 **BUYER'S MAILING ADDRESS:** _____
667 _____
668 **BUYER'S CONTACT NUMBER(S):** _____

WITNESS _____ BUYER _____ DATE _____

669
670 Seller hereby approves the above contract this (date) _____.
671 In consideration of the services rendered in procuring the Buyer, Seller agrees to pay the named Broker for Seller a fee of _____ of/from the herein specified sale price. In the event the Buyer defaults hereunder, any monies paid on account will be divided _____, Seller, _____, Broker for Seller, but in no event will the sum paid to the Broker for Seller exceed the above specified Broker's fee.
672
673 ☐ **Seller has received the Consumer Notice as adopted by the State Real Estate Commission at 49 Pa. Code § 35.336.**
674 ☐ **Seller has received a statement of Seller's estimated closing costs before signing this Agreement.**
675 ☐ **Seller has read and understands the notices and explanatory information set forth in this Agreement.**
676 **SELLER'S MAILING ADDRESS:** _____
677 _____

SELLER'S CONTACT NUMBER(S): _____

WITNESS _____ SELLER _____ DATE _____

Brokers'/Licensees' Certifications (check all that are applicable):

☐ **Regarding Lead-Based Paint Hazards Disclosure: Required if Property was built before 1978:** The undersigned Licensees involved in this transaction, on behalf of themselves and their brokers, certify that their statements are true to the best of their knowledge and belief.

Acknowledgment: The Licensees involved in this transaction have informed Seller of Seller's obligations under The Residential Lead-Based Paint Hazard Reduction Act, 42 U.S.C. § 4852(d), and are aware of their responsibility to ensure compliance.

☐ **Regarding FHA Mortgages:** The undersigned Licensees involved in this transaction, on behalf of themselves and their brokers, certify that the terms of this contract for purchase are true to the best of their knowledge and belief, and that any other agreement entered into by any of these parties in connection with this transaction is attached to this Agreement.

☐ **Regarding Mediation:** The undersigned ☐ Broker for Seller ☐ Broker for Buyer agree to submit to mediation in accordance with paragraph 28 of this Agreement.

BROKER FOR SELLER (Company Name) _____

ACCEPTED BY _____ **DATE** _____

BROKER FOR BUYER (Company Name) _____

ACCEPTED BY _____ **DATE** _____

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NOTICES AND INFORMATION

INFORMATION REGARDING TAX PRORATION

For purposes of prorating real estate taxes, the "periods covered" by the tax bills are as follows: for all counties and municipalities in Pennsylvania, and for the Philadelphia, Pittsburgh, and Scranton school districts, the tax bills are for the period January 1 to December 31. For all other school districts, the period covered by the tax bill is July 1 to June 30.

COMMUNICATIONS WITH BUYER AND/OR SELLER

Whenever this Agreement contains a provision that requires or allows communication/delivery to a Buyer, said provision shall be satisfied by communication/delivery to the Broker for Buyer, if any. If there is no Broker for Buyer, all such provisions may be satisfied only by communication/delivery being made directly to the Buyer, unless otherwise agreed to by the parties.

Whenever this Agreement contains a provision that requires or allows communication/delivery to a Seller, said provision shall be satisfied by communication/delivery to the Broker for Seller, if any. If there is no Broker for Seller, all such provisions may be satisfied only by communication/delivery being made directly to the Seller, unless otherwise agreed to by the parties.

NOTICE TO BUYERS SEEKING MORTGAGE FINANCING

The appraised value of the Property is used in determining the maximum amount of the loan and may be different from the purchase price and/or market value.

NOTICES AND INFORMATION ON PROPERTY CONDITION INSPECTIONS

U.S. Department of Housing and Urban Development
FHA Loans:

For Your Protection: Get a Home Inspection

What the FHA Does For Buyers . . . and What We Don't Do

What we do: FHA helps people become homeowners by insuring mortgages for lenders. This allows lenders to offer mortgages to first-time buyers and others who may not qualify for conventional loans. Because the FHA insures the loan for the lender, the buyer pays only a very low down-payment.

What we don't do: FHA does not guarantee the value or condition of your potential new home. If you find problems with your new home after closing, we cannot give or lend you money for repairs, and we cannot buy the home back from you.

That's why it is so important for you, the buyer, to get an independent home inspection. Before you sign a contract, ask a qualified home inspector to inspect your potential new home and give you the information you need to make a wise decision.

Appraisals and Home Inspections are Different

As part of our job insuring the loan, we require that the lender conduct an FHA appraisal. An appraisal is different from a home inspection. Appraisals are for lenders; home inspections are for buyers. The lender does an appraisal for three reasons:

- To estimate the value of a house
- To make sure that the house meets FHA minimum property standards
- To make sure that the house is marketable

Appraisals are not home inspections.

Why a Buyer Needs a Home Inspection

A home inspection gives the buyer more detailed information than an appraisal - information you need to make a wise decision. In a home inspection, a qualified inspector takes an in-depth, unbiased look at your potential new home to:

- Evaluate the physical condition: structure, construction, and mechanical systems
- Identify items that need to be repaired or replaced
- Estimate the remaining useful life of the major systems, equipment, structure, and finishes

What Goes into a Home Inspection

A home inspection gives the buyer an impartial, physical evaluation of the overall condition of the home and items that need to be repaired or replaced. The inspection gives a detailed report on the condition of the structural components, exterior, roofing, plumbing, electrical, heating, insulation and ventilation, air conditioning, and interiors.

Be an Informed Buyer
It is your responsibility to be an informed buyer. Be sure that what you buy is satisfactory in every respect. You have the right to carefully examine your potential new home with a qualified home inspector. You should arrange to have a home inspection before you purchase your home. Make sure your contract states that the sale of the home depends on the inspection.

If you believe you have been subject to discrimination because of your race, color, religion, sex, handicap, familial status, or national origin, you should call the HUD Fair Housing and Equal Opportunity Complaint Hotline: (800) 669-9777.

This statement must be delivered to you at the time of initial loan application. Return one copy to your lender as proof of notification and keep one copy for your records.

You, the borrower(s), must be certain that you understand the transaction. Seek professional advice if you are uncertain.

PROPERTY INSPECTION NOTICES

Property Inspection: Inspections of the Property can be performed by professional contractors or a home inspector and may include inspections of: structural components; roof; exterior windows and exterior doors; exterior siding, fascia, gutters, and downspouts; appliances; electrical, plumbing, heating, and cooling systems; water penetration; and any other items Buyer may select. Other inspections or certifications might include: Environmental Hazards (e.g., Mold, Indoor Air Quality, Asbestos, Underground Storage Tanks, etc.), Electromagnetic Fields, Wetlands Inspection, Flood Plain Verification, Property Boundary/Square Footage Verification, and any other items Buyer may select. Buyer is advised to investigate easements, deed and use restrictions (including any historic preservation restrictions or ordinances) that apply to the Property and to review local zoning ordinances.

Flood Plains: If the Property is located in a flood plain, Buyer may be required to carry additional insurance.

Property Boundary/Square Footage: Buyer is advised that Seller has not had the Property surveyed and that any fences, hedges, walls and other natural or constructed barriers may or may not represent the true boundary lines of the Property. Buyer is also advised that any numerical representations of square footage of the structure(s) and/or lot size are approximations only and may be inaccurate. Buyer is advised to engage a professional surveyor or obtain an independent measurement of the structure(s) and/or lot size if Buyer wishes to make this sale contingent on Buyer's approval of the Property's boundaries or square footage.

Water Service: Buyer may elect to have the water service inspected by a professional water testing company. In addition, on-site water service systems may have to meet certain quality and/or quantity requirements set by the municipality or the mortgage lender.

Wood-Destroying Insect Infestation: Insects whose primary source of food is wood, such as termites, wood-boring beetles, carpenter ants, carpenter bees, and certain other insects, can cause damage to the wood structure of a residence. Termite and Pest Control companies are available to make inspections to determine whether wood-destroying insects are present. Because of the way these insects function, damage to wood may be hidden. Careful selection should be made of skilled experts in the termite/pest control field to insure a proper determination of whether wood-boring insects or resultant damage is present.

Exterior Insulation and Finish Systems (EIFS): Exterior Insulation and Finish Systems - sometimes referred to as synthetic stucco - are multi-layered wall systems that are applied to the exterior of some homes. Poor or improper installation of EIFS may result in moisture penetrating the surface of a structure where it may cause damage to the building's frame. Leakage most frequently occurs near doors and windows, gutters, the roof connection, and at the lowermost edge of the exterior surface. Vulnerability to leakage depends on structure design as well as the expertise and application skills of the contractor. Damage caused by water intrusion may be both extensive and expensive to repair but may go undetected in the absence of an adequate inspection. Buyers purchasing homes with EIFS construction may seek to engage an inspector experienced in testing the EIFS related problems who can determine the moisture content of the building's frame.

INFORMATION REGARDING THE HOME INSPECTION LAW
68 Pa. C.S.A. §7501, et. seq.

Applicability: In general, the Home Inspection Law applies to residential real estate transfers. A residential real estate transfer is defined as a sale, exchange, installment sales contact, lease with an option to buy, grant or other transfer of an interest in real property where **NOT LESS THAN ONE AND NOT MORE THAN FOUR RESIDENTIAL DWELLING UNITS** are involved. See Information Regarding The Real Estate Seller Disclosure Law (exceptions 1-8) for a list of exceptions to this general rule.

Home Inspection: A noninvasive, visual examination of some combination of the mechanical, electrical or plumbing systems or the structural and essential components of a residential dwelling designed to identify material defects in those systems and components, and performed for a fee in connection with or preparation for a proposed or possible residential real estate transfer. The term also includes any consultation regarding the property that is represented to be a home inspection or that is described by any confusingly similar term. The

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term does not include an examination of a single system or component of a residential dwelling such as, for example, its electrical or plumbing system or its roof. The term also does not include an examination that is limited to inspection for, or of, one or more of the following: wood destroying insects, underground tanks and wells, septic systems, swimming pools and spas, alarm systems, air and water quality, tennis courts and playground equipment, pollutants, toxic chemicals and environmental hazards. The scope of a home inspection, the services to be performed and the systems and conditions to be inspected or excluded from inspection may be defined by a contract between the home inspector and the client.

Home inspection report: A written report on the results of a home inspection.

A home inspection report shall include:
(1) A description of the scope of the inspection, including without limitation an identification of the structural elements, systems and subsystems covered by the report.
(2) A description of any material defects noted during the inspection, along with any recommendation that certain experts be retained to determine the extent of the defects and any corrective action that should be taken. A "material defect" that poses an unreasonable risk to people on the property shall be conspicuously identified as such.

A home inspector shall not express either orally or in writing an estimate of the cost to repair any defect found during a home inspection, except that such an estimate may be included in a home inspection report if:
(1) the report identifies the source of the estimate;
(2) the estimate is stated as a range of costs; and
(3) the report states that the parties should consider obtaining an estimate from a contractor who performs the type of repair involved.

Seller shall have the right, upon request, to receive without charge a copy of any inspection report from the party for whom it was prepared.

Home inspector: An individual who performs a home inspection.

National home inspectors association: Any national association of home inspectors that:
(1) Is operated on a not-for-profit basis and is not operated as a franchise.
(2) Has members in more than ten states.
(3) Requires that a person may not become a full member unless the person has performed or participated in more than 100 home inspections and has passed a recognized or accredited examination testing knowledge of the proper procedures for conducting a home inspection.
(4) Requires that its members comply with a code of conduct and attend continuing professional education classes as an ongoing condition of membership.

A buyer shall be entitled to rely in good faith, without independent investigation, on a written representation by a home inspector that the home inspector is a full member in good standing of a national home inspection association.

Material defect: A problem with a residential real property or any portion of it that would have a significant adverse impact on the value of the property or that involves an unreasonable risk to people on the property. The fact that a structural element, system or subsystem is near, at or beyond the end of the normal useful life of such a structural element, system or subsystem is not by itself a material defect.

ENVIRONMENTAL NOTICES

Asbestos: The heat-resistant and durable nature of asbestos makes it useful in construction and industry. The physical properties that give asbestos its resistance to heat and decay are linked with several adverse human health effects. Asbestos can easily break into microscopic fibers that can remain suspended in the air for long periods of time. When inhaled, these fibers easily penetrate body tissue. Asbestos is known to cause Asbestosis and various forms of cancer. Inquiries or requests for more information about asbestos can be directed to the U.S. Environmental Protection Agency, Ariel Rios Building, 1200 Pennsylvania Ave., N.W., Washington, DC 20460, and/or the Department of Health, Commonwealth of Pennsylvania, Division of Environmental Health, Harrisburg, PA 17120.

Electromagnetic Fields: Electromagnetic Fields (EMFs) occur around all electrical appliances and power lines. Conclusive evidence that EMFs pose health risks does not exist at present, and Pennsylvania has no laws regarding this issue.

Environmental Hazards: The U.S. Environmental Protection Agency has a list of hazardous substances, the use and disposal of which are restricted by law. Generally, if hazardous substances are found on a property, it is the property owner's responsibility to dispose of them properly. For more information and a list of hazardous substances, contact U.S. Environmental Protection Agency, Ariel Rios Building, 1200 Pennsylvania Ave., N.W., Washington, DC 20460, (202) 260-2090.

Wetlands: Wetlands are protected by both the federal and state governments. Buyer may wish to have the Property inspected for

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wetlands by an environmental engineer to determine if permits for plans to build, improve, or develop the property would be affected or denied because of wetlands.

Lead: (For Properties built before 1978)

Lead Warning Statement: Every purchaser of any interest in residential real property on which a residential dwelling was built prior to 1978 is notified that such property may present exposure to lead from lead-based paint that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage, including learning disabilities, reduced intelligence quotient, behavioral problems, and impaired memory. Lead poisoning also poses a particular risk to pregnant women. The seller of any interest in residential real property is required to provide the buyer with any information on lead-based paint hazards from risk assessments or inspections in the seller's possession and notify the buyer of any known lead-based paint hazards. A risk assessment or inspection for possible lead-based paint hazards is recommended prior to purchase.

Lead Hazard Disclosure Requirements: In accordance with the Residential Lead-Based Paint Hazard Reduction Act, any seller of property built before 1978 must provide the buyer with an EPA-approved lead hazards information pamphlet titled *Protect Your Family From Lead in Your Home* and must disclose to the buyer and the Broker(s) the known presence of lead-based paint and/or lead-based paint hazards in or on the property being sold, including the basis used for determining that lead-based paint and/or lead-based paint hazards exist, the location of lead-based paint and/or lead-based paint hazards, and the condition of painted surfaces. Any seller of a pre-1978 structure must also provide the buyer with any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in or about the property being sold, the common areas, or other residential dwellings in multi-family housing. The Act further requires that before a buyer is obligated to purchase any housing constructed prior to 1978, the seller will give the buyer 10 days (unless buyer and seller agree in writing to another time period) to conduct a risk assessment or inspection for the presence of lead-based paint and/or lead-based paint hazards. The opportunity to conduct a risk assessment or inspection may be waived by the buyer, in writing. Neither testing nor abatement is required of the seller. Housing built in 1978 or later is not subject to the Act.

Radon: Radon is a natural, radioactive gas that is produced in the ground by the normal decay of uranium and radium. Studies indicate that extended exposure to high levels of radon gas can increase the risk of lung cancer. Radon can find its way into any air-space, including basements and crawl spaces and can permeate a structure. The U.S. Environmental Protection Agency (EPA) advises corrective action if the annual average exposure to radon exceeds 0.02 working levels or 4 picocuries/liter. If a house has a radon problem, it usually can be cured by increased ventilation and/or by preventing radon entry. Any person who tests, mitigates, or safeguards a building for radon in Pennsylvania must be certified by the Department of Environmental Protection. Information about radon and about certified testing or mitigation firms is available through the Department of Environmental Protection, Bureau of Radiation Protection, 13th Floor, Rachel Carson State Office Building, P.O. Box 8469, Harrisburg, PA 17105-8469, (800) 23RADON or (717) 783-3594.

Mold/Fungi and Indoor Air-Quality: Indoor mold contamination and the inhalation of bioaerosols (bacteria, mold spores, pollen, and viruses) have been associated with allergic responses including upper respiratory congestion, cough, mucous membrane irritation, fever, chills, muscle ache or other transient inflammation or allergy. Claims have been asserted that exposure to mold contamination and bioaerosols has led to serious infection, immunosuppression and illnesses of neuro or systemic toxicity. Sampling of indoor air quality and other methods exist to determine the presence and scope of any indoor contamination. Because individuals may be affected differently, or not affected at all, by mold contamination, the surest approach to determine the presence of contamination is to engage the services of a qualified professional to undertake an assessment and/or sampling. Assessments and samplings for the presence of mold contamination can be performed by qualified industrial hygienists, engineers, laboratories and home inspection companies that offer these services. Information pertaining to indoor air quality is available through the United States Environmental Protection Agency and may be obtained by contacting IAQ INFO, P.O. Box 37133, Washington, D.C. 20013-7133, 1-800-438-4318

SEWAGE NOTICES

NOTICES PURSUANT TO THE PENNSYLVANIA SEWAGE FACILITIES ACT

NOTICE 1: **THERE IS NO CURRENTLY EXISTING COMMUNITY SEWAGE SYSTEM AVAILABLE FOR THE SUBJECT PROPERTY.** Section 7 of the Pennsylvania Sewage Facilities Act provides that no person shall install, construct, request bid proposals for construction, alter, repair or occupy any building or structure for which an individual sewage system is to be installed, without first obtaining a permit. Buyer is advised by this notice that, before signing this Agreement, Buyer should contact the local agency charged with administering the Act to determine the procedure and requirements for obtaining a permit for an individual sewage system. The local agency charged with administering the Act will be the municipality where the Property is located or that municipality working cooperatively with others.

NOTICE 2: **THIS PROPERTY IS SERVICED BY AN INDIVIDUAL SEWAGE SYSTEM INSTALLED UNDER THE TEN-ACRE PERMIT EXEMPTION PROVISIONS OF SECTION 7 OF THE PENNSYLVANIA SEWAGE**

FACILITIES ACT. (Section 7 provides that a permit may not be required before installing, constructing, awarding a contract for construction, altering, repairing or connecting to an individual sewage system where a ten-acre parcel or lot is subdivided from a parent tract after January 10, 1987). Buyer is advised that soils and site testing were not conducted and that, should the system malfunction, the owner of the Property or properties serviced by the system at the time of a malfunction may be held liable for any contamination, pollution, public health hazard or nuisance which occurs as a result.

NOTICE 3: **THIS PROPERTY IS SERVICED BY A HOLDING TANK (PERMANENT OR TEMPORARY) TO WHICH SEWAGE IS CONVEYED BY A WATER CARRYING SYSTEM AND WHICH IS DESIGNED AND CONSTRUCTED TO FACILITATE ULTIMATE DISPOSAL OF THE SEWAGE AT ANOTHER SITE.** Pursuant to the Pennsylvania Sewage Facilities Act, **Seller must provide** a history of the annual cost of maintaining the tank from the date of its installation or December 14, 1995, whichever is later.

NOTICE 4: **AN INDIVIDUAL SEWAGE SYSTEM HAS BEEN INSTALLED AT AN ISOLATION DISTANCE FROM A WELL THAT IS LESS THAN THE DISTANCE SPECIFIED BY REGULATION.** The regulations at 25 Pa. Code §73.13 pertaining to minimum horizontal isolation distances provide guidance. Subsection (b) of §73.13 states that the minimum horizontal isolation distance between an individual water supply or water supply system suction line and treatment tanks shall be 50 feet. Subsection (c) §73.13 states that the horizontal isolation distance between the individual water supply or water supply system suction line and the perimeter of the absorption area shall be 100 feet.

NOTICE 5: **THIS LOT IS WITHIN AN AREA IN WHICH PERMIT LIMITATIONS ARE IN EFFECT AND IS SUBJECT TO THOSE LIMITATIONS. SEWAGE FACILITIES ARE NOT AVAILABLE FOR THIS LOT AND CONSTRUCTION OF A STRUCTURE TO BE SERVED BY SEWAGE FACILITIES MAY NOT BEGIN UNTIL THE MUNICIPALITY COMPLETES A MAJOR PLANNING REQUIREMENT PURSUANT TO THE PENNSYLVANIA SEWAGE FACILITIES ACT AND REGULATIONS PROMULGATED THEREUNDER.**

DEFINITION OF A PLANNED COMMUNITY

The Uniform Planned Community Act defines "planned community" as real estate with respect to which a person, by virtue of ownership of an interest in any portion of the real estate, is or may become obligated by covenant, easement or agreement imposed on the owner's interest to pay any amount for real property taxes, insurance, maintenance, repair, improvement, management, administration or regulation of any part of the real estate other than the portion or interest owned solely by the person. The term excludes a cooperative and a condominium, but a cooperative or condominium may be part of a planned community. For the purposes of this definition, "ownership" includes holding a leasehold interest of more than 20 years, including renewal options, in real estate. The term includes non-residential campground communities.

Exemptions from the Uniform Planned Community Act - When a Certificate of Resale Is Not Required

The owner of a property located within a planned community is not required to furnish the buyer with a certificate of resale under the following circumstances:

A. The Planned Community contains no more than 12 units, provided there is no possibility of adding real estate or subdividing units to increase the size of the planned community.
B. The Planned Community is one in which all of the units are restricted exclusively to non-residential use, unless the declaration provides that the resale provisions are nevertheless to be followed.
C. The Planned Community or units are located outside the Commonwealth of Pennsylvania.
D. The transfer of the unit is a gratuitous transfer.
E. The transfer of the unit is required by court order.
F. The transfer of the unit is by the government or a governmental agency.
G. The transfer of the unit is the result of foreclosure or in lieu of foreclosure.

Notices Regarding Public Offering Statements and Right to Rescission

If Seller is a Declarant of the condominium or planned community, Seller is required to furnish Buyer with a copy of the Public Offering Statement and its amendments. For condominiums, the delivery of the Public Offering Statement must be made no later than the date the buyer executes this Agreement. Buyer may cancel this Agreement within 15 days after receiving the Public Offering Statement and any amendments that materially and adversely affect Buyer. For planned communities, the Declarant must provide the Buyer with a copy of the Public Offering Statement and its amendments no later than the date the Buyer executes this Agreement. Buyer may cancel this Agreement within 7 days after receiving the Public Offering Statement and any amendments that materially and adversely affect Buyer.

INFORMATION REGARDING THE REAL ESTATE SELLER DISCLOSURE LAW

Generally speaking, the Real Estate Seller Disclosure Law requires that before an agreement of sale is signed, the seller in a residential real estate transfer must make certain disclosures regarding the property to potential buyers in a form defined by law. A residential real estate transfer is defined as a sale, exchange, installment sales contract, lease with an option to buy, grant or other transfer of an interest in real property where **NOT LESS THAN ONE AND NOT MORE THAN FOUR RESIDENTIAL DWELLING UNITS** are involved.

The Law defines a number of exceptions, where the disclosures do not have to be made.

1. Transfers that are the result of a court order.
2. Transfers to a mortgage lender that result from a buyer's default and subsequent foreclosure sales that result from default.
3. Transfers from a co-owner to one or more other co-owners.
4. Transfers made to a spouse or a direct descendant.
5. Transfers between spouses that result from divorce, legal separation, or property settlement.
6. Transfers by a corporation, partnership or other association to its shareholders, partners or other equity owners as part of a plan of liquidation.
7. Transfer of a property to be demolished or converted to non-residential use.
8. Transfer of unimproved real property.
9. Transfers by a fiduciary during the administration of a decedent estate, guardianship, conservatorship or trust.
10. Transfers of new construction that has never been occupied when:
    a. The buyer has received a one-year warranty covering the construction;
    b. The building has been inspected for compliance with the applicable building code or, if none, a nationally recognized model building code; and
    c. A certificate of occupancy or a certificate of code compliance has been issued for the dwelling.

In addition to these exceptions, disclosures for condominiums and cooperatives are limited to the seller's particular unit(s). Disclosures regarding common areas or facilities are not required, as those elements are already addressed in the laws that govern the resale of condominiums and cooperative interests.

EXECUTION DATE

All changes to the Agreement should be initialed and dated. The date of execution is the date when Buyer and Seller have indicated full acceptance of this Agreement by signing and/or initialing it.

MEDIATION

DISPUTE RESOLUTION SYSTEM RULES AND PROCEDURES

1. **Agreement of Parties** The Rules and Procedures of the Dispute Resolution System (DRS) apply when the parties have agreed in writing to mediate under DRS. The written agreement can be achieved by a standard clause in an agreement of sale, an addendum to an agreement of sale, or through a separate written agreement.

2. **Initiation of Mediation** If a dispute exists, any party may start the mediation process by submitting a completed Request to Initiate Mediation DRS Transmittal Form (Transmittal Form) to the local Association of REALTORS® (hereafter "Administrator"). The Transmittal Form should be available through the Administrator's office. The initiating party should try to include the following information when sending the completed Transmittal Form to the Administrator:
    a. A copy of the written agreement to mediate if there is one, OR a request by the initiating party to have the Administrator contact the other parties to the dispute to invite them to join the mediation process.
    b. The names, addresses and telephone numbers of the parties involved in the dispute, including the name of every insurance company known to have received notice of the dispute or claim and the corresponding file or claim number.
    c. A brief statement of the facts of the dispute and the damages or relief sought.

3. **Selection of Mediator** Within five days of receiving the completed Transmittal Form, the Administrator will send each party to the dispute a copy of the Transmittal Form and a list of qualified mediators and their fee schedules. Each party then has ten days to review the list of mediators, cross off the name of any mediator to whom the party objects, and return the list to the Administrator. The Administrator will appoint the first available mediator who is acceptable to all parties involved.

    A mediator who has any financial or personal interest in the dispute or the results of the mediation cannot serve as mediator to that dispute, unless all parties are informed and give their written consent.

4. **Mediation Fees** Mediation fees will be divided equally among the parties and will be paid *before* the mediation conference. The parties will follow the payment terms contained in the mediator's fee schedule.

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5. **Time and Place of Mediation Conference** Within ten days of being appointed to the dispute, the mediator will contact the parties and set the date, time and place of the mediation conference. The mediator must give at least twenty days' advance notice to all parties. The mediation conference should not be more than sixty days from the mediator's appointment to the dispute.

6. **Conduct of Mediation Conference** The parties attending the mediation conference will be expected to:
   a. Have the authority to enter into and sign a binding settlement to the dispute.
   b. Produce all information required for the mediator to understand the issues of the dispute. The information may include relevant written materials, descriptions of witnesses and the content of their testimony. The mediator can require the parties to deliver written materials and information before the date of the mediation conference.

   The mediator presiding over the conference:
   a. Will impartially conduct an orderly settlement negotiation.
   b. Will help the parties define the matters in dispute and reach a mutually agreeable solution.
   c. Will have no authority to render an opinion, to bind the parties to his or her decision, or to force the parties to reach a settlement.

   Formal rules of evidence will not apply to the mediation conference.

7. **Representation by Counsel** Any party who intends to be accompanied to the mediation conference by legal counsel will notify the mediator and the other parties of the intent at least ten days before the conference.

8. **Confidentiality** No aspect of the mediation can be relied upon or introduced as evidence in any arbitration, judicial or other proceeding. This includes, but is not limited to, any opinions or suggestions made by any party regarding a possible settlement; any admissions made during the course of the mediation; any proposals or opinions expressed by the mediator; and any responses given by any party to opinions, suggestions, or proposals.

   No privilege will be affected by disclosures made in the course of the mediation.

   Transcripts or recordings of the mediation will not be allowed without the prior, written consent of all parties and the mediator.

   Records, reports, and other documents received or prepared by the mediator or Administrator cannot be compelled by an arbitration, judicial, or other proceeding, with the exception of an agreement that was reached in the course of mediation and signed by all the parties.

   Neither the mediator nor the Administrator can be compelled to testify in any proceeding regarding information given or representations made either in the course of the mediation or in any confidential communication.

9. **Mediated Settlement** When a dispute is resolved through mediation, the mediator will put the complete agreement in writing and all parties will sign the written agreement within ten days of the conclusion of the mediation conference. Every reasonable effort will be made to sign the written agreement at the end of the conference.

10. **Judicial Proceedings and Immunity** NEITHER THE ADMINISTRATOR, THE MEDIATOR, THE NATIONAL ASSOCIATION OF REALTORS®, THE PENNSYLVANIA ASSOCIATION OF REALTORS®, NOR ANY OF ITS MEMBER BOARDS, WILL BE DEEMED NECESSARY OR INDISPENSABLE PARTIES IN ANY JUDICIAL PROCEEDINGS RELATING TO MEDIATION UNDER THESE RULES AND PROCEDURES, NOR WILL ANY OF THEM SERVING UNDER THESE PROCEDURES BE LIABLE TO ANY PARTY FOR ANY ACT, ERROR OR OMISSION IN CONNECTION WITH ANY SERVICE OR THE OPERATION OF THE HOME SELLERS/HOME BUYERS DISPUTE RESOLUTION SYSTEM.

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TESTIMONY OF

MAUREEN MCGRATH

ON BEHALF OF

NATIONAL ADVOCACY AGAINST MORTGAGE SERVICING FRAUD

BEFORE THE

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT SPONSORED ENTERPRISES

UNITED STATES HOUSE OF REPRESENTATIVES

FIELD HEARING ON

"BROKEN DREAMS IN THE POCONOS:
THE RESPONSE OF THE SECONDARY MARKETS AND
IMPLICATIONS FOR FEDERAL LEGISLATION"

JUNE 14, 2004

Good morning Mr. Chairman and members of the Committee. My name is Maureen McGrath, and I appear today on behalf of the National Advocacy Against Mortgage Servicing Fraud. I wish to thank you for holding this important hearing to examine the problem of predatory mortgage lending and real estate fraud in the Poconos and for allowing me to testify before you today. I would also like to extend a special thank you to Congressman Kanjorski for the extraordinary time and effort he expends on this and other issues on behalf of his constituents in the Poconos.

Although the National Advocacy Against Mortgage Servicing Fraud is a relatively new consumer advocacy group, my co-advocates and I have many years of experience in fighting for and attempting to protect consumer rights against mortgage servicing fraud. Besides myself, there are currently advocates in the Commonwealth of Massachusetts, as well as the States of New Hampshire, New Jersey, New York, Ohio and Arkansas, and we are growing and expanding as we find other individuals who champion the cause for which we fight.

I am a homeowner in Monroe County, Pennsylvania, and until September 11, 2001, I worked as a paralegal in New York City. I speak with deep personal conviction that predatory lending and mortgage servicing fraud devastates communities and individuals lives, and with great certainty that approaches to the problem are workable and fair. Prior to founding the National Advocacy Against Mortgage Servicing Fraud, I was involved in fighting the mortgage servicing fraud perpetrated on over 1 million victims across the United States. The publicity of that dispute brought the matter to the attention of Senators Serbanes and Mikulski of

Maryland, the investigation by FTC and HUD of Fairbanks Capital's practices and handling of sub-prime or non-conforming loans and the subsequent settlement of a nationwide class action lawsuit.

The National Advocacy against Mortgage Servicing Fraud assists homeowners who have been victimized by various forms of mortgage servicing fraud. These practices include, but are not limited to not posting a payment as timely; forced placed insurance; daily interest when payments are made after due date; charging late fees on the entire outstanding principal; charging interest on servicing fees; abusive collection practices; charging prepayment penalties when not authorized by either the note or law; usurious forbearance agreements; and foreclosure abuses.

The Advocacy has not received any funds from any source whatsoever, and relies entirely on its volunteers to individually fund whatever monies are needed to assist consumers, which basically is for web sites, long distance telephone calls, copies, postage and faxes. On a daily basis, we assist individual homeowners who have been targeted by their mortgage servicer.

Everyone is aware of such terms as home equity theft and predatory mortgage lending. However, very few people are aware of mortgage servicing fraud, and this is the abuse that I would like to discuss with you today, for it is my firm belief that this is the missing link in the scheme of things, and hopefully I will be able to bring into the light the reasons for mortgage servicing fraud, the effects it has on entire communities, the secondary mortgage market, investors and taxpayers. I hope that this committee, after reading and hearing my testimony will no longer look at predatory

mortgage lending as a process that begins with the mortgage broker and ends with the mortgagee, but will look further and realize that predatory lending breeds further abuse, in the form of mortgage servicing fraud.

As you know, predatory mortgage lending often consists of lenders who purposely target homeowners with substantial equity but less than perfect credit for high-cost, abusive mortgage loans. The lenders employ a bogus theory of high risk to legitimize lending money at unconscionably high interest rates and engaging in other abusive practices which increase the revenue on the loans. The abusive practices include loan flipping, balloon payments, and the sale and financing of overpriced credit life and disability insurance (insurance packing). Predatory mortgage lending by its innate nature, also brings about mortgage servicing abuse, because the consumer is already tagged with a nomenclature, and the mortgage servicers perpetrate this title consistently. That title is "deadbeat". See Exhibit A for a list of the abusive practices and a description of each.

WHY DOES MORTGAGE SERVICING FRAUD OCCUR?

First, with some exceptions, the quality of servicing ranges from poor to abysmal, for reasons that are no secret. The financial incentives to provide good service to customers, which work in other sectors of our economy, don't work for loan servicing. The firm servicing mortgages will not get more customers by improving service quality, only higher costs. And the firm providing minimal service or less will not lose customers, because their customers are locked in.

While this problem has been around for some time, the development of the sub-prime market in the 90s raised the stakes significantly. Sub-prime borrowers, unable to meet traditional underwriting requirements, became a profitable source of business at higher prices than those paid by prime borrowers.

Mortgage credit thus became available to a group that had previously been excluded from the market, which was a plus. Unfortunately, this group was also highly vulnerable to a number of sharp practices that left some worse off than if they had never borrowed. These practices came to be called "predatory lending".

Sub-prime loans had to be serviced, and some of the firms doing the servicing adopted practices as outrageous as those used by predatory loan originators. Here are some:

*They purchased overpriced homeowners' insurance, even though the borrower already had a policy, and paid for it by increasing the borrower's balance so it would not be noticed for a period, if ever.

*They failed to credit borrowers for extra payments.

*They held scheduled payments past the grace period before posting them, thus collecting late fees.

*They imposed prepayment penalties on borrowers who were refinancing, even though the notes stated that there was no such penalty.

*In the past, they failed to report good payment history to the credit reporting bureaus, thus preventing borrowers from improving their credit scores. It is hoped that the new legislation requiring the prompt reporting of all information will alleviate this problem.

*The statements provided borrowers were late, and so poorly designed that even an expert found them incomprehensible, thus making it difficult for borrowers to detect their shenanigans.

Predatory servicing is even easier to get away with than predatory lending, since the customer has already been landed and has no place to go.

While numerous legislative and regulatory actions have been taken at the Federal and state levels to curb predatory lending, predatory servicing has been relatively immune until recently. In a much-publicized action last year, the Federal Government sued Fairbanks Capital Corporation for a series of practices similar to those cited above, and won an injunction against continuation of the practices, along with a $40 million fine.

Such suits are useful but won't stop predatory servicing because there is too much money to be made. Predatory servicing won't go away until it starts resulting in lost customers. That will happen when borrowers are empowered to select another lender to service their loan.

Second, high equity makes homes attractive for mortgage servicing fraud. High equity is generally the result of two factors: (1) the appreciation of property values;

and (2) payment of mortgages, which over time results in the reduction of the principal balance on the mortgage loan.

Third, the absence of strong consumer protection laws and the lack of enforcement of existing laws permit these scams to flourish. For example, until 2002, loan servicers were not classified as a bank, lender, broker, debt collector, or any other entity governed by state and/or federal laws. Finally, in Schlosser v. Fairbanks, it was decided that Fairbanks Capital (a mortgage servicer) was in fact a "debt collector" if the debt they were servicing was in default at the time they assumed the servicing contract. (See Exhibit B) This, at least, gave footing to consumer complaints under the FDCPA. In addition, many states permit non-judicial foreclosure sales, which facilitate foreclosures and impede homeowners' efforts to raise defenses in court.

Fourth, consumers do not have a choice concerning who will service their loans. The decision is made between the original mortgage lender, and the trustee of the REMIC, or REIT, and they are the customers of the servicer. When a tranche of sub-prime loans are bundled and sold in the secondary market, many servicers will target those loans as an easy target, and will foster the impression that the mortgagors are "deadbeats", knowing that the consumers are a captive market with no access to any other way of paying their monthly principal and interest on their mortgage.

Fifth, greed is the primary driving force behind mortgage servicing fraud. The game is motivated by the economics of loan servicing. In recent years, servicing has become an increasingly specialized activity. Many firms originate few or no loans, but purchase servicing contracts as an investment. Even among firms that both

originate and service loans, servicing is viewed as a profit center that must justify itself by earning a target rate of return. The investment in servicing is what a specialized servicer pays for it, or what an originating firm that retains the servicing could have sold it for. For example, lets say a firm pays $1 million for the right to service a loan portfolio of 1,000 loans with total balances of $100 million. The portfolio has an estimated average life of 7 years. The servicing fee on the $100 million is .25%, which generates income of $250,000 a year. It only costs the firm $50 a year to service each loan, or $50,000 in total. Net income is thus $200,000 a year for 7 years. The rate of return on investment is 9.20%. Now add late charges, which by industry practice are retained by the servicing agent. If a late charge of 5% of the payment is collected from just 1% of the borrowers, the rate of return on the investment in servicing jumps almost to 10%. If late charges can be collected from 5% of the borrowers, the rate of return exceeds 12%.

TYPES OF VICTIMS

The loans that fall prey to mortgage servicing fraud consist of sub-prime or non-conforming loans, usually in a trust wherein the note holder has either declared bankruptcy or is no longer in business. Homeowners who tend to have substantial equity are perhaps the principal targets.

The abusive business practices of the mortgage servicers have resulted in a substantial increase in foreclosures which divest homeowners of their property and often make them homeless. The result is destabilization of what were formerly vibrant neighborhoods populated by owner-occupied homes and an increase in the need for government-funded social service agencies to address the social ills generated by this

destabilization. We also see that many of the Trusts are not making distributions to their certificate holders, thus causing an increasingly growing distrust of the pass-though certificates.

ILLUSTRATIVE CASES

At this point, I would like to provide the stories of three victims of mortgage servicing fraud abuse.

Mr. M. is a forty year old who lives in Monroe County. He is gainfully employed, and has consistently paid his mortgage in a timely manner. He has owned his home in eight years. In November 2001, Mr. M was notified by his mortgage servicer that they were placing his loan in default. The reason was that he was in arrears for four months. Mr. M. disputed the servicer's claim, and immediately wrote qualified RESPA written letters of dispute. Despite three such letters, the mortgage servicer never responded to Mr. M's RESPA inquiry, and his loan was foreclosed on. After commencing litigation, a redacted copy of the loan history was finally supplied to Mr. M. A line-by-line audit of the information provided indicates that at the time of foreclosure, over $8,000 in principal and interest payments were missing, charges for a property in Cleveland, Ohio, were charged to Mr. M's account, and usurious fees were assessed.

Ms. X is a fifty-eight year old African-American woman. She has owned her home in Monroe County, Pennsylvania since January 2000. Over a period of three years, the value of her home has dropped over $40,000, based on the BPO's conducted

by her mortgage servicer. There is no explanation for this decrease in value, and is currently under investigation

Ms. Y is a fifty-year-old immigrant. She has owned her home in Monroe County, Pennsylvania, since November 1999. Her mortgage servicer assessed her with forced placed insurance fees, in the amount of $1,998 per year, despite the fact that Ms. Y had hazard insurance in place on her home. Lenders require homeowners to carry homeowner's insurance, with the lender named as a loss payee. Mortgage loan documents allow the lender to force place insurance when the homeowner fails to maintain the insurance, and to add the premium to the loan balance. Some predatory mortgage lenders force place insurance even when the homeowner has insurance and has provided proof of such insurance to the lender. Even when the homeowner has in fact failed to provide the insurance, the premiums for the force placed insurance are often exorbitant. Often the insurance carrier is a company affiliated with the lender. Furthermore, the cost of forced placed insurance is frequently padded because it covers the lender for risks or losses in excess of what the lender may require under the terms of the mortgage loan. The taking of the forced placed fees placed Ms. Y's mortgage in default, and she was forced into bankruptcy to save her home. The case is on going.

These cases typify what we have been seeing in mortgage servicing fraud. Why are we seeing these cases? Mortgage servicers say that the fees assessed and handling of the loan is correct and justified. This explanation is bogus. These are not uncollateralized, signature loans. If they were, the argument about risk might be justified. Most predatory lenders lend up to only 80% of the value of the home, leaving

the other 20% as a cushion to protect the lender in case of foreclosure. If the homeowner is able to make the payments, the revenue stream created by these loans is very profitable because of the high interest, points and other revenue enhancers. If in fact a default occurs, the lender forecloses, often buys the home at the foreclosure sale, and resells it for a substantial profit. The mortgage servicing fraud is a result of greed, and the need to always increase the bottom line of profits.

I would like, at this time, to focus on one of the ways that equity is stripped from a home, how a homeowner is forced either into foreclosure or bankruptcy and how this has an effect on an entire community.

The path toward losing a home is actually quite simple. The first phase is designed to fabricate the default, and typically begins with the Servicer's records being fed false data. Usually the very first fraudulent entry made is the manipulation of the date the monthly payment is received in order to create a late payment. This will now trigger a "late fee". The "late fee" is deducted from the next month's principal and interest payment, which then creates a) a partial payment, which is placed in suspense and b) another late fee. The homeowner is now considered 1 month delinquent. The following month, when the principal and interest payment is again made on a timely basis, the payment will be divided once again. Part of the payment will be applied to the money being held in suspense to make a whole month payment. Part of the payment will be applied to the new late fee, and part of the payment will be placed in suspense, because it is now a partial payment for the current month's scheduled payment. This series of events will continue until the consumer is 90-days late. At that point, the loan is placed into default.

Usually, at the 60-day delinquent point, the Servicer will initiate property preservation. This will involve real estate agents "driving-by" the property to make sure that it is not in a condition that would jeopardize the investment of the trust. This, in and of itself, is a normal procedure of the mortgage industry, and is considered innocuous. However, in order to reap additional fees, the Servicer will normally bill for 2, 3 or even 4 "drive-bys" per month, week, or even per day, charging anywhere from $10.00 to $150.00 per occurrence. In most cases, the "real estate personnel" who are doing the property preservation are actually employees of the Servicer, and the Servicer is actually just creating book entries in order to garner additional fees.

At the 90-day delinquent point, the Servicer will institute foreclosure proceedings. This is where I wish to focus your attention, to bring to the forefront what has happened not only in the Poconos, but also throughout the nation. Once the foreclosure process has commenced, the Servicer will order a "BPO", or Brokers Price Opinion. This is meant to be used by legitimate sellers and buyers of real estate, who are interested in a property and wish to know the best, worst and median price of a home they are contemplating selling or purchasing. However, in the case of mortgage servicing fraud, it has become a lethal weapon. The mortgage servicer will use the BPO in lieu of an Appraisal, performed by a licensed appraiser. The mortgage servicer will also order a "quick sale" price for the property. This will often drop the price of a home by thirty, forty, or even fifty thousand dollars. In the case of one mortgage servicer, if the BPO does not come in low enough, the "internal review" will lower the

price of the home down to what they feel is should be. (See Exhibit C) Why would a mortgage service do this?

1. According to most pooling and servicing agreements, once a property has been placed in default and it has been determined that recoupment of any "advanced" fees is negligible, the mortgage servicer no longer need forward the monies collected to the trustee for distribution. Usually, at this point in time, the consumer is still making mortgage payments, however, they are being applied to fees assessed by the servicer. This now leaves the servicer free from having to advance any of its own money, and leaves the mortgage payments free for application to fees.

2. According to most pooling and servicing agreements, once a property has been placed in default, the mortgage servicer is reimbursed from the trust for all out-of-pocked expenditures, including servicing advances. In addition, the servicer is entitled to recoup from the proceeds of the sale any advances not reimbursed by the trust. If, however, there is no realization of sufficient capital to pay off the note and recoup the out-of-pocket expenditures, the mortgage servicer is reimbursed by the insurer of the trust.

3. According to most pooling and servicing agreements, the mortgage servicer has the right to purchase from the trust the notes of any properties placed in default. The certificate holders of the top tiers of the trust are reimbursed for this loss through the lower tiers over collateralization.

4. The servicer can have a judgment entered against the homeowner for any arrearage not covered after the foreclosure sale.

5. The servicer is often the entity that enters the bid for the property, and they will then place the property in an REO and attempt the sale of same for full market value.

What typically happens is that i) The use of a "fast sale" BPO deflated the value of the home by tens of thousands of dollars; ii) The mortgage servicer no longer needs to advance any funds to the trust; (iii) The mortgage servicer is reimbursed from the trust for any funds advanced; and (iv) the mortgage servicer will purchase a home a below market cost.

As seen in the Poconos, this practice of having undervalued, or "quick sale" BPO's performed has the devastating effect of devaluing an entire community. Once one or two homes are placed into wrongful foreclosure (and due to the fact that many loans in the Poconos are sub-prime or non-conforming, there is a high propensity towards this behavior on the part of the servicers), any legitimate appraisal for a refinancing request by any of the homes in the proximity of the wrongfully foreclosed home, will need to be "adjusted" to reflect the value of the home due to the low sale or foreclosure price of the comparable wrongfully foreclosed home. Once you have several homes with high loan-to-value ratios because of the downward trend of the values of the homes, an avalanche effect begins, effecting home after home, consumer after consumer, until finally, you have the phenomenon of people simply walking away from their homes because they cannot afford their current mortgages; they have been placed in a fraudulent status of default; or they cannot refinance because of the downward trend of the values of their homes.

We must also, at this point in time, look at how this trend will affect the secondary mortgage market, the REMICS, REITS, and pass-through certificates. First, let us address the distribution, or lack thereof, of dividends (or interest) to the certificate holders. If enough loans in a trust are placed in default, the trustee will not have sufficient funds to make a distribution. In several trusts being serviced by known fraudulent mortgage servicers, distributions have not been made to certificate holders for over a year. This may, or may not, cause litigation (usually in the form of a class action) to be commenced on the part of the certificate holders; adding additional expense in the form of attorney fees for both the certificate holders, the trust originator, the trustee, and often the securities dealer. This will eventually make it more and more difficult to sell the securitization of these loans in the secondary market, and will eventually affect the ability of lending institutions to offer credit to borrowers.

We also need to look at the tax consequences to the REMICS. If a multitude of homes are wrongfully foreclosed on, the REMIC may in fact be in violation of tax code. The foreclosures may not be considered "foreclosures" and may actually be considered a "prohibited transaction" causing the asset cap to be effected. This, in turn, will affect the tax consequences for the certificate holders, and once again, this will affect the ability to sell securitizations, and will affect the ability of lending institutions to offer credit.

The implications and effects of mortgage servicing fraud are far reaching, and need to be considered when looking at real estate fraud or predatory lending.

I would like to propose that when future legislation is considered that consideration should be given that a certified appraisal performed by a licensed

appraiser accompany any foreclosure. This will curtail the current practice of using "quick sale" BPO's and falsely devaluing the value of a home, which in turn will serve to protect not only the certificate holders of the trusts, but also the neighboring property owners by maintaining the value of the homes in a neighborhood, and guaranteeing that the "fair market value" of a home is preserved.

Concerning the mortgage servicing aspect of the industry, it should be kept in mind that the great majority of loans today are serviced by firms that don't own the notes. The servicer is paid by, and is beholding to the owner of the mortgage. Borrowers have no say in who services their loan, and if they get poor service, about all they can do is write a letter of complaint to HUD or the FTC. It is hardly surprising, therefore, that servicing does not generally meet the needs of borrowers. However, it doesn't have to be that way.

Servicing systems can be designed to meet the needs of borrowers as well as the trusts. The borrower would be the client along side the lender, and have the right to change servicers. This would invoke competition between servicers to keep their cash flow basis, and would help prevent the fraud that is currently being perpetrated.

I estimate there are roughly 38 million homeowners who have a long-term relationship with a servicing agent that they did not choose. Their loan provider was either a mortgage broker, or a lender who subsequently sold the servicing. These borrowers should be empowered to opt out.

To avoid undue disruption and encourage rational decisions, the opt-out option should become effective only after (approximately) 6 months of servicing, and should apply only once.

If borrowers have the right to opt out, many firms with servicing capacity will vie for the privilege of serving them. The stream of income generated by servicing contracts has value. Ordinarily, these contracts must be purchased for anywhere from 1/2% to 2% or more of the balance. An opt-out contract would be free.

To win the favor of opt-outs, servicers would be obliged to compete. Since servicers are paid by lenders rather than by borrowers, they will compete with service, which is exactly what is needed. Firms with efficient and courteous support people, short waits, easy-to-read statements, etc., will draw opt-outs from firms that have served the consumer badly. The market would, at long last, begin to work for the borrower.

This concludes my testimony. Once again, thank you for your time and kind consideration. I will be available to provide answers to any questions that may arise.

EXHIBIT A

The following is a catalogue of predatory mortgage lending abusive practices. The practices have been placed into categories of abuses associated with the origination of the loan, servicing of the loan, and collection of the loan.

I. ORIGINATION OF LOAN

1. Solicitations. Predatory mortgage lenders engage in extensive marketing in targeted neighborhoods. They advertise through television commercials, direct mail, signs in neighborhoods, telephone solicitations, door to door solicitations, and flyers stuffed in mailboxes. Many of these companies deceptively tailor their solicitations to resemble social security or other U.S. government checks to prompt homeowners to open the envelopes and otherwise deceive them regarding their predatory intentions.

2. Home Improvement Scams. Predatory mortgage lenders use local home improvement companies essentially as mortgage brokers to solicit business. These companies solicit homeowners for home improvement work. The company may originate a mortgage loan to finance the home improvements and then sell the mortgage to a predatory mortgage lender, or steer the homeowner directly to the predatory lender for financing of the home improvements. The home improvements are often grossly overpriced, and the work is shoddy and incomplete. In some cases, the contractor begins the work before the three-day cooling off period has expired. In many cases, the contractor fails to obtain required permits; thereby making sure the work is not inspected for compliance with local codes.

3. Mortgage Brokers - Kickbacks. Predatory mortgage lenders also originate loans through local mortgage brokers who act as bird dogs (finders) for the lenders. Many predatory mortgage lenders have downsized their operations by closing their retail outlets and shifting the origination of loans to these brokers. These brokers represent to the homeowners that they are working for the homeowners to help them obtain the best available mortgage loan. The homeowners usually pay a broker's fee. In fact, the brokers are working for predatory mortgage lenders and being paid kickbacks by lenders for referring the borrowers to the lenders. On loan closing documents, the industry employs euphemisms to describe these referral fees: yield spread premiums and service release fees. Also, unbeknownst to the borrower, his interest is raised to cover the fee. Within the industry, this is called bonus upselling or par-plus premium pricing.

4. Steering to High Rate Lenders. Some banks and mortgage companies steer customers to high rate lenders, including those customers who have good credit and

would be eligible for a conventional loan from that bank or lender. In some cases, the customer is turned away before completing a loan application. In other cases, the loan application is wrongfully denied and the customer is referred to a high rate lender. The high rate lender is often an affiliate of the bank or mortgage company, and kickbacks or referral fees are paid as an incentive to steer the customer in this way.

5. Lending to People Who Cannot Afford The Loans. Some predatory mortgage lenders purposely structure the loans with monthly payments which they know the homeowner cannot afford with the idea that when the homeowner reaches the point of default, they will return to the lender to refinance which provides the lender additional points and fees. Other predatory mortgage lenders, whom we call hard lenders, purposely structure the loans with payments the homeowner cannot afford in order to trigger a foreclosure so that they may acquire the house and the valuable equity in the house at the foreclosure sale.

6. Falsified Loan Applications, Unverified Income. In some cases, lenders knowingly make loans to homeowners who do not have sufficient income to repay the loan. Often, such lenders wish to sell the loan to an investor. To sell the loan, the lender must make the loan package have the appearance to the investor that the borrower has sufficient income. The lender has the borrower sign a blank loan application form. The lender then inserts false information on the form (for example, a job the borrower does not have), making the borrower appear to have higher income than he or she actually has.

7. Adding Co-signers. This is done to create the false impression that the borrower is sufficiently credit worthy to be able to pay off the loan, even though the lender is well aware that the co-signer has no intention of contributing to the repayment of the mortgage. Often, the lender requires the homeowner to transfer half ownership of the house to the co-signer. The homeowner has lost half the ownership of the home and is saddled with a loan she cannot afford to pay.

8. Incapacitated Homeowners. Some predatory lenders make loans to homeowners who are clearly mentally incapacitated. They take advantage of the fact that the homeowner does not understand the nature of the transaction or the papers that she signs. Because of her incapacity, the homeowner does not understand she has a mortgage loan, does not make the payments, and is subject to foreclosure and subsequent eviction.

9. Forgeries. Some predatory lenders forge loan documents. In an ABC Prime Time Live news segment that aired on April 23, 1997, a former employee of a high cost mortgage lender reported that each of the lender's branch offices had a "designated forger" whose job it was to forge documents. In such cases, the unwary homeowners are saddled with loans they know nothing about.

10. High Annual Interest Rates. The very purpose of engaging in predatory mortgage lending is to reap the benefit of high profits. Accordingly, these lenders always charge unconscionably high interest rates, even though their risk in minimal or non-existent.

Such rates drastically increase the cost of borrowing for homeowners. Predatory mortgage lenders routinely charge Atlanta area borrowers rates ranging from 12% to 18%, while other lenders charge rates of 7.0% to 7.5%

11. High Points. Legitimate lenders charge points to borrowers who wish to buy down the interest rate on the loan. Predatory lenders charge high points but there is no corresponding reduction in the interest rate. These points are imposed through prepaid finance charges (or points or origination fees), they are usually 5 to 10% of the loan and may be as much as 20% of the loan. The borrower does not pay these points with cash at closing. Rather, the points are always financed as part of the loan. This increases the amount borrowed, which produces more annual interest to the lender.

12. Balloon Payments. Predatory mortgage lenders frequently structure loans so that at the end of the loan period, the borrower still owes most of the principal amount borrowed. The last payment balloons to an amount often equal to 85% or so of the principal amount borrowed. Over the term of the loan, the borrower's payments are applied primarily to interest. The homeowner cannot afford to pay the balloon payment at the end of the term, and either loses the home through foreclosure or is forced to refinance with the same or another lender for an additional term at additional cost.

13. Negative Amortization. This involves a system of repayment of a loan in which the loan does not amortize over the term. Instead, the amount of the monthly payment is insufficient to pay off accrued interest and the principal balance therefore increases each month. At the end of the loan term, the borrower owes more than the amount originally borrowed. A balloon payment at the end of the loan is often a feature of negative amortization.

14. Padded Closing Costs. In this scheme, certain costs are increased above their true market value as a method of charging higher interest rates. Examples include charging document preparation of $350 or credit report fees of $150, both of which are many times the actual cost.

15. Inflated Appraisal Costs. This is another padding scheme. In most mortgage loan transactions, the lender requires that an appraisal be done. Most appraisals include a typical, detailed report of the condition of the house (interior and exterior) and prices of comparable in the area. Others are "drive-by" appraisals, done by someone driving by the homes. The former naturally cost more than the latter. In some cases, borrowers are charged a fee for an appraisal which should include the detailed report, when only a drive-by appraisal was done.

16. Padded Recording Fees. Mortgage transactions usually require that documents be recorded at the local courthouse. State or local laws establish the fees for recording the documents. Mortgage lenders typically pass these costs on to the borrower. Predatory mortgage lenders often charge the borrowers a fee in excess of the actual amount required by law to record the documents.

17. Bogus Broker Fees. In some cases, predatory lenders charge borrowers broker fees when the borrower never met or knew of the broker. This is another way such lenders increase the cost of the loan for the benefit of the lender.

18. Unbundling. This is another way of padding costs by breaking out and itemizing charges which are duplicative or should be included under other charges. An example is where a lender imposes a loan origination fee, which should cover all costs of initiating the loan, but then imposes separate, additional charges for underwriting and loan preparation.

19. Credit insurance - Insurance Packing. Predatory mortgage lenders market and sell credit insurance as part of their loans. This includes credit life insurance, credit disability insurance, and involuntary unemployment insurance. The premiums for this insurance are exorbitant. In some cases, lenders sell credit life insurance covering an amount which constitutes the total of payments over the life of the loan rather than the amount actually borrowed. The payout of claims is extremely low compared to the revenue from the premiums. The predatory mortgage lender often owns the insurance company, or receives a substantial commission for the sale of the insurance. In short, credit insurance becomes a profit center for the lender and provides little or no benefit to the borrower.

20. Excessive Prepayment Penalties. Predatory mortgage lenders often impose exorbitant prepayment penalties. This is done in an effort to lock the borrower into the predatory loan for as long as possible by making it difficult for her to refinance the mortgage or sell the home. Another feature of this practice is that it provides back end interest for the lender if the borrower does prepay the loan.

21. Mandatory Arbitration Clauses. By inserting pre-dispute, mandatory, binding arbitration clauses in contractual documents, some lenders attempt to obtain unfair advantage of their borrowers by relegating them to a forum perceived to be more favorable to the lender than the court system. This perception exists because discovery is not a matter of right but is within the discretion of the arbitrator; the proceedings are private; arbitrators need not give reasons for their decisions or follow the law; a decision in one case will have no precedential value; judicial review is extremely limited; a lender will be a frequent user while the consumer is a one time participant; and injunctive relief and punitive damages will not be available.

22. Flipping. Flipping involves successive, repeated refinancing of the loan by rolling the balance of the existing loan into a new loan instead of simply making a separate, new loan for the new amount. Flipping always results in higher costs to the borrower. Because the existing balance of one loan is rolled into a new loan, the term of repayment is repeatedly extended through each refinancing. This results in more interest being paid than if the borrower had been allowed to pay off each loan separately. A powerful example of the exorbitant costs of flipping is the case of Bennett Roberts, who had eleven loans from a high cost mortgage lender within a period of four years. See, Wall Street Journal, April 23, 1997, at 1. Mr. Roberts was charged in excess

of $29,000 in fees and charges, including ten points on every financing, plus interest, to borrow less than $26,000.

23. Spurious Open End Mortgages. In order to avoid making required disclosures to borrowers under the Truth in Lending Act, many lenders are making "open-end" mortgage loans. Although the loans are called "open end" loans, in fact they are not. Instead of creating a line of credit from which the borrower may withdraw cash when needed, the lender advances the full amount of the loan to the borrower at the outset. The loans are non-amortizing, meaning that the payments are interest only so that no credit will be replenished. Because the payments are applied only to interest, the balance is never reduced.

24. Paying Off Low Interest Mortgages. A predatory mortgage lender usually insists that its mortgage loan pay off the borrower's existing low cost, purchase money mortgage. The lender is able to increase the amount of the new mortgage loan by paying off the current mortgage and the homeowner is stuck with a high interest rate mortgage with a principal amount which is much higher than necessary.

25. Shifting Unsecured Debt Into Mortgages. Mortgage lenders badger homeowners with telephone and mail solicitations and other advertisements that tout the "benefits" of consolidating bills into a mortgage loan. The lender fails to inform the borrower that consolidating unsecured debt into a mortgage loan secured by the home is a bad idea. The loan balance is increased by paying off the unsecured debt, which necessarily increases closing costs (which are calculated on a percentage basis), increases the monthly payments, and increases the risk that the homeowner will lose the home.

26. Making Loans in Excess of 100% Loan to Value (LTV). Recently, some lenders have been making loans to homeowners where the loan amount exceeds the fair market value of the home. This makes it very difficult for the homeowner to refinance the mortgage or to sell the house to pay off the loan, thereby locking the homeowner into a high cost loan. Additionally, if a homeowner goes into default and the lender forecloses on a loan, the foreclosure auction sale generates enough money to pay off the mortgage loan. Therefore, the borrower is not subject to a deficiency claim. However, where the loan is 125% LTV, a foreclosure sale may not generate enough to pay off the loan and the borrower would be subject to a deficiency claim.

II. SERVICING OF LOAN

1. Forced Placed Insurance. Lenders require homeowners to carry homeowner's insurance, with the lender named as a loss payee. Mortgage loan documents allow the lender to force place insurance when the homeowner fails to maintain the insurance, and to add the premium to the loan balance. Some predatory mortgage lenders force place insurance even when the homeowner has insurance and has provided proof of such insurance to the lender. Even when the homeowner has in fact failed to provide

the insurance, the premiums for the force placed insurance are often exorbitant. Often the insurance carrier is a company affiliated with the lender. Furthermore, the cost of forced placed insurance is frequently padded because it covers the lender for risks or losses in excess of what the lender may require under the terms of the mortgage loan.

2. Daily Interest When Payments Are Made After Due Date. Most mortgage loans have grace periods, during which a borrower may make the monthly payment after the due date and before the end of the grace period without incurring a "late charge." The late charge is often assessed as a small percent of the late payment. However, many lenders also charge daily interest based on the outstanding principal balance. While it may be proper for a lender to charge daily interest when the loan so provides, it is deceptive for a lender to charge daily interest when a borrower pays after the due date and before the grace period expires when the loan terms provide for a late charge only after the end of the grace period. Predatory lenders take advantage of this deceptive practice.

III. COLLECTION OF LOAN

1. Abusive Collection Practices. In order to maximize profits, predatory lenders either set the monthly payments at a level the borrower can barely sustain or structure the loan to trigger a default and a subsequent refinancing. Having structured the loans in this way, the lenders consciously decide to use aggressive, abusive collection tactics to ensure that the stream of income flows uninterrupted. (Because conventional lenders do not structure their loans in this manner, they do not employ abusive collection practices.) The collection departments of predatory lenders call the homeowners at all hours of the day and night, send late payment notices (in some cases, even when the lender has received timely payment or even before the grace period expires), send telegrams, and even send agents to hound homeowners in person. Some predatory lenders bounce homeowners back and forth between regional collection offices and local branch offices. One homeowner received numerous calls every day for several months, even after she had worked out a payment plan. These abusive collection tactics often involve threats to evict the homeowners immediately, even though lenders know they must first foreclose and follow the eviction procedures. The resulting emotional impact on homeowners, especially elderly homeowners, can be devastating. Being ordered out of a home one has owned and lived in for decades is an extremely traumatic experience.

2. High Prepayment Penalties. See description in I. 20 above. When a borrower is in default and must pay the full balance due, predatory lenders will often include the prepayment penalty in the calculation of the balance due.

3. Flipping (Successive, Repeated Refinancing of Loan). See description in I. 22 above. When a borrower is in default, predatory mortgage lenders often use this as an opportunity to flip the homeowner into a new loan, thereby incurring additional high costs and fees.

4. Foreclosure Abuses. These include persuading borrowers to sign deeds in lieu of foreclosure in which they give up all rights to protections afforded under the foreclosure statute, sales of the home at below market value, sales without the homeowner/borrower being afforded an opportunity to cure the default, and inadequate notice which is either not sent or backdated. There have even been cases of "whispered foreclosures", in which persons conducting foreclosure sales on courthouse steps have ducked around the corner to avoid bidders so that the lender was assured he would not be out-bid. Finally, foreclosure deeds have been filed in courthouse deed records without a public foreclosure sale.

EXHIBIT B

In the
United States Court of Appeals
For the Seventh Circuit

No. 01-3487

CHAD SCHLOSSER and FRANCES SCHLOSSER,

Plaintiffs-Appellants,

v.

FAIRBANKS CAPITAL CORPORATION,

Defendant-Appellee.

Appeal from the United States District Court
for the Central District of Illinois.
No. 2:01 C 2121—**Michael P. McCuskey**, *Judge.*

ARGUED FEBRUARY 11, 2002—DECIDED MARCH 20, 2003

Before RIPPLE, DIANE P. WOOD, and WILLIAMS, *Circuit Judges.*

WILLIAMS, *Circuit Judge.* Fairbanks Capital Corp. acquired 12,800 allegedly delinquent high-interest mortgages from ContiMortgage, including one owed by the plaintiffs, Chad and Frances Schlosser. Identifying itself as a debt collector, Fairbanks sent the Schlossers a letter asserting that the debt was in default. Fairbanks was mistaken; the Schlossers were not in default. The Schlossers filed suit claiming that Fairbanks's letter failed to notify them of their right to contest the debt, as required by the Fair Debt Collection Practices Act (FDCPA), 15

U.S.C. § 1692g(a). Fairbanks's mistake, as it turned out, worked to its advantage: the district court concluded that, because the debt was not actually in default when Fairbanks acquired it, Fairbanks was not a debt collector within the meaning of the FDCPA. The court granted Fairbanks's motion to dismiss, and the Schlossers appeal. We disagree with the district court's interpretation of the FDCPA and therefore reverse.

I. BACKGROUND

Fairbanks purchased the Schlossers' mortgage from ContiMortgage as part of Fairbanks's acquisition of 128,000 subprime mortgages, 10% of which were identified as in default. According to ContiMortgage's records, the Schlossers' mortgage was delinquent at the time of the transfer, and Fairbanks treated it as such. It sent a letter to the Schlossers, identifying itself as a debt collector, notifying the Schlossers that they were in default, and attempting to collect:

> DEMAND LETTER—YOU COULD LOSE YOUR HOME! . . .
>
> This letter constitutes formal notice of default under the terms of the Note and Deed of Trust or Mortgage because of failure to make payments required. . . .
>
> This letter is a formal demand to pay the amounts due. In the event that these sums are not paid to Fairbanks Capital Corp. "Fairbanks" within 30 days of this letter the entire unpaid balance, together with accrued interest, legal fees and expenses, WILL BE ACCELERATED and foreclosure proceedings will be instituted. . . .
>
> You have the right to bring a court action if you claim that the loan is not in default or if you be-

> lieve that you have any other defense to the acceleration and sale. . . .
>
> This letter is from a debt collector and is an attempt to collect a debt. Any information obtained will be used for that purpose.

When the Schlossers tried to make their regular monthly payment to Fairbanks, Fairbanks refused, again asserting that the loan was in default, and instead instituted foreclosure proceedings. The Schlossers sent letters insisting that they weren't in default and eventually Fairbanks caused the foreclosure action to be dismissed.

The Schlossers filed suit against Fairbanks for violation of the FDCPA, claiming (on behalf of themselves and a class of similar debtors) that Fairbanks's letter did not notify them of their right to contest the debt in writing, which would have required Fairbanks to verify the debt before continuing collection activity. *See* 15 U.S.C. § 1692g(a)(4). They also asserted an individual claim under the Illinois Consumer Fraud Act, 815 Ill. Comp. Stat. 505/2. The district court granted Fairbanks's motion to dismiss the FDCPA claim, denied as moot the Schlossers' motion for class certification, and declined to take supplemental jurisdiction over the state law claim. The Schlossers appeal.

II. ANALYSIS

As the district court recognized, the FDCPA distinguishes between "debt collectors" and "creditors." Creditors, "who generally are restrained by the desire to protect their good will when collecting past due accounts," S. Rep. 95-382, at 2 (1977), *reprinted in* 1977 U.S.C.C.A.N. 1695, 1696, are not covered by the Act. Instead, the Act is aimed at debt collectors, who may have "no future contact with the consumer and often are unconcerned with the

consumer's opinion of them." *See id.* In general, a creditor is broadly defined as one who "offers or extends credit creating a debt or to whom a debt is owed," 15 U.S.C. § 1692a(4), whereas a debt collector is one who attempts to collect debts "owed or due or asserted to be owed or due another." *Id.* § 1692a(6).

For purposes of applying the Act to a particular debt, these two categories—debt collectors and creditors—are mutually exclusive. However, for debts that do not originate with the one attempting collection, but are acquired from another, the collection activity related to that debt could logically fall into either category. If the one who acquired the debt continues to service it, it is acting much like the original creditor that created the debt. On the other hand, if it simply acquires the debt for collection, it is acting more like a debt collector. To distinguish between these two possibilities, the Act uses the status of the debt at the time of the assignment:

> (6) The term "debt collector" means any person who . . . regularly collects or attempts to collect, directly or indirectly, debts owed or due or asserted to be owed or due another. . . . The term does not include—
>
> (F) any person collecting or attempting to collect any debt owed or due or asserted to be owed or due another to the extent such activity . . . (iii) *concerns a debt which was not in default at the time it was obtained by such person.*

15 U.S.C. § 1692a (emphasis added). In other words, the Act treats assignees as debt collectors if the debt sought to be collected was in default when acquired by the assignee, and as creditors if it was not. *See Bailey v. Sec. Nat'l Serving Corp.*, 154 F.3d 384, 387 (7th Cir. 1998); *Whittaker v. Ameritech Corp.*, 129 F.3d 952, 958 (7th Cir. 1998); *see also Pollice v. Nat'l Tax Funding, L.P.*, 225 F.3d 379, 403-04

(3d Cir. 2000); *Wadlington v. Credit Acceptance Corp.*, 76 F.3d 103, 106-07 (6th Cir. 1996); *Perry v. Stewart Title Co.*, 756 F.2d 1197, 1208 (5th Cir. 1985).

Fairbanks argues (and the district court held) that under the plain language of the statutory definition, it is not a debt collector because the Schlossers' loan was not actually in default when Fairbanks acquired it. Fairbanks relies on *Bailey,* in which we held that a mortgage servicing company was not a debt collector under the FDCPA when it attempted to collect on a forbearance agreement acquired from HUD. *See* 154 F.3d at 388. Payments on that agreement were current, but the original mortgage, which was replaced by the forbearance agreement, had been in default. *Id.* We held that "[c]ommon sense and the plain meaning" of the statute dictated application of the exclusion in § 1692a(6)(F)(iii) because the defendant was not attempting to collect on the original note, but rather the forbearance agreement, which was not in default at the time it was acquired. *Id.* at 387-88.

Although, as in *Bailey*, the debt in this case was not actually in default, Fairbanks acquired it as a debt in default, and its collection activities were based on that understanding. As applied to these circumstances, the meaning of § 1692a(6)(F)(iii) is less obvious than it was in *Bailey*, which did not address the question posed by this case: do Fairbanks's mistaken assertions and collection activity have any relevance to the application of the exclusion, or does it depend only on the actual status of the loan when it was acquired? We have found no opinions addressing this question, which we review de novo, assuming for purposes of the motion to dismiss that the allegations of the complaint are true. *See Marshall-Mosby v. Corporate Receivables, Inc.*, 205 F.3d 323, 326 (7th Cir. 2000).

Fairbanks's interpretation, which exempts its collection activities from the statute if the debt was not actually in

default when acquired, produces results that are odd in light of the conduct regulated by the statute. For example, § 1692g, upon which the Schlossers' suit is based, requires debt collectors to notify the debtor that she may contest the debt in writing, and that if she does, the collector will obtain verification of the debt. 15 U.S.C. § 1692g(a). This validation provision is aimed at preventing collection efforts based on mistaken information. *See* S. Rep. No. 95-382, at 4 (1977), *reprinted in* 1977 U.S.C.C.A.N. 1695, 1699. Yet Fairbanks's interpretation makes its mistake about the status of the loan irrelevant. So those like Fairbanks that obtain a mix of loans, only some of which are in default, would be subject to the FDCPA if they fail to provide the required notice of the mechanism for correcting mistakes when they attempt to collect a loan they assert is in default—but only as to those loans about which they are *not* mistaken. And the same would be true for professional debt collectors in the business of acquiring defaulted loans for collection; debtors correctly asserted as being in default when the loan was acquired could challenge the failure to provide notices aimed at correcting mistakes, while those mistakenly identified as in default would have no recourse under the statute. We cannot believe that Congress intended such implausible results, and therefore, even if Fairbanks's reading is the most straightforward, it is not necessarily the correct one:

> Usually when a statutory provision is clear on its face the court stops there, in order to preserve language as an effective medium of communication from legislatures to courts. If judges won't defer to clear statutory language, legislators will have difficulty imparting a stable meaning to the statutes they enact. But if the clear language, when read in the context of the statute as a whole or of the commercial or other real-world (as opposed to

> law-world or word-world) activity that the statute is regulating, points to an unreasonable result, courts do not consider themselves bound by "plain meaning," but have recourse to other interpretive tools in an effort to make sense of the statute.

Krzalic v. Republic Title Co., 314 F.3d 875, 879-80 (7th Cir. 2002) (citing *Public Citizen v. U.S. Dep't of Justice*, 491 U.S. 440, 453-55 (1989); *Green v. Bock Laundry Mach. Co.*, 490 U.S. 504, 527 (1989) (Scalia, J., concurring); *AM Int'l, Inc. v. Graphic Mgmt. Assocs., Inc.*, 44 F.3d 572, 577 (7th Cir. 1995)); *see also United States v. X-Citement Video, Inc.*, 513 U.S. 64, 69-70 (1994); *Foufas v. Dru*, 319 F.3d 284, 287 (7th Cir. 2003).

We think the language of § 1692a(6)(F)(iii) is susceptible to an alternative interpretation, one that avoids these odd results and is more consistent with the rest of the statute. Fairbanks's interpretation narrowly focuses on the limitation in subparagraph (iii) regarding the default status of the debt. *See* 15 U.S.C. § 1692a(6)(F)(iii) ("concerns a debt which was not in default"). But the antecedent of that limitation is "such activity," which in turn refers to "collecting or attempting to collect any debt owed or due or asserted to be owed or due." *See id.* § 1692a(6)(F). This suggests that the relevant status is that of the debt or asserted debt that is the subject of the collection activity, particularly when read along with the statute's definition of "debt" as an "obligation or alleged obligation," *see id.* § 1692a(5), which (along with other definitions in the Act, *see, e.g., id.* § 1692a(3) (defining "consumer" as one "obligated or allegedly obligated to pay any debt")) extends the reach of the statute to collection activities without regard to whether the debt sought to be collected is actually owed. *See Schroyer v. Frankel*, 197 F.3d 1170, 1178 (6th Cir. 1999) ("[T]he FDCPA holds 'debt collectors liable for various abusive, deceptive, and unfair debt collection practices regardless of whether the

debt is valid.'") (quoting *McCartney v. First City Bank*, 970 F.2d 45 (5th Cir. 1992)); *see also Baker v. G. C. Servs. Corp.*, 677 F.2d 775, 777 (9th Cir. 1982).

Focusing on the status of the obligation asserted by the assignee is reasonable in light of the conduct regulated by the statute. For those who acquire debts originated by others, the distinction drawn by the statute—whether the loan was in default at the time of the assignment—makes sense as an indication of whether the activity directed at the consumer will be servicing or collection. If the loan is current when it is acquired, the relationship between the assignee and the debtor is, for purposes of regulating communications and collection practices, effectively the same as that between the originator and the debtor. If the loan is in default, no ongoing relationship is likely and the only activity will be collection. But if the parties to the assignment are mistaken about the true status, that status will not determine the nature of the activities directed at the consumer. It makes little sense, in terms of the conduct sought to be regulated, to exempt an assignee from the application of the FDCPA based on a status it is unaware of and that is contrary to its assertions to the debtor. The assignee would have little incentive to acquire accurate information about the status of the loan because, in the context of the mistake in this case, its ignorance leaves it free from the statute's requirements.

It is of course conceivable that Congress intended a bright-line rule based on the actual status of the debt at the time of assignment without regard to the assignee's knowledge or assertions about the debt, even if such a rule would be under-inclusive. But another provision of the statute suggests otherwise; according to the parallel exclusion for assignees from the statute's definition of "creditors" (read together with the definition of debt in § 1692a(5)), the purpose of the acquisition matters:

> such term [creditor] does not include any person to the extent that he receives an assignment or transfer of [an obligation or alleged obligation] in default solely for the purpose of facilitating collection of such debt for another.

See 15 U.S.C. § 1692a(4). Under this definition, Fairbanks is not a creditor because it received an assignment of "an alleged obligation in default" solely for the purpose of facilitating collection (or so we could reasonably infer from the allegations of the complaint). If this view of § 1692a(4) is correct, then Fairbanks cannot be right that it is not a debt collector. The structure of the Act suggests that it must be one or the other.[1]

Fairbanks, relying exclusively on its textual argument based on § 1692a(6)(F)(iii), does not attempt to reconcile its interpretation with the definition of creditor in § 1692a(4), nor does it present any evidence that Congress intended an interpretation that creates the implausible results we described earlier. *See Green*, 490 U.S. at 527 (Scalia, J., concurring) (rejecting interpretation based on plain meaning because "counsel have not provided, nor have we discovered, a shred of evidence that anyone has ever proposed or assumed such a bizarre disposition"). We therefore reject Fairbanks's interpretation and hold that, based on the allegations of the complaint, the exclusion in § 1692a(6)(F)(iii) does not apply because Fairbanks attempted to collect on a debt that it asserted to be in default and because that asserted default existed when Fairbanks acquired the debt.

---

[1] If the mistake in this case went the other way, and Fairbanks purchased the loan for the purpose of servicing and treated it as such, but it turned out to actually be in default, then under § 1692a(4) it would be classified as a creditor and therefore outside the scope of the Act.

III. CONCLUSION

The judgment of the district court is REVERSED and the case is REMANDED for further proceedings.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

EXHIBIT C

Residential RealEstate Review, Inc.
320 South Warminster Road
Hatboro, PA 19040

(215) 347-2227
www.rrreview.com
info@rrreview.com

Exterior Broker Price Opinion (BPO) #878430

Client:	Acme Mortgage Co.- REO Group	**Date Completed:**	1/22/2004
Order #:	863555	**Loan #:**	8880113355
Inspection Type:	Exterior	**Inspection Date:**	1/22/2004
Mortgagor:	Mary Doe		
Property Address:	123 Tricia Lane	**City, State, ZIP:**	CHARLOTTE, NC 28275

Subject Property

Style	Location	Condition	Sq. Ft. Living	No Units	Rooms	Bed-rooms	Full Baths	Half Baths	Base-ment	Garages	Lot Size (Sq. Ft.)	Lot Size (Acres)	Age (Yrs)
2 Story	Suburban	Good	3,406	1	9	4	3	1	None	2 Attached	14,680	0.337	8

Property Type: Single Family
Occupancy: Occupied - Owner
Purchase Price: $370,000
Purchase Date: 11/5/2003
Currently Listed: No

Listing History	Agency	Phone	Listing Date	Original List. Price	Listing Status
Prior Listing #1	Big City ReMax Associates	(704) 555-5555	4/17/2003	$339,900	Expired at $334,900 on 7/29/2003

Comments: Subject property is a custom built two story brick home located in a semi-private waterfront community on Lake Wylie, south of Charlotte, NC. There are no visible defects from the exterior perspective. This property is not on the water. Comps were selected that were not waterfront in order to stabilize the valuations. There is a large amount of custom interior cabinetry and millwork, stated on the prior MLS description. The current tax value is 344,800.

Comparable Sales

Address	City	Zip	Sq. Ft. Living	No. Units	Rooms	Bed-rooms	Full Baths	Half Baths	Base-ment	Garages	Lot Size (Sq. Ft.)	Lot Size (Acres)	Age (Yrs)	DOM	Prox. to Subject
15527 Eagleview Drive	Charlotte	28278	3,383	1	10	4	3	1	None	2 Attached	15,682	0.360	15	14	Within four blocks
16532 Riverpointe Drive	Charlotte	28278	3,926	1	9	4	3	1	Full	2 Attached	13,983	0.321	1	223	Within four blocks
15618 Eagleview Drive	Charlotte	28278	3,100	1	9	4	3	1	None	2 Attached	12,632	0.290	15	72	Within four blocks

	Condition	Style	List Price	Sale Price	Sale Date	Location	Concessions/Comments
1	Average	1-1/2 story	$359,900	$340,000	9/25/2003	Same as subject	Comparably sized hardcoat stucco 2-story with compatible room inventory. Custom construction. Boat slip is included with home purchase. Tax value is 313,300. Same realtor as buyer and seller agent as subject property.
2	Excellent	2 Story	$379,900	$399,900	10/8/2003	Same as subject	New construction, 2-story brick home with partially finished basement. Typical size community home. Same interior room inventory as subject property. Price is reflective of age, and condition. There is no tax value established until first occupancy year. Selling realtor was same as that of subject property.
3	Average	2 Story	$389,900	$350,000	11/12/2003	Same as subject	Hardcoat stucco custom built 2-story. Compatible in room inventory and relative square footage. Boat slip included with home. Current tax value is 370,800. Home was listed and sold by same realtor as subject property.

Competitive Properties

Address	City	Zip	Sq. Ft. Living	No. Units	Rooms	Bedrooms	Full Baths	Half Baths	Basement	Garages	Lot Size (Sq. Ft.)	Lot Size (Acres)	Age (Yrs)	DOM	Prox. to Subject
16531 Plantation Woods Drive	Charlotte	28278	3,490	1	11	5	3	1	None	2 Attached	52,272	1.200	9	15	Within four blocks
16410 Riverpointe Drive	Charlotte	28278	3,011	1	11	4	2	1	None	2 Attached	17,860	0.410	8	17	Within four blocks
15604 Warm Springs Court	Charlotte	28278	3,066	1	9	4	2	1	None	2 Attached	21,780	0.500	12	231	Within two blocks

	Condition	Style	Original List Price	Current List Price	Location	Concessions/Comments
1	Good	2 Story	$324,000	$324,000	Same as subject	Hardcoat stucco 2-story custom home on adjacent street. Higher room inventory, but comparable overall square footage. Custom construction on very large cul-de-sac lot. Tax value is 308,800 due to rear boundary on major highway.
2	Good	2 Story	$359,900	$359,900	Same as subject	Similarly styled two story brick veneer custom home. Similar interior room inventory with many custom upgrades, including marble fireplace. Listed at over 70,000 above current tax value. Tax value is 283,800. Listed by same agent/Broker as subject property.
3	Good	2 Story	$306,000	$299,000	Same as subject	Custom brick and hardboard 2-story home. Comparably sized with similar room inventory. Very large cul-de-sac interior lot. Home has closest ratio of tax to market value of all competitive properties. Tax value is 287,600.

Valuation Information

Est. Marketing Time:	Quick Sale 30 Days	90 -120 Days	90 Days
As Is Value:	$315,000	$325,000	$325,000
Repaired Value:	$315,000	$325,000	$325,000

Est. Cost of Repairs: $0 **Est. Days to Repair:** 0 **Land Value:** $60,000

Marketability of Subject

Explain any functional or economic obsolescence factors: None noted.

Will this property be a problem for resale? No

Neighborhood Trend: Stable

Pride of Ownership: Good

Number of Listings in Immediate Area: 10

Neighborhood Low Price: $299,000

Neighborhood High Price: $1,000,000

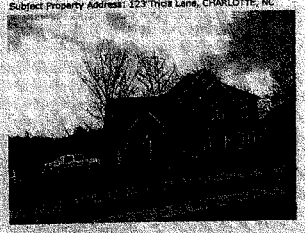
Describe any negative neighborhood factors that detract from subject's value: There are none. This is an upscale, waterfront/marina community.

Quality Control Review

	Quick Sale 30 Day Value	90 - 120 Day Value	60 Day Value
Field As Is Value:	$382,500	$365,000	$340,000
As Is Value Adjusted by RRReview QC:	$315,000	$325,000	$325,000
Field Repaired Value:	$362,500	$365,000	$360,000
Repaired Value Adjusted by RRReview QC:	$315,000	$325,000	$325,000
RRReview QC comments on Automated Values used: KTN Mailer: $320,000 11% decrease in housing values in six months Subject was last listed for $379,900 from 4/2003 to 7/2003 - listing expired, unsold			
RRReview QC comments: In view of last list price, broker value appears high. Adjusted value derived from database and from last list price.			

Photo #1: Subject Property Front View

Subject Property Address: 123 Thoit Lane, CHARLOTTE, NC



Contact Info

RRReview Contact: Tammy Sewell

RRReview Contact Phone: (215) 347-2538

RRReview Contact Email: tammys@rrreview.com

Disclaimer

This analysis has not been performed in accordance with the Uniform Standards of Professional Appraisal practice, which requires workers to act as unbiased, disinterested third parties with impartiality, objectivity and independence and without accommodation of personal interest. It is not to be construed as an appraisal and may not be used as such for any purpose. (38495)

RREVIEW.COM

Residential RealEstate Review, Inc.
320 South Warminster Road
Hatboro, PA 19040

(215) 347-2227
www.rrreview.com
info@rrreview.com

Statement of Zach Oppenheimer
Senior Vice President for Single Family Mortgage Business, Fannie Mae
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises
June 14, 2004

Thank you, Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee.

My name is Zach Oppenheimer and I am the Senior Vice President for Single-Family Mortgage Business in Fannie Mae's Eastern Business Center. I am responsible for managing the company's assets and relationships with many of our largest customers. And, since 2001, I have led Fannie Mae's efforts to address the problems being discussed here today.

I want to thank you for inviting me to testify about our efforts and commend you, Congressman Kanjorski, for your leadership right here in and around Monroe County. Your concern and attention have been critical to helping families stay in their homes and right themselves financially. I am pleased to be here today to discuss Fannie Mae's experience in the Pocono area; to review our ongoing commitment to families here; to share with you the steps we are taking to help tackle their housing problems; and to promote responsible lending.

As this Subcommittee is keenly aware, Fannie Mae's mission is to expand homeownership; with a special focus on helping underserved Americans overcome the unique barriers they face. Our role among financial institutions – and one of the things that sets us apart – is that we provide private mortgage capital to all communities, at all times, under all economic conditions. As such, we invest in mortgage loans in every community across the country, regardless of whether those communities are experiencing fluctuating economic conditions.

Fannie Mae does not originate loans. Lenders such as banks and mortgage companies make mortgage loans to homebuyers. Fannie Mae then buys many of these mortgage loans from lenders in the very competitive

"secondary" mortgage market. All of the loans that Fannie Mae owns that are secured by properties in Monroe County were originated and sold to Fannie Mae by lenders active in the county. Fannie Mae relies on lenders who sell loans to us to comply with all laws and requirements, to properly underwrite the loans, and to properly assess the value of the properties securing the loans.

Because our mission is expanding homeownership, we are committed to being a leader in promoting responsible lending practices. Our strategy includes establishing business standards to avoid the purchase of potentially predatory loans, leveraging technology to lower homeownership costs, promoting servicing policies that help borrowers avoid foreclosure, and supporting anti-predatory lending refinance initiatives. Additionally, we support the adoption of a strong, federal anti-predatory lending law. We believe that a carefully balanced federal law will be most effective in driving out the bad players and bad practices, while preserving and expanding access to safe, low-cost lending, particularly in underserved communities. Although I cannot speak to the specifics of potential legislative provisions, we believe that to be effective, federal legislation must eliminate predatory lending without hindering the flow of mortgage capital to those in need. As the Subcommittee addresses this issue, we look forward to working with you to eliminate predatory lending, protect consumers, and continue the flow of mortgage capital.

Fannie Mae's Role

Fannie Mae has been purchasing mortgage loans in the Pocono area for many years and continues to do so. While we have observed swings in home values over the years as the economic cycle in the area fluctuated, changing home values, by themselves, do not necessarily indicate a problem.

In April 2001, however, newspaper articles alleging inflated appraisals and homebuyers paying inflated prices on new homes began appearing in the *Pocono Record*. At the same time, Congressman Kanjorski alerted us that the valuation problems in this area required closer attention and we also began to hear similar concerns from lenders and others.

In April 2001, Fannie Mae owned or guaranteed close to 8,300 mortgages in Monroe County and the surrounding area. We immediately formed an

internal team to investigate the Pocono situation so we could identify the nature and cause of the alleged problems, begin to take any appropriate remedial action, and assist affected homeowners with their mortgage loans. Fannie Mae fully recognized that foreclosures can be devastating to homeowners and their families, destabilizing to the community, and often result in losses to the mortgage investor.

Taking Action

Fannie Mae is pleased to be a participant in the Home Ownership in the Poconos Enterprise (or HOPE), which was formed by Congressman Kanjorski. HOPE has brought together national and local housing industry leaders, along with elected officials and community groups, to find solutions to problems in the Pocono housing market and to prevent similar situations from occurring in the future. Joseph Terrana, the Director of Fannie Mae's Northeast and Central Pennsylvania Partnership Office, is actively engaged in addressing community housing issues in the Pocono region.

Nationally, Fannie Mae has played an active role in helping partners develop customized mortgage solutions to problem situations. Our commitment to responsible lending extends to loan servicing and to avoiding foreclosure whenever reasonably possible. In the Poconos, we committed to working with borrowers, through our lender partners, on a case-by-case basis to make every reasonable attempt to keep families in their homes. Foreclosure is the least desirable way to resolve a problem loan and our actions were intended to reduce the number of foreclosures in the area.

Fannie Mae's loss mitigation efforts require our mortgage servicers to work with homeowners facing financial hardships to offer options designed to help homeowners stay in their homes. We require our servicers to actively explore whether special forbearance, extended repayment or loan modification plans would enable borrowers to resume making regular monthly payments. Where necessary and appropriate, servicers also explore voluntary pre-foreclosure sales and deeds in lieu of foreclosure with borrowers.

In this situation, we took several additional steps to address the special circumstances. We made individual telephone calls to lenders who serviced Fannie Mae loans in the area to alert them to potential appraisal problems,

and we provided them with a list of potentially affected loans for their review and action.

We directed our servicers not to foreclose on any property in the area until they had reviewed the original appraisal and loan origination documents for irregularities; we granted a moratorium on foreclosures for up to 60 days to allow a servicer time to complete an investigation; and we granted additional time on a case-by-case basis if circumstances dictated.

For homeowners who wished to refinance Fannie Mae-owned mortgages, but could not do so because of valuation issues, we also designed and offered a specific refinancing opportunity called the Pocono Mountain Refinance Initiative Mortgage (or PRIM).

From 1996 through the end of 2000, our servicers completed 384 foreclosures on Fannie Mae-owned loans in the Poconos; an average of just over 75 per year. Since that time, we have managed to reduce the foreclosure rate by more than half, and the trend continues lower. Since 2001, our loan workout efficiency in the area, which measures the percentage of serious loan delinquencies that we are able to cure without foreclosure, has averaged over 60 percent. The overall loan workout efficiency rate for the entire State of Pennsylvania has averaged between 42 and 46 percent.

Notwithstanding these challenges, Fannie Mae has remained committed to providing mortgage loan liquidity in Monroe County and the surrounding area. Since April 2001, Fannie Mae has increased the number of its owned or guaranteed mortgage loans in the area from 8,300 loans to nearly 10,000 loans. Fannie Mae remains committed to supporting the mortgage financing needs of the Pocono community.

Going Forward

As Fannie Mae became aware of the appraisal issues in the Poconos, we made our concerns known to the lenders who were selling loans to Fannie Mae. We encouraged these lenders to implement processes and controls to improve the appraisal process to reduce the possibility that homebuyers would pay too much for the homes they purchased.

We have also developed new procedures designed to detect this kind of problem sooner. Our Automated Underwriting systems can now identify refinance transactions with potentially excessive property value estimates and we can now refer unacceptable appraisal reports identified through this process to the Pennsylvania State Board of Certified Real Estate Appraisers for their investigation. Additional guidance on appraisal requirements has also been provided to our lenders.

Since mid-2001, we have referred 48 appraisals involving 14 appraisers in the Pocono area to the Pennsylvania State Board of Certified Real Estate Appraisers. Of the Pocono area referrals, we have been advised that two licenses have been revoked, four cases are still pending, and seven cases have been dismissed.

We have worked directly with the community to address these problems, participating in round table discussions and joining community leaders in panel discussions.

We believe that better appraisal practices, both by the appraisers themselves and also by the local lenders in reviewing the quality of the appraisals, plus a better understanding of the home buying process on the part of the homebuyers could have enabled some consumers to avoid some of the problems they experienced.

Fannie Mae is a strong advocate of homebuyer education and even requires prospective homeowners to obtain homebuyer education under some of its loan initiatives. Fannie Mae supports non-profits that provide homebuyer and financial literacy education. Fannie Mae is also the exclusive source of funding for the Fannie Mae Foundation which, among other things, provides and supports homebuyer education. We worked with the Pocono office of the Alliance for Building Communities in 2001 to help them start a homeownership counseling program. We have recently worked with the Pocono based Pennsylvania Homeowners' Defense Association to facilitate the Defense Association's homeowner outreach efforts. Fannie Mae has also joined in the Keystone Housing Initiative, by backing a $32 billion mortgage financing commitment to help homebuyers and underserved families purchase homes in Pennsylvania. Under the Keystone Initiative, state agencies, lenders and non-profit organizations will provide potential homebuyers with additional opportunities to learn about responsible borrowing and home buying. The Keystone Housing Initiative is a major

partnership between the Commonwealth of Pennsylvania and Fannie Mae and also includes participation from the Pennsylvania Housing Finance Agency and other state and local entities, including lenders and credit counselors.

Potential homebuyers in the area are now better able to obtain needed homebuyer education and are now more aware of the existence of community based and national homeownership counseling, homebuyer fairs, and credit counseling programs being offered in the community.

Conclusion

Fannie Mae remains committed to providing mortgage loan liquidity in all communities throughout the United States, in strong markets, in weak markets, and through challenging times. Fannie Mae remains committed to this community and will continue to work with all parties to improve and strengthen the housing market in this area. Our mission and our ultimate goal, is to help more families achieve homeownership.

TESTIMONY OF
RICHARD J. PETERSON, EXECUTIVE DIRECTOR
ON BEHALF OF THE
POCONO BUILDERS ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND
GOVERNMENT SPONSORED ENTERPRISES
U.S. HOUSE OF REPRESENTATIVES

FIELD HEARING ON
THE POCONOS HOUSING MARKETS:
THE INVOLVEMENT OF THE SECONDARY MARKETS AND
IMPLICATIONS FOR FEDERAL LEGISLATION

JUNE 14, 2004

Congressman Baker, Congressman Kanjorski, thank you for inviting me to testify on behalf of the Pocono Builders Association, its members and the building industry. The Pocono Builders Association is a building trade association and a member of the National Association of Home Builders and its federation. We represent more than 250 businesses in Monroe County. The local building industry represents various trades and suppliers and employs over 7,000 individuals. Our industry generates more than $250 million annually to the Monroe County economy, and contributes to the state's third largest industry, a $25 billion a year industry, and is a contributing factor for the Commonwealth's home ownership being as high as 71 percent. Last year there were over 1,630 new permits issued for new homes. Within the last five years, there have been over 7,500 new homes built in Monroe County.

The Pocono area, especially Monroe County, is an area witnessing a migration of families from the NY and NJ metropolitan areas moving here to escape high taxes, expensive housing, and what they feel is a poor quality of life. They have moved here seeking the American dream, especially since 9-11. The once 50 percent vacation/second home market has now evolved into more of a 75 percent primary home market.

It has been stated that the Poconos are unique with its high growth and high foreclosure rates, yet national studies show that this region is not unique nor does it even show up on the map when compared to national statistics. According to the U.S. Census, there are only two states whose population increases were less than the Commonwealth of Pennsylvania, they are West Virginia and North Dakota, the Commonwealth saw only a 3.4 % increase.

As for foreclosures, a report released last week by Foreclosures.com pointed out that foreclosures are an issue throughout the country, and seven states actually ranked much higher than Pennsylvania when it came to new foreclosures. They are Georgia, Indiana, Michigan, North Carolina, Ohio, Tennessee, and Texas. In addition just last week, Allegheny County located in the Pittsburgh region, has a 500% increase in foreclosures over the last 8 years, largely due to property re-assessments and property taxes.

We are here today because of allegations regarding real estate fraud, especially in the area of appraisals and predatory lending. It is unfortunate that these allegations have occurred in the Poconos. However I must stress that as we speak today I know of only reading about 170 total cases and not to minimize the seriousness of those cases, this represents 2.2 percent of the 7,500 new homes built within that five year time frame.

We believe that allegations being made, while serious, are ones that involve an isolated number of members of the local real estate, lending and development industry. The issues seem to revolve around appraisals and financing. Our association, representing professional contractors, has always had a consumer focus in that we believe that all consumers are entitled to safe and affordable housing. Consequently, our association had put in place many years ago a very stringent code of ethics and a consumer protection process aimed at addressing any consumer concerns with quality workmanship and codes. We have worked hard in the past few years to educate the consumer on how to hire a professional, reputable contractor.

In light of the Attorney General's announcement of the filing of a civil law suit in April 2002, our Ethics Committee reviewed our current consumer education program and extended it with a billboard featuring a toll-free number for consumers who felt they had been the targets of contractor fraud. We also published in the news media, information regarding our existing Contractor Quality Commitment program and the process to file a complaint. Within weeks, we received several complaints in which only a few were related to value, and again we referred those to the attorney general's office. Most complaints that came in were not dealing with questions of appraisals and predatory lending but workmanship issues or contractual disputes. Within the last two years we have heard 47 cases and distributed over 10,000 brochures to consumers on how to hire a reputable contractor.

So committed is our association to the need for consumers to be educated on new home purchases, that we did reach out to one of the homeowner associations involved in the predatory and appraisal alleged fraud, to offer them the opportunity to partner with us on a consumer education effort. Unfortunately, that homeowner association turned us down as they felt that a monetary contribution was more important than consumer education. We remain firm in our resolve that the ultimate weapon against contractor fraud at all levels, and indeed this includes appraisals and predatory lending practices, is an informed and educated public.

The present situation in the Poconos, however, does not focus on the issues of workmanship or codes, but appraisals and lending. It is our understanding that the Pennsylvania Attorney General's office is investigating these allegations, and we therefore, remain firm in our resolve that this situation is one that can only be solved by those with a vested interest in this situation. These matters involving real estate fraud or questions of predatory lending practices need to be handled through the proper authorities and allow the legal system of our country to do its job. As a trade association, we are regulated by Federal antitrust laws that prohibit us as an organization to single out any one member or non-member within our community and tarnish that individual's reputation and can only take appropriate action when one is found guilty and must treat each member and non-member as if they are innocent until proven guilty.

We will continue to educate and inform the consumer, and as we tell the consumer "If it is too good to be true, it probably is". We will continue our role of a trade association to represent, educate and hold accountable our members. We will continue to work with government officials and the business community to assure the interests of the housing consumer and the industry are protected due to the major economic impact our industry has on the Poconos.

We believe that Congress needs to look at the issues of sub-prime loans and look at Federal lending practices as it relates to first-time homebuyers programs and programs for those with bad credit. Education on the process of buying a home is needed, and the understanding between the new housing market vs. resale market is needed.

Thank you very much for your time. I am available for questions.

CONTRACTOR QUALITY COMMITMENT

A program developed exclusively for members of
Pocono Builders Association
and the
Consumers of their services

ARTICLE I

ETHICS COMMITTEE: A Committee of not less than five (6) members of the Pocono Builders Association, appointed by the President on a yearly basis, who shall administer the Contractors Quality Commitment Program. The Ethics Committee shall also act as the Quality Review Committee…

QUALITY INSPECTION TEAM: A team of not more than three (3) individuals selected by the Ethics Committee based upon their expertise in the technical areas of the complaint, to provide, on a case-by-case basis, a formal review in the process of handling the complaint. Or, the Quality Review Committee could request an inspection, review and report from the Pocono Builders Association Field Inspector.

COMPLAINT: Any person who submits a complaint to the Pocono Builders Association, in writing, against a member of the Pocono Builders Association. Although member vs. member complaints will be accepted for review by the Ethics Committee, disputes arising as a result of contracts or payments due will not be handled.

BOARD: The Board of Directors that have been elected by the members of the Pocono Builders Association.

CENSURE: A written report sent to the member admonishing the individual and/ or corporation for the branch of ethics or standards. A copy of this report shall be kept on file at the Association's office and remain there for a period of three (3) years from the date of the Boar's action if there are no further actions against the member.

SUSPENSION: An act of being barred from participation in the Association's office for a period of time. These activities include: Meetings, outings, educational programs, not being able to obtain a booth at the Homes Show, etc. The period of time can very from three (3) to nine (9) months.

EXPULSION: The act of removing the individual or company from the membership roles of the Association.

ARTICLE II

CONTRACTORS QUALITY COMMITMENT
MEMBERSHIP QUALIFICATION PROCESS

A very important step in assuring that our Association truly represents quality workmanship to the public begins when an application for membership is received. This process should provide sufficient information for screening new applicants. The following investigations shall be made on all new members.

1. References will be checked from subcontractors, suppliers and banks, including credit references.

2. Contact the Better Business Bureau for unresolved complaints. It is not considered an unresolved complaint when the Contractor works with the Better Business Bureau to resolve a situation even if the complaint is not satisfied.

3. Basic Insurance Required:
   a) Worker's Compensation for companies with employees.

   b) Contractor Liability Insurance with a minimum coverage of $500,000. per occurrence.

   c) Certificate of Insurance shall be submitted initially at renewal time, with the Pocono Builders Association named as policy holder.

4. All prospective members shall sign the code of ethics; All contractors, material suppliers and fabricators shall sign the Contract or Quality Commitment Standards.

ARTICLE III

ETHICS COMMITTEE

The primary concern of the Ethics Committee is to oversee the Contractors Quality Commitment (CQC) Program to assure that the Pocono Builders Association (PBA) has reputable contractors as members.

The Ethics Committee is, in essence, the enforcement arm of the ethics and standards that we have adopted as an Association. The responsibility of this committee is defined in the CQC Program. If a complaint comes in (from a customer) about one of our "reputable contractors", the Association needs to get involved to establish the credibility and the accuracy of the complaint.

All complaints shall be looked into because it is critical that the Association be taken seriously in its charge of maintaining that reputation in the community, we will be able to set minimum standards by which all members should operate. Examples include: the use of written contract, written specifications, minimum insurance, acceptable credit ratings and any other requirements of a reputable nature.

This committee may be forced to make some tough decisions at times, but the spirit of the program will be to get the parties talking so that they arrive at a mutually satisfactory solution. When a contractor does not want to abide by the minimum standards, the contractor has chosen not to be affiliated with the Association.

ARTICLE IV

HANDLING COMPLAINTS

The objective of the CQC Program is to encourage the public to contact the Pocono Builders Association for names of contractors that are members. It must be emphasized that any member contractor has been screened by the Association in order to become a member and therefore, they have attested to and signed a statement that the standards of quality established by the Association will be adhered to by that member contractor. When they receive names and information from PBA, they should be made to understand that, if they use one of the listed contractors and then experience a problem with said contractor, the Association can and will assist in resolving the problem. Types of problems or complaint that we do not become involved in are contractual interpretations, legal interpretations, or those relating to cost vs. value and any homes over one year old that have an issue that is covered under a warranty..

The following procedure shall be followed when oral or written complaints are received:

1) Ask the name of the contractor and determine whether the contractor in question is a PBA member. If so, check to see that complaint is not disqualified by one of the above mentioned types that Ethics Committee will not hear. If the complaint qualifies, proceed in accordance with paragraph 2. If not, we will emphasize that the Association has no jurisdiction and can only suggest that they discuss the problem with the contractor, put the complaint in writing to the contractor, and if no action is taken, finally to consult an Attorney.

2) Ask the complainant for their name, address, and telephone number. Ask if the issue in question is covered by a warranty, if so, refer them to that company. If not, proceed and ask whether they have called and written to their contractor. If they have not yet done so, have them call and write to the member contractor, and send a copy of the correspondence to the Association's office. If there is no response from the member contractor within ten (10) business days, then the Association shall follow up on the complaint.

3) The complainant will be sent a questionnaire which will define the problem clearly.
(Sample of questionnaire attached)

When completed and returned with a $35.00 processing fee, a copy shall be sent to the contractor for their comments and suggested correctors to the problem along with a letter under the names of the members of the Quality Review Committee. The contractor shall be given tem (10) business days in which to respond with either the willingness to resolve the problem, or with the reasoning behind a negative response.

Up to this point, there is no effort made to determine who is right or wrong, the only effort made is to attempt to get the parties involved to communicate and find an amicable solution to the problem. If warranted, either or both parties could be invited to meet with the Quality Review Committee.

4) If either party, at this point, requests an opinion that requires the expenditure of the Ethics Committee or staff's time, there would be a $100.00 fee requested from each party . If there is a stand-off, but a willingness to resolve issues, half of the $100.00 fee is to be returned both parties. If the contractor is unwilling to pursue a solution to the problem, the complainant would be refunded their $100.00 fee.

5) If the complaint is found invalid, the customer would be told why and given the option of a more formal review by a Quality Inspection Team. There would be an additional charge of $300.00 for this service. If the contractor is found to be wrong, or partially wrong, the contractor would be required to pay or split the fee as appropriate.

6) The Quality Review Comiittee may, at its sole discretion, request the formal review by the Quality Inspection Team.. If this is done, Pocono Builders Association will be found responsible for the fee.

7) The Quality Review Committee may, at it's sole discretion, meet with the contractor and/or complainant to hear what either party believes to be information essential for the Quality Review Committee, if this has not been done before.

8) If the complaint is obviously valid, the contractor would be given the choice of correcting the problem or facing possible disciplinary action from the Board of Directors. If requested by the contractor, to appeal the decision, and a re-inspection a $300.00 fee must be made by the contractor. No report would go to the board of directors until the Quality Inspection Team report is received. The Quality Review Committee shall proceed to recommend action against the contractor, if the report was against the contractor, and the contractor had refused to take prudent and appropriate remedies. NOTE: There are situations where both the contractor and the complainant are partially right and wrong. In these cases, the report shall so state and contain a recommendation to splitting the fee between the contractor and the complainant along with the amounts to be levied against each one, depending on the circumstances.

9) If the contractor continues to refuse to assume their responsibility and disciplinary action has been recommended to the Board, the complainant should be notified of the process that will be followed; namely:

1. The contractor has a right to appear before the Board
2. The Complainant will be notified of the outcome; and
3. The approximate time that will have elapsed before they will be advised of the outcome.

10) It would be recommended that the complainant refrain from any arbitration or legal action until such time as the Board has ruled on the complaint and a thirty(30) day grace period has elapsed. In this period, the contractor may correct the problem or show reasonable intent that the problem will be corrected, this of course would solely be dependent upon the complaiant to withhold any litigation.

11) Nothing in this procedure shall obligate any Quality Review Inspection Team member to testify at any court proceedings which may arise from the complaint investigated. Either party is free, however, to hire any expert to obtain on a private basis, following the completion of the formal review.

12) Nothing herein shall abridge or take away the right of either the contractor or the complainant to seek appropriate legal action.

POCONO BUILDERS ASSOCIATION
556 MAIN STREET
STROUDSBURG, PA 18360
570-421-9009

CONTRACTOR QUALITY COMMITMENT PERFORMANCE STANDARD PROGRAM

The Pocono Builders Association Contractor Quality Commitment Program was formulated in conjunction with the Pennsylvania Builders Association Guidelines. The program is designed to provide positive support to the construction industry. The program provides for two (2) phases: First, to establish criteria for members under the CQC program and develop and enforce standards of excellence for reputable contractors. Second: to educate the general public as to the benefits of receiving services from reputable contractors. The Pocono Builders Association has developed a CQC program that identifies acceptable levels of industry professionalism, a procedure for new and existing members and provides a method for handling customer complaints.

CONTRACTOR QUALITY PERFORMANCE STANDARDS

A. I agree to meet or exceed the standards established in the International Residential Code for one and two family dwellings (IRC) or the proposed Pennsylvania Unified Code.

B. I agree to provide a One-year Warranty that would be compatible to the standards that have been established be the National Association of Home Builders (NAHB) for warranty companies. (Standards are attached)

C. I agree to abide be the findings of the Quality Review Committee or other established committee and promptly respond to and rectify defects defines be: 1) IRC 2) NAHB warranty guidelines for work or products supplied be the contractor.

D. I agree to use written contracts and change orders and describe all prices and specifications accurately and honestly.

E. I agree to use only materials equal to or exceeding the quality of those specified in the contract.

F. I agree to maintain a credit rating in accordance with the local Association's established By-laws as it relates to creditors, suppliers and subcontractors, and which conforms to the generally recognized accepted practices within the industry.

G. Applicant shall show the local Association proof of Liability Insurance and shall name the local Association as a Certificate holder for his/her Workman's Compensation Insurance.

MEMBER:_____ DATE: _____

COMPANY:_____

POCONO BUILDER ASSOCIATION EXECUTIVE OFFICER:

_____ DATE:_____

Contractor Quality Commitment Program

OFFICIAL COMPLAINT FORM

Date:_____

Homeowner Name:_____Telephone #:_____

Address:_____

Member Name:_____ Telephone #:_____

1) Nature of Work:
   _____New Home _____Major Renovation _____Remodeling/Home Improvement

2) Is work completed?
   _Yes (If so, on what date)_____
   _ No (When was it due to be completed?)_____

3) For new home only, when was/is date of settlement?_____

4) Do you have a written contract that governs the work that has been performed?
   _____Yes _____No

5) Have you reported your complaint in writing to the contractor?
   _____Yes _____No (If yes, please attach a copy to this form)
   (If no, please do so and attach a copy to this form)

6) What was the response from the contractor? Oral/Written (please circle)

7) Is there any litigation or arbitration pending between the parties?
   _____Yes_____ No (If yes, then the Association cannot become involved in trying to resolve this complaint)

8) Nature of complaint. Please list each complaint you have with the contractor as concisely as possible. The Association cannot resolve any complaints arising from contractual disputes. Complaints regarding quality, workmanship, and one-year warranty coverage are within the scope of the Association's involvement (please attach additional sheets, if needed). Note: Also, please list the solution you see for each complaint.

9) What was the contractor's response to the complaint? (Please attach any correspondence received from contractor)

10) Have you met all your contractual obligations to the contractor?
_____Yes _____No

11) Are you willing to have the above named contractor correct the alleged problems?
_____Yes _____No

I understand that the purpose of the CQC Quality Review Board is to attempt to resolve disputes between the PBA member and their customers. The Association cannot guarantee the cooperation of its members either in participating in the complaint review process or in complying with the decision or finding of the Quality Review Board. I am hereby submitting this complaint with my $35.00 processing fee.

_____ _____
Homeowner Signature Date

RETURN COMPLETED FORM TO:

Pocono Builders Association
Attention: Ethics Committee
556 Main Street
Stroudsburg, PA 18360

Office Use Only

Complainants Name:_____

Fee Paid [ ] Check #_____**Date**_____

Date Received:_____

ARTICLE VII

Pocono Builders Association

Contractor Quality Commitment Standards

1. PURPOSE OF THESE STANDARDS:

This section establishes the standards by which it will be determined whether your home has a problem which is covered by this agreement and the obligation of the builder and/or subcontractor to correct any of those defects. Where specific standards and obligations are not set forth, the standards shall be the accepted industry practice for workmanship and materials.

2. CONDITIONS APPLICABLE:

The applicability of the Quality Standards within the first year after completion or certificate of occupancy is issued is conditioned upon the fact that your home is constructed in compliance with all local building codes as well as one or more of the following accepted model codes.

BUILDING CODE	ELECTRICAL CODE
One and Two Family Dwelling Code CABO	National Electric Code Electric Code for One and Two Family Dwelling

3. ADDITIONAL CONDITIONS; PURCHASER'S RESPONSIBILITY

The applicability of these Quality Standards is further conditioned upon the purchaser's proper maintenance of the home to prevent damage due to neglect, abnormal use of improper maintenance.

4. CONTRACTOR AGREES TO ABIDE TO THE FOLLOWING PERFORMANCE STANDARDS:

Contractor agrees to meet or exceed the standards established in the Council of American Building Officials (CABO) code, and other codes or laws which may applicable.

Contractor agrees to provide a minimum one year warranty that would be comparable to the standards established by the National Association of Home Builders NAHB) for warranty companies.

Contractor agrees to abide by the findings of the Quality Review Committee or other established committee and promptly respond to and rectify defects as defined by: (1) CABO code and (2) NAHB warranty guidelines for work or products supplied by the contractor.

Contractor agrees to use written contracts and change orders and describe all prices and specifications accurately and honestly.

Contractor agrees to use only materials equal to or exceeding the quality of those specified in the contract.

Contractor agrees to maintain a credit rating in accordance with the Pocono Builders Association established bylaws as it relates to creditors, suppliers and sub-contractors and which conforms to the generally recognized accepted practices within the industry.

Contractor agrees to show the Pocono Builders Association proof of liability and property insurance. Contractor shall also have named the Pocono Builders Association as a certificate holder for worker's compensation insurance.

STANDARDS FOR THE FIRST YEAR

STANDARDS

TYPICAL CONSTRUCTION PROBLEMS	COMMENTS ON COMMON PRACTICES	CORRECTIONS SHOULD BE MADE:
1. Concrete foundation wall cracks, other than expansion or control cracks in load bearing walls.	Non-structural shrinkage or settlement cracks are common and should be expected within certain tolerances.	Any cracks 1/8" in width or greater will be repaired by surface patching or pointing; any larger and/or structural cracks will be investigated. Builder is not responsible for color variations.
2. Cracks in block or veneer walls (blocks, bricks and mortar joints).	Minor settlement cracks are common and should be expected within certain tolerances.	Any cracks greater than 1/8" in width will be repaired by surface patching or pointing; builder will not be responsible for color variations.
3. Cracks in concrete basement floors.	Minor shrinkage (hairline) cracks are common and should be expected within certain tolerances.	Any cracks greater than ¼" inch in vertical displacement will be repaired by surface patching or other remedies.
4. Vertical or Horizontal movement of slabs at joints.	Concrete slabs are engineered to move at expansion and contraction joints.	None.
5. Cracks in attached garage slab	Shrinkage cracks are common and should be expected within certain tolerances.	Cracks exceeding ¼ inch in width or ¼ inch in vertical displacement will be repaired by patching or other remedies.
6. Concrete floors in rooms designed for living having pits, depressions or unevenness.	Slopes purposefully created for drainage are not covered	If the unevenness exceeds ¼ inch in a 32 inch measurement, it will be corrected.
7. Concrete slab cracks which cause finished floor covering to rupture.		The problem will be corrected so that the defect is not readily noticeable.
8. Powdering, scaling or pitting of concrete (aggregate showing or loose)	If the problem is caused by erosion due to salt, chemicals, or unusual weather, the Builder is not responsible.	If the deterioration occurs under normal use and conditions, the contractor will repair it.

9. Cracking, settling or heaving of stops and steps.	Stoops and steps should not settle or heave in relation to the house structure. Cracks 1/8 inch in width or greater in concrete steps is not acceptable. A separation of up to ½ inch is permitted where the stoop or steps abut the house or where an expansion strip has been installed.	The builder will take whatever corrective action is necessary to meet required standards. Where repair is made to the concrete surface, such repair will match the adjoining surfaces as closely as possible.
10. Separation of brick or masonry edging from concrete slab and step.	It is common for the joint to crack between concrete and masonry due to the dissimilarity of materials.	Cracks in excess of ¼ inch will be repaired. Replacement of masonry material, if required, shall match the existing as close as possible.
11. Horizontal cracks in basement or foundation block walls	Horizontal cracks in joints of masonry walls are not common, but occur.	Contractor will repair cracks 1/8 inch or greater in widths.
12. Standing water on stoops, steps porches and attached concrete patios	Standing water is a deficiency if it is a hazard to individuals and/or causes damage to the home.	The Builder will take whatever action is necessary to eliminate standing water.
	(B) Lot Grading & Drainage	
1. Ground Settlement around foundation and utility trenches that affect drainage away from the house	Ground settlement should not disrupt water drainage from the house, although settlement up to 6" should be expected. The purchaser is responsible for the removal and replacement of shrubs, grass, etc. not installed by the Builder.	If settlement disrupts drainage within first 30 days greater than 6" in depth, contractor will regrade with existing materials.
2. Improper grades and swales which cause standing water and affect the drainage in the immediate area surrounding the home.	After normal rainfalls, water should not stand in yard for more than 24 hours nor 48 hours in swales. No decision regarding coverage will be made while frost or saturation exist on the ground.	The Builder is responsible for establishing the proper grades and swales. After that, the purchaser is responsible for maintaining them.

(C) Foundation Waterproofing

1. Water leaking into basement or crawl space	Dampness of floors and walls is common and not covered by this warranty. The Builder will not be responsible if the cause is improper landscaping, maintenance or negligence by the purchaser.	Actual leakage of water (actual flow and accumulation) into the basement and crawl space will be corrected, except where the cause is determined to be the result of owner negligence, where a sump pit has been installed by the Builder in the affected area, but the sump pump is installed by the owner in an attempt to correct the condition. Should the condition continue to exist, then the Builder shall take necessary action to correct the leakage

(D) Carpentry (Rough-In)

1. Walls which bulge, bow or are out-of-plumb.	All interior and exterior walls have minor differences.	Walls bowing more than ¼ inch within a 32 inch measurement (floor to ceiling or wall-to-wall) will be repaired.
2. Floors squeak due to improper installation or loose subfloor	A large area of floor squeak which is noticeable, loud and objectionable is a defect. A squeak-proof floor cannot be guaranteed. An isolated floor squeak is not a defect.	The Builder will correct the squeak if caused by faulty construction within reasonable repair capability. Where a finished ceiling exists under the floor, the corrective work may be attempted from the floor side. Where necessary, remove the finish floor materials to make the repair and reinstall or replace if damaged.
3. Uneven wood framed floors	Uneven floor joists causing ridges or indentations exceeding ¼ inch within a 32 inch area (measuring perpendicular to the ridge or indentation) is a defect. Floor slope within any room which exceeds 1/240 of the room width or length is a defect. Ex: 10'-0" wide room not to exceed ½" out of level.	The Builder will correct to meet warranty standards.

1.Inadequate Insulation	This warranty assures that your insulation will meet the applicable energy code requirements. If your contract with your Builder provided for additional insulation, that is a matter between you and him and is not covered by this agreement.	Builder will install sufficient insulation to meet the applicable code requirements. In the case of dispute, the cost for investigating the insufficiency of insulation and restoring areas to prior condition is the responsibility of the homeowner. If it is found that the standard has not been met by the Builder, the Builder will install sufficient insulation to meet applicable code requirements.
2. Air infiltration from electrical outlets	Electrical connection boxes are backed by the exterior wall, which may cause air infiltration. This is common in new construction.	None
	(F) Roofing	
1.Roof Leaking	The roof should not leak and no leaks should arise from flashings, except where snow and ice are allowed to build up. Prevention of snow and ice buildup is the purchaser's responsibility.	All roof and flashing leks not caused by snow and ice build up or other neglect by purchaser will be repaired. The Builder is not responsible for color variations.
2. Leaks in gutters and down spouts leaders	Gutter and leaders should not leak. However, during heavy rains, overflow should be expected. The purchaser is responsible for keeping the gutters and leaders open and free from debris.	Leaks not caused by purchaser's neglect will be repaired.
3. Water stays in gutters	Purchaser is responsible for keeping gutters and leaders open and free from debris.	Builder will repair so that if free from debris, the standing water depth will not exceed one inch.
4. In sufficient attic or roof ventilation	The applicable building codes will control.	Builder will correct to meet the applicable code requirements. The Builder will repair or replace lifted, curled, or torn roof shingles which have been improperly installed.
5. Lifted, curled, or torn roof shingles	Roof shingles which lift, curl, or tear loose during normal weather conditions is a deficiency.	
6.Standing water on built-up roof	A properly pitched built up roof is to drain water except for minor pounding. Dead flat roofs will retain a certain amount of water.	The Builder will repair all leaks due to or caused by standing water.

1.Faulty workmanship trim	Separation between siding, masonry, and trim should not exceed 3/8 inch. Siding, trim and masonry should be capable of excluding the elements.	Builder will repair by caulking or other methods.
2. Leakage of elements through attic louvers, vents and ridge or soffit vents.	Even if vents re installed according to building codes, driving snow or rain may enter. This is not a defect.	Builder will correct to meet the applicable code requirements.
3. Wall leaks due to caulking shrinkage.	All chaulking shrinks and replacement is a homeowner's maintenance item.	All junction and separation of wall surfaces will be recaulked once in first year to prevent leakage.
4.Delamination splitting, joint separation or deterioration	Purchaser must provide maintenance.	Delaminations or joint separations will be repaired and new areas only will be repainted. Builder is not responsible for color and texture variations.
5.Paint or stain peels or fades.	Some fading is normal and caused by weathering. Varnish or lacquer on the exterior will deteriorate quickly and is not covered by this warranty. Mildew and fungus on siding are caused by climatic conditions on nearby bodies of water and are not covered by this warranty	Defective areas will b corrected, and if the deterioration affects 75% of a wall, the entire area will be refinished. The builder will be responsible only matching color as closely as possible.
6. Cracks in stucco wall finish	Cracks in stucco wall finishes are common and should be expected within certain tolerances.	Cracks in excess of 1/8 inch will be repaired once. The Builder is not responsible to pointing or patching.
7. Creosote or resin build up or creosote seepage through chimney.	Creosote seepage is caused by the build up of creosote in the chimney flue which is the direct result of materials and manner in which the fireplace or stove is utilized. Burning of seasoned wood or improper operation will greatly enhance this situation. Chimney flues should be cleaned regularly.	The Builder is responsible for constructing the chimney to meet code requirements. Since the builder does not have control of the materials and non-methods used in operating, he is not responsible for any defects caused by anything other than a code violation in construction.

1. Inadequate insulation	This warranty assures that your insulation will meet the applicable energy code requirements. If your contract with your Builder provided for additional insulation, that is a matter between you and him and is not covered by this agreement.	Builder will install sufficient insulation to meet the applicable code requirements. In the case of dispute, the cost for investigating the insufficiency of insulation and restoring areas to prior condition is the responsibility of the homeowner. If it is found that the standard has not been met by the Builder, the Builder will install sufficient insulation to meet applicable code requirements.
2. Air infiltration from electrical outlets	Electrical connection boxes are backed by the exterior wall, which may cause air infiltration. This is common in new construction.	None
	(F) Roofing	
1.Roof Leaking	The roof should not leak and no leaks should arise from flashings, except where snow and ice are allowed to buildup is the purchaser's responsibility.	All roof and flashing leaks not caused by snow and ice build up or other neglect by purchaser will be repaired. The Builder is not responsible for color variations.
2. Leaks in gutter and down spouts leaders	Gutter and leaders should not leak. However, during heavy rains, overflow should be expected. The purchaser is responsible for keeping the gutters and leaders open and free from debris.	Leaks not caused by purchaser's neglect will be repaired.
3. Water stays in gutters	Purchaser is responsible for keeping gutters and leaders open and free from debris.	Builder will repair so that if free from debris, the stanind water depth will not exceed one inch.
4. Insufficient attic or roof ventilation	The applicable building codes will control	Builder will correct to meet the applicable code requirements. The Builder will repair or replace
5. Lifted, curled, or torn roof shingles.	Roof shingles which lift, curl or tear loose during normal weather conditions is a deficiency.	lifted, curled, or torn roof shingles which have been improperly installed.
6. Standing water on built-up roof	A properly pitched built up roof is to drain water except for minor pounding. Dead flat roofs will retain a certain amount of water.	The Builder will repair all leaks due to or caused by standing water.

(G) Siding and Caulking

1. Faulty workmanship trim	Separation between siding, masonry, and trim should not exceed 3/8 inch. Siding, trim and masonry should be capable of excluding the elements.	Builder will repair by caulking or other methods
2. Leakage of elements through attic louvers, vents and ridge or soffit vents.	Even if vents are installed according to building codes, driving snow or rain may enter. This is not a defect.	Builder will correct to meet the applicable code requirements.
3. Wall leaks due to caulking shrinkage.	All chaulking shrinks and replacement is a homeowner's maintenance item.	All junction an separation of wall surfaces will be recaulked once in the first year to prevent leakage.
4. Delamination splitting, joint separation or deterioration.	Purchaser must provide maintenance.	Delaminations or joint separations will be repaired and new areas only will be repainted. Builder is not responsible for color texture and variations.
5. Paint or stain peels or fades	Some fading is normal and caused by weathering. Varnish or lacquer on the exterior will deteriorate quickly and is not covered by this warranty. Mildew and fungus on siding are caused by climatic conditions or nearby bodies of water and are not covered by this warranty.	Defective areas will be corrected, and if the deterioration affects 75% of a wall, the entire area will be refinished. The builder will be responsible only matching color as closely as possible
6. Cracks in stucco wall finish.	Cracks in stucco wall finishes are common and should be expected within certain tolerances.	Cracks in excess of 1/8 inch will be repaired once. The Builder is not responsible to pointing or patching.
7. Creosote or resin build up or creosote seepage through chimney.	Creosote seepage is caused by the build up of creosote in the chimney flute which is the direct result of materials and manner in which the fireplace or stove is utilized. Burning of seasoned wood or improper operation will greatly enhance this situation. Chimney flues should be cleaned regularly.	The Builder is responsible for constructing the chimney to meet code requirements. Since the builder does not have control of the materials and non-methods used in operating, he is not responsible for any defects caused by anything other that a code violation in construction.

(H) Windows and Doors

1. Warpage of doors-passage and closet.	Some warping, especially of exterior doors, is normal and is caused by surface temperature changes. Such warping, should not cause the doors to become unuseable or allow entrance of the elements and should not exceed ¼ inch measured diagonally or vertically.	Defective doors will be repaired or replaced and the finish matched as closely as however possible.
2. Shrinkage of door panels	Expansion and contraction is normal and may cause unfinished surfaces to appear.	None.
3. Door panel splits.	Some splitting is normal and should be expected within certain tolerances.	If the split allows the entrance of light, it will be repaired. The Builder will match the finish as closely as possible.
4. Glass breakage.	Broken glass must be documented to the builder prior to first occupancy.	The Builder will replace broken glass if documented on a pre-settlement walk-through, the builder will be responsible for the repairs, If reported by the homeowner in writing no later than (30) thirty days after first occupancy.
5. Garage door malfunctions	Maintenance is purchasers responsibility.	The door will be repaired and adjusted to function as designed.
6. Rain or snow enters through garage doors.	Some entrance of the elements should be expected.	The door will be adjusted to mmet manufacturer's specifications.
7. Windows do not operate.	Reasonable pressure should open and close windows. Condensation and frost on windows are caused by climatic conditions and living habits of the purchaser and are not covered by this warranty.	Builder will repair as required.
8. Drafts around windows and doors.	Some draft is normal and can be corrected with storm windows.	Defective weather-stripping and badly fitted doors and windows will be repaired, adjusted or replaced.
9. Door binds against jamb or head of door frame. Does not latch	Passage doors that do not open and close freely, without binding against the door frame, is a deficiency. The door must latch to maintain a closed position.	The Builder will adjust the door and latch to operate properly.

10. Bottom of doors rub on carpet surfaces.	Where it is understood by the Builder and homeowner that carpet is planned to be installed as a floor finish, whether by the Builder or the homeowner, the bottom of the doors, which rub or disturb the carpet, is a deficiency. Where carpet is selected by the homeowner and installed by someone other than the Builder, his agents or subcontractors, the homeowner is responsible for any additional door undercutting..	The Builder will adjust the door to comply.
11. Excessive opening at the bottom of interior doors.	Passage doors from room-to-room that have an opening between the bottom of the door and the floor finish material in excess of 1-1/2 inch is a deficiency. Closet doors having an opening in excess of two inches is a deficiency.	The Builder will make necessary adjustments or replace the door to meet required tolerances.
12. Double hung windows do not stay in place when open.	Double hung windows are permitted to move within a two inch tolerance, up or down when put in an open position.	The Builder will adjust sash balances one time only.
13. Hardware does not work properly, fails to lock or perform its intended pruposes.	All hardware installed on doors and windows should operate properly.	The Builder will repair, adjust or replace defective hardware.
14. Storm doors and windows do not operate or fit properly.	Storm doors and windows when installed by the Builder should operate properly.	The Builder will adjust, repair, or replace as necessary for proper fit and operation.
15. Screen panels do not fit properly. Screen mesh is torn or damaged.	Rips or gouges in the screen mesh must be documented by the homeowner prior to occupancy. The screen panels shall fit properly.	The Builder will adjust screen panels to fit in the frame properly, one time only. Where tears or gouges are reported prior to occupancy, the Builder will repair or replace. If the Builder does not performance preclosing walk-through, the Builder will be responsible for repairing tears and gouges if reported by the homeowner in writing no later than thirty (30) days after first occupancy.

(I) Interior Walls & Trim

1. Faulty workmanship trim.	Some separations in moldings between mold adjacent surfaces (including casement, base, etc.) is normal and should be expected within certain tolerances.	Separation in excess of 1/8 inch will be repaired by caulking or other methods.
2. Gypsum wall board; wall and ceiling cracks and poor workmanship.	Hairline cracks and seam or tape cracks, along with other slight imperfections are normal and should be expected within tolerances. Depressions or slight mounds at nail heads are common due to contraction and expansion of lumber products.	The Builder will repair wall and ceiling cracks exceeding 1/8 inch in width once. The Builder will also repair tape blisters, excess compound and trowel marks. The Builder is responsible for repainting only the affected area, unless the majority of a wall or ceiling is affected. Color will be matched as closely as possible.
3. Cracking of ceramic wall tile and grout.	Cracking of grout joints is common and is homeowner responsibility, after the first year of warranty. Open cracks or loose grouting, where the wall surface abuts the flashing lip at tub or shower basin, are considered a homeowner's maintenance item any resultant damage to other finished surfaces due to leaks, etc. are not covered by this warranty.	The Builder will replace broken tiles, and excessive cracking of grout joints will be repaired one time only. Builder is not responsible for discontinued patterns or colors or for variations in color.
4. Wallpaper or covering begins to peel	The purchaser should be careful not to cause this problem by negligence, such as consistent use of the shower without an exhaust fan being on. Mismatches on wallpaper edging is not covered.	The peeling will be corrected by repair or replacement. Builder is not responsible for discontinued patterns or colors or for variations in color.
5. Variation in paneling color; scratches or checks on finished surfaces	Plywood paneling pattern and color will often vary and is not considered a deficiency. Scratches and checks on the paneling surface are deficiencies, if reported on a pre-closing walk-through inspection report.	The Builder will repair damaged paneling, if such damage was documented on a pre-closing walk-through. The Builder will be responsible for repairing the defects, if reported by the homeowner in writing no later than thirty(30) days after first occupancy. Builder is not responsible for discontinued panels or color variations.
6. Interior paint not applied in a manner sufficient to visually cover wall, ceiling and trim surfaces.		The Builder will repaint wall, ceiling or trim surfaces where inadequate paint has been applied. Where 75% of an area is affected the entire surface shall be painted.

7. Lumps, ridges and nail pops in wall board which appear after homeowner has wall covering installed by others.	The homeowner shall insure that the surface to receive wall covering is suitable and assumes full responsibility should lumps, ridges and nail pops occur.	None
	(D) Flooring & Covering	
1. Separations between finished floor boards.	Some separation is normal and should be expected within certain normal tolerances.	Separations exceeding ¼ inch in width will be repaired by filling or repairing at this option. The nail pops will be repaired and the covering repaired or replaced in the damaged area. Builder is not responsible for discontinued patterns or colors or for variation in color.
2. Nails popping through resilient flooring.	Only nails which have broken through the floor covering will be repaired.	
3. Sub-floor imperfections causing ridges.	Minor ridges or indentations are common and should be expected within certain tolerances.	Ridges or indentations in excess of 1/8 inch (measured with a straight edge perpendicularly over the ridge and the deflection, measured no more than 3 inches from the ridge) will be repaired and affected floor covering will be replaced. Builder is not responsible for discontinued patterns or for variations in color.
4. Floor covering becomes loose or bubbles		Gaps in excess of 1/8 inch will be repaired or replaced at the affected area. Builder is not responsible for discontinued patterns or colors or for variations in color. Where dissimilar materials abut, a gap of 3/16 inch will be repaired.
5. Gaps in seams of resilient coverings.	Minor gaps are common and should be expected within certain tolerances. When the purchaser installs flooring and covering, subfloor preparation is his responsibility. If subfloor repairs are to be made under purchaser, installed floor covering, the removal and replacement of the floor covering is the purchaser's responsibility.	
6. Gaps in carpet	Seams will be apparent. Spotting or fading of carpet is not covered by this warranty.	The carpet will be repaired or restretched if necessary so gaps are not visible.

7. Hard surface flooring (flagstone, marble, quarry tile, slate, ceramic tile, etc.) cracks or becomes loose.	Hard surface flooring should not crack or become loose. Cracking and loosening of hard surface flooring caused by homeowners negligence is not a defect.	The Builder will determine the cause for the cracking or loosening of the hard surface flooring and if not due to owner negligence, correct the cause for the loosening and cracking. Builder will replace cracked material or reset loose flooring. The Builder is not responsible for slight color and pattern variations or discontinued patterns of the manufacturer. It shall not be required to replace the entire finish when the new material consists of less than 25% of the finish area.
8. Cracks appear in grouting of ceramic floor tile joints or at junctions with other materials, such as a bathtub or shower.	Cracks in grouting of ceramic floor tile are defects. Regrouting of these cracks is a maintenance responsibility of the homeowner after the first year of warranty.	The Builder will repair as necessary, one time only within the first year.
9. Carpeting comes loose or excessive stretching occurs.		The Builder will resecure loose carpeting one time only
10. Spots on carpet, minor fading	Spots or stains on the carpeting is a defect, if reported on a preclosing walk-through report.	The Builder will remove spots and stains on a one time basis, if reported on a pre-closing walk-through; or replace if excessive spots and stains cannot be removed. If the Builder does not perform a preclosing walk-through, the Builder will be responsible for spots and stains reported by the homeowner in writing no later than thirty(30) days after first occupancy..
	(K) Cabinets & Countertops	
1. Vanity or kitchen countertops or cabinets chip, crack or delaminate.	Cracks and chips including porcelain and fiberglass fixtures, not reported to the Builder prior to occupancy, will not be covered by this warranty.	Chips, cracks, or delamination will be repaired.
2. Cabinet doors or drawers warp.	Minor warpage is common and should be expected with certain tolerances.	Separation in excess of ¼ inch will be repaired or the cabinet will be replaced.
3. Cabinet separates from wall or ceiling.	Some separation is common and should be expected within certain tolerances.	Separation in excess of ¼ inch will be repaired or the cabinet replaced.

(L) Cooling & Heating

1. Insufficient cooling	Where applicable, the cooling system should be able to maintain a temperature of 78 degrees (measured 5' above the center of the floor) under local outdoor ASHRAE specifications. In the case of excessive outdoor temperature, a 15 degree difference is acceptable. Owner is responsible for minor adjustments such as balancing dampers and registers. All rooms will vary in temperature by 3 or 4 degrees. This is acceptable.	The Builder will repair the system so that it will perform as described.
2. Insufficient Heating	The heating system should be able to maintain a temperature of 70 degrees (measured 5' above the center of the floor) under local outdoor ASHRAE specifications. Owner is responsible for minor adjustments such as balancing dampers and registers. On extremely cold days a 5 to 6 degree difference between actual inside temperature and thermostat setting is acceptable. All rooms will vary in temperature by 3 to 4 degrees. This is acceptable.	The Builder will repair the system so that it will perform as described. The Builder will balance dampers, registers and minor adjustments one time only.
3. Ductwork noisy	When metal ducts heat and cool, some noise will result. Very loud noise as oil canning is not acceptable.	Builder will correct the oil canning noise only.
4. Ductwork and heating piping not insulated in uninsulated areas.	Ductwork and heating pipes that are in uninsulated crawlspaces, garages, or attics are to be "uninsulated areas" and no insulation is required.	The Builder will install required insulation.
5. Improper mechanical operation of evaporative cooling system.	Equipment should function properly at temperature standard setting.	The Builder shall correct and adjust so that the blower and water system operate as designed.

	(M) Plumbing	
1. Plumbing pipes freeze	Owner is responsible for maintaining suitable temperatures in the home to prevent pipes from freezing. Proper winterization is a homeowner maintenance item.	None.
2. Plumbing fixtures, appliances and trim fittings, leaks or malfunctions.	Leakage caused by worn or defective washers or seal is a homeowner maintenance item.	Leaks or malfunctions in faucets, valves, appliances and trim fittings caused by defects in materials or workmanship will be corrected.
3. Pipes noisy	Expansion and contraction, caused by water flow will cause some noise which is to be expected.	Loud hammering noises in pipes will be corrected.
4. Cracks or chips in porcelain or fiberglass	The owner should inspect these items before taking occupancy and report them to the Builder prior to occupancy	The Builder will be responsible for these items only if reported prior to occupancy. If Builder does not perform a pre-closing walk-through, the Builder will be responsible for the repairs, if reported by the homeowner in writing no later than thirty (30) days after first occupancy.
5. Staining of plumbing fixtures due to high iron content in water.	High iron content in the water supply system will cause staining of plumbing fixtures. Maintenance and treatment of the water is the homeowner responsibility.	None.
	(N) Electrical	
1. Outlets, switches or fixtures fail or malfunction		Defective outlets, switches and fixtures will be repaired and replaced.
2. Consistently blown fuses and circuit breakers kicking off	Builder will not responsible, if caused by overloads in the system.	Builder will inspect and repair any defects caused by noncompliance with applicable building and electrical codes.
3. Ground fault interrupters trip frequently	Ground fault interrupters are sensitive safety devices installed into the electrical system to provide protection against shock. These devices are sensitive and can be tripped very easily. Ground fault interrupters are required on outlets in the kitchen, bath and powder rooms, along with all exterior outlets.	The Builder will replace the outlet if defective.

CONTRACTOR QUALITY COMMITMENT

The Contractor Quality Commitment is a program developed by Pennsylvania Builders Association.

And adopted by Pocono Builders Association. Contractors in the CQC program have agreed to abide

By a number of standards and practices and are committed to producing a quality product for their

Customers.

A CQC contractor offers:

- Written Contracts
- Evidence of insurance
- An excellent record of past work
- Permanent business location
- Good reputations with local suppliers

SO-before you build or remodel make sure you contract with a

CQC Contractor.

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Joint Testimony
Presented by
Gary P. Taylor, MAI, SRA
President, Appraisal Institute
President, Rogers & Taylor Appraisers, Inc.
Hauppauge, New York

On Behalf of the

Appraisal Institute
American Society of Appraisers
American Society of Farm Managers and Rural Appraisers

Before the Subcommittee on Capital Markets, Insurance and
Government Sponsored Enterprises
On

"Broken Dreams in the Poconos: The Response of the Secondary Markets and
Implications for Federal Legislation"

Presented by
Gary P. Taylor, MAI, SRA
President, Appraisal Institute
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June 14, 2004

Joint Testimony Presented by Gary P. Taylor, MAI, SRA
On Behalf of the
Appraisal Institute
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Before the
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
Committee on Financial Services
United States House of Representatives

Chairman Baker, Ranking Member Kanjorski and members of the Subcommittee, I am Gary P. Taylor, MAI, SRA, President of Rogers and Taylor Appraisers, Inc., in Hauppauge, New York. I am pleased to be here today on behalf of the Appraisal Institute, American Society of Appraisers, and the American Society of Farm Managers and Rural Appraisers, the three largest professional appraisal organizations in the United States, representing more than 25,000 real estate appraisers. I am the 2004 President of the Appraisal Institute.

Thank you for holding this hearing on mortgage fraud in the Poconos. Over the past decade, hundreds of homebuyers have been forced into financial duress as a result of fraudulent land deals struck by industry insiders and scam artists. Inflated, and fraudulent real estate appraisals played a role in some of these transactions, which is a concern to me and my fellow professionals.

The situation in the Poconos is sad and in many ways disgusting. In the past decade, lenders have brought foreclosure proceedings against 5,700 homes in Monroe County, Pennsylvania, which is more than one in five of all mortgaged homes in the county, while banks have bought back more than $20 million in bad mortgages from secondary market participants, Fannie Mae and Freddie Mac. This has prompted numerous investigations by state and federal authorities to determine whether these transactions are predatory in nature.

Unfortunately, many of the problems encountered in the Poconos are not unique to this area. Problem appraisals are being allowed, and in some ways even encouraged, by a regulatory structure that promotes lax enforcement and ineffective oversight. Without action by Congress, this will continue to occur. After reviewing the activities in the Poconos, and having witnessed other mortgage fraud schemes throughout the country, we are here to alert Congress that the licensing system it created for appraisers is broken, is not up to the requirements of the changing market demands in the 21st century, and needs to be fixed if we are going to avoid such situations in the future.

The Poconos

As Forest Gump might have said, "Evil is as Evil does," there is truly no way to legislate morality or ethical behavior. However, we believe that there are actions that can be taken to limit public and monetary exposure to corrupt appraisers.

The rampant mortgage fraud in the Poconos is evidence of a national problem involving the entire appraisal regulatory structure and the real estate finance markets. Here we saw appraisers artificially inflate property value to help facilitate fraudulent transactions. Collusion and unethical behavior played a defining role in most of these transactions, witnessed by the fact that a prominent appraiser was the son-in-law of a mortgage broker who was a partner of a major developer in the area.

We believe the current laws governing appraisals are ill equipped to deal with these situations. It is all too common for appraisers to be pressured by mortgage brokers and other larger real estate players, as was reportedly done here. Yet there is no law outlawing this practice, nor are many of the mortgage brokers (an increasing factor in the mortgage process) regulated. In addition to this, federal banking regulators have not enforced current appraisal independence regulations, which require appraisals to be ordered and reviewed by a person independent from those making loan decisions. As a result, we estimate that perhaps thousands of financial institutions are currently not in compliance with current appraisal requirements.

Also not unique is a lack of effective appraisal oversight and enforcement by both state and federal officials. Only after massive public outcry was the most prominent appraiser involved in Poconos land deals forced to hand over his appraisal license. The state appraisal board has been slow to act, and while federal authorities have identified problems, they have yet to do anything about them. We have a serious problem on our hands, and it must be dealt with to avoid these situations in the future.

Appraisers and the Appraisal Regulatory Structure

Competent and qualified real estate appraisers serve as a crucial safeguard in our banking system, but lax enforcement and ineffective federal oversight of appraiser regulation serve to diminish this safeguard. A professional appraiser's objectivity, training, experience and ethics are fundamental in helping participants in residential and commercial real estate mortgage transactions assess the value of real estate and understand the risks involved in collateral lending. Trillions of dollars are invested in real estate in the United States, so it is of paramount importance that appraisers be qualified and adequately trained and have sufficient experience in the type of property under consideration. Also important is a system of enforcement with the authority to help ensure that appraisers are properly educated and experienced.

As you know, the Savings and Loan crisis of the 1980s led Congress to enact the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). Title XI, the "Real Estate Appraisal Reform Amendments," was enacted to protect federal financial and public policy interests in real estate-related transactions by requiring that real estate appraisals be performed by individuals with demonstrated competency in both education and experience. FIRREA mandated licensing or certification pursuant to

national standards, but the resulting regulatory structure has become tangled and overly complex. The system involves:

- Licensing and certification boards in all states and territories, each with differing interpretations of FIRREA as well as differing agendas and funding;
- Minimum qualifications criteria established by the Appraiser Qualifications Board of The Appraisal Foundation, a non-profit education organization;
- Appraisal standards (the *Uniform Standards of Professional Appraisal Practice*) established by the Appraisal Standards Board of The Appraisal Foundation; and
- Federal oversight by the Appraisal Subcommittee of the Federal Financial Institutions Examinations Council.

Unfortunately, FIRREA and its resulting complexity have adversely affected the appraisal profession and, in our view, put consumers, the states and the federal insurance funds at risk, as they have done in Northeastern Pennsylvania. Much of the complexity was identified by a report issued by the General Accounting Office (GAO) in 2003[1]. We believe the problems are in four categories:

1. Lack of accountability
2. Ineffective and counter-productive state enforcement programs
3. Minimum qualifications and discouragement of professional development
4. Inadequate appraiser independence safeguards

The Multi-pronged System Lacks Accountability

Title XI created the Appraisal Subcommittee to oversee the activities of the states and many of the activities of The Appraisal Foundation. The Appraisal Subcommittee is essentially a junior subset of the Federal Financial Institutions Examinations Council. The Appraisal Subcommittee funds a portion of The Appraisal Foundation's expenses. Ironically, individual state certified and licensed appraisers fund the Appraisal Subcommittee operations through license fees collected by the states. Individual appraisers are assessed a $25 annual fee passed through to the Appraisal Subcommittee, which has amassed a sizable reserve fund for no identified purpose.

Effective Oversight of the Appraisal Subcommittee

We are concerned with the lack of oversight of the Appraisal Subcommittee. By and large, the Appraisal Subcommittee is operating in an insulated environment without any practical accountability.

Providing federal oversight of an activity traditionally regulated by the states (licensing), the Appraisal Subcommittee is a hybrid federal agency that has conducted much of its business in the dark and with no direct input from the appraisal profession. The Appraisal Subcommittee is composed of staff bank examiners and program staff from the five federal financial institution regulators and one from the

[1] "Opportunities to Enhance Oversight of the Real Estate Appraisal Industry," General Accounting Office 03-404, May 2003.

Department of Housing and Urban Development. It meets quarterly in Washington, but does not allow for public access or participation to their activities and meetings.

The Appraisal Subcommittee staff performs audits of state appraiser boards on a three-year rotation cycle, and works with state boards on Title XI compliance. The Appraisal Subcommittee posts some of the results of its audits on its Web site and a portion of this information is released in its Annual Report to Congress. Section 1103 of Title XI requires the Appraisal Subcommittee to issue an annual report to Congress no later than January 31 of the following year. The report itself historically has been little more than a financial statement, containing sparse information on the audits that were conducted with few compliance statistics. In addition, the reports are consistently delivered late to Congress, such as this year, when the report was not distributed until April.

Finally, when implementing FIRREA, the five federal financial institution regulators failed to take the licensing and certification requirement seriously. Through regulation the law was effectively modified to exempt a significant percentage of transactions in the residential mortgage market from being appraised by licensed and certified appraisers. As originally contemplated, all federally regulated transactions greater than $15,000 would require an appraisal by a licensed and certified appraiser, but with a regulatory sleight of hand the de minimis threshold was created and now the mortgage amount must exceed $250,000 before an appraisal by a licensed or certified appraiser is required. As a result, a significant portion of the real estate valuation work throughout the country takes place in the form of "evaluations," automated valuation models (AVMs), "broker price opinions" (BPOs), or through "competitive market analysis" (CMA) reports. In many cases, evaluations are done by staff of institutions that have a vested interest in a real estate transaction. This negates the benefit of having an independent third party involved in the real estate transaction, while omission of a licensed or certified appraisal requirement for properties under $250,000 creates a disruptive gap in the enforcement of appraisal standards.

Appraisal Subcommittee Oversight of States

Not only are the Appraisal Subcommittee's operations insular, but they are for the most part impotent. Recommendations from federal regulators are routinely disregarded by state appraisal boards, contributing to a cycle of ineffective enforcement. The only *real* power the Appraisal Subcommittee has over state appraisal boards is the authority to "decertify" a state if it is found to be out of conformance with Title XI. This specific power has generally become known as the "atomic bomb," because if it were to be invoked, virtually all mortgage lending in that state would cease. The Appraisal Subcommittee has never used this power, and is unlikely to ever use it. Such an unrealistic threat is an ineffective way to promote sound processes in the states.

According to the latest annual report issued by the Appraisal Subcommittee, a full 43 percent of the state appraisal regulatory agencies reviewed in 2002 either failed to resolve complaints against real estate appraisers expeditiously or were inconsistent in applying disciplinary sanctions; failed to pursue all alleged violations of the Uniform Standards of Professional Appraisal Practice; or did not adequately document enforcement-related files. In addition, one state failed to forward disciplinary actions to the

Appraisal Subcommittee, which is required by Title XI and Appraisal Subcommittee Policy Statement 9. The fact that so many state appraisal boards failed to resolve complaints against appraisers in an expeditious manner is deeply troubling.

The Appraisal Subcommittee during its last two field reviews in Pennsylvania highlighted slow complaint and investigation processes by the State Board of Certified Real Estate Appraisers. In 2003, the Appraisal Subcommittee found that out of 168 complaint cases that were open at the time of their review, 115 were more than a year old[2]. Even more troublesome is that the concern over slow complaint and investigation processes does not appear to be a new one. The Appraisal Subcommittee brought to light similar concerns dating back to 2000, yet no action was taken by the Appraisal Subcommittee to ensure adequate processing of appraiser complaints. These weaknesses were never reported to Congress, and no requirements or sanctions were placed on the Pennsylvania Board.

Examples of state appraisal board actions that have occurred without consequence from the Appraisal Subcommittee include:

- Hundreds of appraisers in Oklahoma who failed to meet the minimum requirements for licensing and certification were "grandfathered" under a new licensing law passed by the Oklahoma Legislature and endorsed by the Oklahoma Real Estate Appraiser Board Division;
- Failure of the New York Division of Licensing Services to revoke an appraiser's license following a guilty plea for "filing false documents," leading to two years probation and more than $100,000 in fines and restitutions, because his certification would "not involve unreasonable risk to the safety and welfare of the general public."[3]
- Complaints against appraisers in multiple states that have gone unresolved up to eight years.

Ineffective and Counter-Productive State Enforcement

While there are many dedicated individuals on state appraiser boards, many times their ability to carry out their charge is compromised due to lack of funding or administrative support. Too often, complaints against real estate appraisers in states are not reviewed by state appraiser boards, leading to a lack of disciplinary action against poorly performing appraisers. Some state boards have been known to spend inordinate time and research and collect fines for inconsequential offenses, leaving little time for enforcement of major issues. Additionally, it is common for state officials enforcing national Uniform Standards violations to not have taken a course on such Standards.

Concerns with state enforcement agencies include:

- Failure to review complaints in a timely manner or review them at all
- Failure to apply appraisal review procedures consistently
- Failure to prescribe disciplinary action against appraisers for poor performance

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[2] 2003 Appraisal Subcommittee Field Review of the Pennsylvania Board of Certified Real Estate Appraisers May 21, 2003.

[3] Christian Murray, "Appraising the Appraisers," *Newsday*, August 9, 2002.

- Failure to provide adequate resources to investigate complaints as licensing fees are often commingled with the state's general fund and not used for oversight purposes as intended.

Neglectful Supervision and Administration

Since Title XI was enacted, it has been difficult to achieve necessary consistency among the states for enforcement of both standards and certification requirements. Whether through a lack of resources or a lack of will by those charged with providing oversight, the current system allows some unscrupulous and unqualified appraisers to continue practicing and provides little or no recourse for their actions. In fact, some of these very appraisers have been linked to mortgage fraud schemes throughout the country.

For example, within the last year, a real estate appraiser in New York was found guilty and convicted of a felony for grossly inflating appraisals. His state license was revoked, and he served a jail sentence for one year. Upon his release, he challenged the state appellate court to have his license reinstated. The court overturned the ruling of license revocation, determining that he had served his time sufficiently and that he must return to becoming a "beneficial member of society." Amazingly, this fraudulent appraiser charged with participating in numerous land scam schemes is now a practicing appraiser--sanctioned--in New York.

New York is not alone in handling such cases carelessly, as a similar case was brought to light last month in Maryland. In June 2003, an appraiser who pled guilty to appraisal fraud admitted that the government lost between $500,000 and $800,000 due to his actions. In the fall 2003, he applied to renew his license. On the online application, he answered "no" to whether or not he had ever been convicted of a felony. According to his attorney, he answered the question honestly because in the federal system, one is not convicted until sentenced, and the appraiser was not sentenced until February 2004. Thus the Maryland Commission of Real Estate Appraisers and Home Inspectors renewed his license last October for another three years. A spokesperson for the Maryland Commission said to the *Baltimore Sun*, "All we have to go by is the honesty of the licensee. We are not required to perform background checks; moreover, the financial and personnel resources are not available at this time."[4]

Deficiencies with state appraisal complaint systems were noted in the GAO Report, most notably in relation to a government-sponsored enterprise (GSE) that recently began to refer poor appraisals to state appraiser boards. Between August 2001 and August 2002, 860 referrals were made to 45 different state regulatory agencies. Officials from the GSE commented to the GAO that they had been dissatisfied with some state decisions on punitive actions and with the lack of feedback on actions that had actually been taken. The officials added that some states do not penalize appraisers for multiple violations if the appraisers have already been disciplined or do not tell complainants what action was taken. The officials reported that they have observed a lack of consistent and effective investigation and enforcement by some of the states. As an example, they noted that some states appeared to perform meaningful

[4] John B. O'Donnell, "Real Estate Appraiser Faces Sentencing in Property Flipping Plot; Man Still Holds License Despite Pleading Guilty," *Baltimore Sun*, February 27, 2004.

investigations and took appropriate actions while other states appeared unwilling to investigate similar cases with comparable support and documentation.

The Burden of Working Across State Lines

While FIRREA's complexity is causing problems with state enforcement, it is also placing a significant burden on appraisers working in more than one state. For example, a member of the Appraisal Institute from Virginia recently applied for a license in the State of Indiana. This individual is currently certified in Virginia, Maryland, New Jersey, West Virginia, Ohio and Tennessee. After submitting the lengthy documentation on education and experience, the appraiser was notified that his application was to be tabled for six months because his education did not meet their standards. This individual has taken virtually all of the courses offered by the Appraisal Institute and regularly teaches advanced curriculum courses across the country and in other countries.

This system has discouraged many appraisers from practicing in multiple states and has negatively impacted the typical small business owner. Appraisers are paying a heavy price for redundant licenses while being denied others because of the bureaucratic nightmare created by FIRREA. A substantial percentage of real estate appraisers in this country are asked to perform real estate appraisal assignments that are not in their home state. This was not a major problem prior to the enactment of FIRREA; however, with its implementation each state must now take appropriate measures to facilitate the work of out-of-state appraisers who do business in multiple states.

Our organizations believe that there are two appropriate methods for handling inter-state appraisal work. The first method, "Temporary Practice," is mandated by Title XI, but unfortunately this fact was overlooked by many states and this provision of Title XI has not yet been properly implemented throughout the country.

The second method, "Reciprocity," is not mandated by Title XI but in most cases will provide the maximum benefit to the public with the least amount of difficulty for the state regulators. In many parts of the country, the geographic areas for an appraiser's day-to-day business may lie within two or three states. In such cases, the "temporary practice" provisions are not appropriate to handle the appraiser's out-of-state business and the appraiser may be forced to become licensed or certified in two or more states. This means that several states may be required to administer the same process over and over again with no demonstrable benefit. In such situations, reciprocity agreements make a great deal of sense because they avoid duplication of effort and, by doing so, lessen the administrative burden on each of the various states involved and the appraiser. To date, 12 jurisdictions have no reciprocal agreements in place, and those that do are not universal between all states. Virtually no new reciprocal agreements have been drafted since the early 1990s.

Minimum Qualifications and Discouragement of Professional Development

An important goal of FIRREA was to ensure that appraisals are performed by competent appraisers. However, in practice, FIRREA has had the opposite effect because it stresses merely minimum

qualifications. This emphasis has severely curtailed the continuing development of professionalism in the appraisal community.

Users of appraisal services are in the best position to speak to changes in quality of appraisal services since the passage of FIRREA. In a poll conducted recently by the Appraisal Institute of significant users of appraisal services[5], 50 percent responded that the quality of appraisal services and appraisal reporting has declined, whereas only 28 percent said appraisal services and reporting have improved. This is consistent with discussions various appraisal organizations have had with users of appraisal services for the past several years.

As we reflect upon FIRREA, it is clear that the requirements for licensing and certification were set too low. Unfortunately, many clients see the possession of a license to be the only necessary qualification and stop short of fully considering the issue of competency for a particular appraisal. Likewise, many appraisers believe it is enough to meet the minimum requirements. What the FIRREA legislation missed is recognition that attaining the minimum level of education and experience for a license or certification does not necessarily qualify the licensee as competent to appraise.

While our professional organizations maintain high standards and strict codes of ethics and effective peer review, less than 40 percent of all licensed and certified appraisers choose to be affiliated with such organizations. Currently, there are approximately 80,000 licensed and certified appraisers in the United States; out of this total; approximately 50,000 appraisers do not belong to professional appraisal organizations.

Those appraisers who have only met minimum state licensing and certification requirements tend to be less experienced and less qualified than appraisers with professional designations; 84 percent of users of appraisal services say this is the case. Ironically, after FIRREA was passed, our organizations saw appraisers retreat from professional organizations, as the federal government dictated that minimum levels were all that were necessary to perform appraisals in federally related transactions. As an example, in the case of the Appraisal Institute, from the early to late 1990s, membership dropped from over 35,000 members to slightly more than 16,000 members. The Appraisal Institute was not alone in this troubling circumstance.

Particularly problematic is a bizarre discrimination provision formulated against designated appraisers contained in Section 1122 of FIRREA, ironically referenced as the "Anti-Discrimination" clause. This section states:

> *"Criteria established by the Federal financial institutions regulatory agencies...for appraiser qualifications in addition to State certification or licensing shall not exclude a certified or licensed appraiser for consideration for an assignment solely by virtue of membership or lack of membership in any particular appraisal organization."*

[5] "Appraisal Quality Post-FIRREA," A *Survey of the Appraisal Institute's 2000-2004 Client Advisory Committee Members*, March 21, 2004.

In this case, the mischaracterized "discrimination clause" of FIRREA actually promotes discrimination against appraisers who have practiced appraisal for years and have achieved the highest credentials the industry offers. This section of FIRREA has been read to mean that a person need not be a member of a professional organization to be an appraiser. While this statement may be true, making such a statement is much like saying that consumers seeking medical care should not seek board-certified physicians or that a school should hire people with GEDs over those with PhDs. Fundamentally, it fails to recognize the intense work and diligence that thousands of professional appraisers have put into earning and maintaining their status as the most competent and experienced appraisers in the profession. The public and the real estate community should be aware that there are professional organizations that confer designations to appraisers who have advanced themselves significantly beyond the minimum requirements of FIRREA.

For decades, since the profession was organized in the 1930's, it has been the professional appraisal organizations that have developed and maintained the basic principles and methodologies used by practitioners, and this continues to this day. Without professional appraisal organizations, the fundamental body of knowledge of real estate valuation would not exist. To dismiss this segment of the lifeblood of the profession is a grave oversight with serious repercussions.

Inadequate Appraiser Independence Safeguards

While FIRREA did provide for some separation between the real estate appraisal and loan production processes inside financial institutions, FIRREA failed to adequately address the issue of appraiser independence. Although federal agencies issued the Interagency Appraisal and Evaluation Guidelines in 1994, recent bank examinations have indicated that this separation is failing to curb pressure to coax real estate deals along by influencing the independent judgment of appraisers. In October 2003, the five financial institution regulators issued an interagency statement reminding financial institutions that the 1994 Guidelines require borrowers and loan production staff not to exert influence over the selection of appraisers. However, our members report that this is a regular occurrence. In fact, some financial institutions, unregulated mortgage brokers and others require a pre-determined value to be met by an appraiser in order to receive future assignments from that institution. Such comments are often backed up by threats of coercion and non-payment for services. FIRREA was established to avoid such circumstances, yet they are occurring every day under its purview.

There are relatively few options that appraisers have when confronted by inappropriate client pressure:

- First, the appraiser could turn down the assignment, or just say no. Many appraisers do this; however, given the dilution of the licensed appraiser market, our members report that it is likely that a financial institution will find an appraiser who is willing to bend to their request.
- Second, the appraiser could tell the individual ordering the appraisal that national uniform standards and state and federal laws require appraisers to perform assignments ethically and competently and that they would like to discuss and resolve any remaining concerns or issues. Appraisers and clients have such conversations on a regular basis, but appraisers are oftentimes

faced with having to meet a predetermined value. This is particularly the case with many mortgage brokers and others whose compensation is driven by production.

- Third, the appraiser could report the activity to the appropriate enforcement authority. However, when doing so, the appraiser would have to ensure it was sent to the proper agency. Complaints against national banks would have to be sent to the Office of the Comptroller of the Currency; credit unions to the National Credit Union Administration, etc. Many parties, such as some mortgage brokers, are completely outside of a regulatory system. In these cases, the appraiser is simply forced to lose a client.

A particular problem revolves around the fact that those who have a vested interest in the closing of the deal are the ones ordering the appraisals. The 1994 Interagency Appraisal and Evaluation Guidelines call for a separation of loan production and credit analysis. However, federal bank regulators have identified problems in this area, which forced them to issue a new Interagency Statement on Independent Appraisal and Evaluation Functions in October of 2003, which we are attaching for the record with this testimony.

The 2003 Interagency Statement reaffirmed the 1994 Interagency Appraisal and Evaluation Guidelines with regard to appraisal independence requirements and warned banks that they will be examining on this issue. However, it is our understanding that, to date, relatively few banks have been examined on this issue. Additionally, our conversations with bank appraisal staff and bank compliance officers indicate that many banks are currently out of compliance with this regulation. Because of this, many banks allow loan officers and underwriters manage the entire appraisal process from order to review, which in our estimation is a prime reason for the intense pressure on appraisers.

Greater attention must also be focused on the appraisal practices of mortgage brokers and non-bank financial institutions, which are not directly regulated under FIRREA. Our members report the mortgage brokers are a major source of inappropriate client pressure to meet predetermined values. Mortgage brokers are generally unregulated, and many have only a cursory understanding of the appraisal process and how it relates to finalizing mortgage transactions. Yet in many situations mortgage brokers have been charged by banks with managing the appraisal process.

Also of concern are non-bank mortgage lenders, or *mortgage banks*, which are not regulated by FIRREA. Most of these organizations are regulated by the states. Although the Federal Trade Commission provides cursory oversight from a consumer protection standpoint, we are not aware of any FTC-mandated appraisal requirements for these institutions. Large volumes of mortgages originate through these institutions, and to this point, their appraisal practices have gone generally unchecked. This is an area that should be explored further by Congress.

Legislative Recommendations

These circumstances will not be improved until there is accountability for regulators charged with overseeing the system. Current law needs to be enforced, such as the 2003 Interagency Statement on

Independent Appraisal and Evaluation Functions, which should be advanced immediately by federal banking regulators.

However, we believe current law leaves regulators poorly equipped to address appraisal concerns. For the reasons listed above, the Appraisal Institute urges Congress to explore the following suggestions as a starting point for addressing weaknesses in the appraisal licensing system. These suggestions emphasize improving state appraisal board complaint processes, inserting accountability measures over the Appraisal Subcommittee and promoting consumer awareness and professionalism. Consider:

1. Requiring the Appraisal Subcommittee to report to Congress annually their assessment of the effectiveness of each state's enforcement processes as part of their Annual Report, including results of all audits performed that year and a performance rating for all state appraisal boards.

2. Requiring adequate funding for state appraisal boards for disciplinary functions enforced by the Appraisal Subcommittee.

3. Modifying the makeup of the Appraisal Subcommittee to reflect broader representation, including an industry advisory council composed of practicing professional appraisers.

4. Requiring the Appraisal Subcommittee to issue guidance to states addressing common deficiencies.

5. Requiring the Appraisal Subcommittee to conduct public meetings.

6. Requiring the Appraisal Subcommittee to consult and interview real estate finance industry participants, including practicing professional appraisers, when conducting field reviews of state appraisal board operations.

7. Requiring the Appraisal Subcommittee to share information from the National Registry of Appraisers with other federal agencies, including the Federal Bureau of Investigation for anti-fraud purposes.

8. Requiring the head of the Appraisal Subcommittee to be confirmed by the United States Senate.

9. Ensuring accountability of the Appraisal Subcommittee, and only then, providing it with authority to sanction consistent with its responsibility to monitor the activities of state appraisal boards.

10. Granting the Appraisal Subcommittee authority for reciprocity of qualifications among licensing jurisdictions.

11. Extending authority to the Appraisal Subcommittee for uniform temporary practice among licensing jurisdictions.

12. Recognizing and encouraging the use of designated appraisers with qualifications beyond merely licensed and certified.

13. Providing penalties for engaging in appraiser coercion and creating adequate resources for appraisers to report instances of such.

14. Encouraging state appraiser boards to recruit the best qualified candidates to participate on board activities, regardless of membership in professional appraisal organizations.

15. Requiring all regulated financial institutions to retain copies of all appraisals in loan files, even appraisals that are NOT used in the decision to lend.

Concluding Remarks

There is an immediate need to find solutions to deficiencies in current appraiser licensing system and our organization is committed to assisting you in this effort. We look forward to working with you to identify solutions to solve the problems associated with the current appraiser regulatory structure. Please contact Don Kelly, Vice President of Public Affairs, Appraisal Institute, at 202-298-5583, dkelly@appraisalinstitute.org, Ted Baker, Executive Vice President, American Society of Appraisers, at 703-733-2109, tbaker@appraisers.org, or Steve Runyan, Government Relations Chair, American Society of Farm Managers and Rural Appraisers at (661) 587-7200, srunyan@bak.rr.com.

Thank you Mr. Chairman and members of the committee. That concludes my statement.

About the Organizations

As the leading organization for professional real estate appraisers, the Appraisal Institute represents more than 18,000 members worldwide. Members benefit from an array of professional education and advocacy programs, and may hold the prestigious MAI, SRPA, and SRA designations. Appraisal Institute members adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice. For more information regarding the Appraisal Institute, please visit www.appraisalinstitute.org.

The American Society of Appraisers is an organization of appraisal professionals and others interested in the appraisal profession. International in structure, it is self-supporting and independent. The oldest and only major appraisal organization representing all of the disciplines of appraisal specialists, the society originated in 1936 and incorporated in 1952. ASA's headquarters is in the Washington, D.C., area.

The American Society of Farm Managers was founded on January 14, 1929, by a core of dedicated farm managers from Illinois, Iowa and Missouri who felt that farm management professionalism was critical to the future of farming. In 1936, the organization was expanded to include appraisers who specialized in determining the value of farms and other rural properties. At that time, the name was changed to the American Society of Farm Managers and Rural Appraisers (ASFMRA).

Statement of Al Wilson
Defrauded Homeowner
and
Founder and CEO, Pocono Homeowners Defense Association

Before
the United States Congress
Committee on Financial Services
Field Hearing
"Broken Dreams in the Poconos"

East Stroudsburg University
June 14, 2004

Introduction

Chairman Baker, Ranking Member Kanjorski, Distinguished Members of the Committee:

Thank you for an opportunity to come before you to share the concerns of serious issues facing families that have become victims of predatory lending.

The Poconos has much to offer new families starting off, established families seeking a better lifestyle, and even seniors looking for a great place to retire. Known for outstanding greenery, good schools, beautiful lakes, it is a place attractive to many looking for a new beginning away from urban areas. This was a solution to many family's dreams.

My family along with over 6,000 other families from many nationalities and ethnic backgrounds saw those dreams turn sour. I come before you not just to represent the Wilson Family, a family who eagerly moved to a new home only to later realize we had been defrauded, but thousands of others who also have been run back to various large cities, or they are on the verge of losing their homes as well.

Our Story

It was a glorious day in September of 1999 that we made what I called our journey to a new and wonderful life in the Pocono Mountains. This is what we saved for diligently. We were finally realizing our dream of home ownership, something I know our government encouraged and supported with various loan programs, assistance, and support. It was while reading the Pocono Record in April of 2001 that I first heard about housing fraud in the Poconos. The story was about a person losing his job and having to sell his home. Nothing unusual about that I thought initially. Reading more of the story revealed the person in question was

living in a home that was not worth what the builders told him it was worth. The builder had inflated the purchase prices, used cheap building materials, and even had the home assessed higher than it was worth. I thought to myself at the time this could not pertain to my family since we were well treated and told not to worry about anything, no lawyer was needed, everything is handled here. Being a former law enforcement officer I became suspicious.

Many more articles continued to be published in reference to predatory lending in the Poconos.

My suspicions turned out to be right when I did research on my family's home. Oddly enough, I did not do research until I participated in a few marches and demonstrations in support of the alleged homeowner victims.

I found out that our dream home was not worth what the builder charged us. We also realized that the appraisal was questionable. Lastly, we knew we had to do something, not just for us, but also for many others who had no voice. Therefore, in June of 2001 a Forum was held at East Stroudsburg University made up of local politicians and disgruntled homeowners.

Beginning in 2002 a District Attorney Taskforce was formed along with the State Attorney General, the FBI and Justice Department. Later the FBI was pulled off the case, weeks after the District Attorney released findings. We also noticed that other States had predatory lending problems. We began to wonder why there is no enforcement of laws and regulations. Also we asked why no one questioned the reasons for nearly one thousand foreclosures per year in Monroe County.

Many people were being drawn to the area because of the dreams they had and promises they received via TV, radio, and newspaper ads. The Pocono Record has published many investigative articles with an unbiased angle. The New York Times also released an overwhelming 3

day investigative series as well as an NBC station Telemundo from NYC featuring Monroe County housing fraud.

The Creation of PHDA

Because of the wide spread fraud and predatory lending practices occurring so often, people were going all over for assistance. Unfortunately, no one knew where to turn and who to turn to.

I along with other victims of fraud planned a March and protest to Washington, DC at the FBI Building.

As upsetting as it was to hear some of the stories and to see the actual paperwork, it became more intriguing as to what was happening to the homeowners.

I saw people who put down $60,000 deposits get final papers that showed they had only put down $24,000. I saw workmanship that would make a true builder roll over in his grave. I saw people have homes built for a price only to have the same home appraised months later for much less. The area DA was no help! The Attorney General made us feel like we were the ones committing crimes. And lastly, many folks were just giving up on the dreams that they had by walking away from their investment and crimes committed against them. Something had to be done, and done soon. I felt we all needed a voice.

Along with my wife of 25 years Marilyn Wilson, Maria Yagual and Charmain Cooper, PHDA was created in my kitchen. With little funding and no support from local officials, we have been able to assist many homeowners. Often we eat at each other's homes to save money and share babysitting responsibilities to give each other a break. This has been a full-time job, with the reward being a family being able to save their home and keeping a roof over their head. It has been a hard, yet rewarding worthy venture.

PHDA continues to assist homeowners from throughout the Poconos.

PHDA'S goal was to uncover alleged predatory lending by insisting that Local, State and Federal agencies start an investigation of the allegations. We want to make sure those who commit the fraud are held accountable and that there are serious repercussions behind the misuse of their professional position through deception. If a homeowner can be held accountable for falsifying documents, so should the real estate professionals that are offering the services needed to acquire the American Dream.

People deserve financial rewards and justice by indictments, in order to get back to their lives. We must remember even though the President has the Homeowner Initative Program, how many people actually go into foreclosure? In Monroe County from 1995 until now there were more than 6,000 foreclosures, and our foreclosure-to-sales rate of more than 25% greatly exceeds the national average of about 1%.

From identifying faulty building practices, to fraudulent home assessments, we have been a leader in making things right for families in need. Despite personal attacks and a certain amount of fear for me, my family, and others associated with PHDA, the battle continues daily. Phones in the office in my home ring off the hook 7 days a week. So whether it is a large PHDA sponsored forum at ESU, protest marches, family assistance (mold, heat, etc.), we remain committed to help.

I am here to share what has been a huge battle for many years, one that has claimed families while stripping them of their dreams and dignity. We need assistance. As the founder of PHDA and with a great support team that has great insight into what has transpired in this region, we need to be more involved with what is happening and funding that will be made available. We have done much already, but it is only the tip of the iceberg when looking at what needs to be done.

Suggestions and Recommendations to Congress

1. To federalize and pass stronger legislation on the real estate and mortgage industry, which would include stiff penalties for illegal activity. This will hold any and all accountable for any real estate transactions. However, not to totally pre-empt states from being able to pass state legislation whereby, they would enforce and police the real estate industry.

2. To petition the U.S. Justice Department to investigate the entire real estate housing situation surrounding Monroe County.

3. To provide a larger budget for Consumer Education and Housing Counseling organizations.

4. To petition the U.S. Justice Department to investigate the Monroe County District Attorney's Office, the State Attorney General's Office and The PA State Banking Department and its regulators.

Conclusion

I would like to thank this committee for inviting me to provide this testimony to you today. I greatly appreciate your continued support in this endeavor.

Pocono Record
5/9/2004 p. A1

Aggrieved homeowner becomes do-it-yourself lawyer

Unable to join 'mass action' lawsuit, APCP resident carries on alone

By DAVID PIERCE
Pocono Record Writer

MOUNT POCONO — Carl Silverstein can't find an attorney, and time is running out.

So he plans to file his own "pro se" civil suit by downloading and filling out forms on a U.S. District Court Web site. He would prefer to hire an attorney, but Silverstein, like many other Poconos residents who maintain they were defrauded in the purchase of homes, can find no takers.

"It's so involved," Silverstein said of his home purchase in A Pocono Country Place. "You need people to work on this full-time. It probably costs hundreds of thousands of dollars to do this" through a law firm.

Silverstein bought his home in 1995 from a company owned by Tannersville developer Gene Percudani, for $143,425. For years, said Silverstein, he actually paid more than the monthly due on his mortgage with Chase Manhattan Mortgage Corp., in hopes of paying off the loan ahead of schedule.

Then the Pocono Record printed a series of stories in April 2001 detailing home-sale fraud allegations, including use of inflated appraisals to sell homes for thousands more than they are worth. Silverstein read the stories, then commissioned his own appraisal two years ago that he says pegged the home's actual value at just $85,000.

Silverstein brought his case to a couple of large Pennsylvania law firms — including one that already is representing the buyers of 92 Percudani homes eventually financed by Chase — but couldn't persuade them to throw their resources behind his effort.

The law firm of Banks &

See LAWYER, Page A3

MORE, PAGE B1

- Monroe County has a high number of complaints against lawyers.
- Getting help finding a lawyer.

TODAY'S FORECAST

Mostly cloudy, shower or t-storm. Highs 63/68. Lows 51/56.

Weather, B8

TODAY'S FEATURE

HISTORY LESSON

It is said that those who don't learn from history are doomed to repeat it. Bruce Kauffman offers insight into events that happened this week in history in 'Bruce's History Lesson.' Page B2

INSIDE the RECORD

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SUNDAY POCONO RECORD

LAWYER

From Page A1

Banks, near Philadelphia, teamed with the New York City firm of Seeger Weiss in filing what was intended to be a "class action" suit against Percudani, Chase and suspended appraiser Dominick Stranieri of Stroudsburg. The partial intent of the class action attempt was to reduce the massive cost of representing 92 sets of homeowners by trying to demonstrate in a single trial a similar pattern of financial abuse in all the transactions. Any favorable verdict would result in across-the-board damages and penalties divided and paid to all plaintiffs as a class.

But U.S. District Judge Christopher C. Conner ruled last fall that each home purchase is so unique that the cases couldn't be lumped into a class action. The law firms refiled their suit last month as a "mass action" in which all the homeowner cases arise out of similar circumstances, though each transaction will be judged on individual merits.

The result of the new filing may be several "mini-trials" within the larger suit, though this is presumably a much cheaper approach than filing separate suits for each set of homeowners.

Though Silverstein's case is similar in many respects to those in the mass action — including the same builder and mortgage company — it is different in one area that resulted in Banks & Banks deciding not to represent him.

"We have decided to only represent homeowners who had their homes appraised by Dominick Stranieri," attorney David Banks wrote to Silverstein last November. George Miller, whose appraisal license was revoked in 1999, did the original appraisal on Silverstein's home.

JASON FARMER / Pocono Record

Carl Silverstein, who lives in A Pocono Country Place, is filing a lawsuit against developer Gene Percudani and Chase Manhattan Mortgage Corp., alleging they defrauded him when he purchased his house.

"Accordingly, we cannot represent you in connection with your claims that arose when you purchased your home," Banks added. "Our decision has nothing to do with the merits of your claim."

Banks urged Silverstein to "immediately seek other counsel" so that his claims can be filed with a court before the legal statute of limitations expires. For possible violations of the federal RICO anti-racketeering statute, people have four years from the time they become aware of the violation to file a court action. If the April 2001 news stories by then-Pocono Record reporter Matt Birkbeck triggered that awareness, then Silverstein and other homeowners have about 11 more months to file claims.

After the Banks & Banks rejection, Silverstein asked the Harrisburg law firm of Angino & Rovner, P.C. to represent him. But Angino & Rovner attorney James DeCinti, citing Judge Conner's ruling striking down the original Banks & Banks class action case, said his firm wouldn't represent Silverstein either.

"That opinion is significant because it means that in any action brought by you against mostly the same defendants, except for the appraiser, a decision on class certification would likely be the same," DeCinti wrote, adding that it posed costly consequences. "That could run into the hundreds of individual cases that would have to be managed. Our firm is simply not in a position at this point to do that sort of litigation.

"In other words, without class certification, the case becomes much more complex and involved, and significantly much more costly," DeCinti added.

"We could not simply file the case, and then advertise for plaintiffs to join a class. We would have to seek out individual plaintiffs, listen to their story to see if it fits into the parameters of your story, and eventually sign each one of them up prior to starting suit."

Seeking a local attorney to represent him isn't an option, Silverstein said.

"You need a big law firm to handle it and somebody out of the area who has an independent perspective," Silverstein said. "It's so involved you need people to work on this full-time."

So now, Silverstein is filing a do-it-yourself suit in hopes of receiving financial damages and penalties. He has downloaded and is filling out a "pro se" complaint form posted on the Web site of U.S. District Court for the Middle District of Pennsylvania. The four-question form asks filers to list defendants, state the particulars of the claim, and state what resolution is requested.

Multiple copies must be filed, along with a $150 filing fee that the court may waive for low-income filers.

Silverstein also is examining a legal filing by Banks & Banks in its case and using it as a "template" for wording his own claim.

"My only recourse is to sue them and leave it in the hands of a judge and jurors," Silverstein said.

Information on the Internet about filing a "pro se" complaint: www.pamd.uscourts.gov

CARL SILVERSTEIN

June 28, 2001

Home Side Lending
7301 Baymeadows Way
Jacksonville, FL 32256

Attention: Tom Reilly, Executive Vice President
RE: Homeside Loan 134048495, Chase Loan 3006880889 (Owned by FannieMae)

Dear Mr. Reilly,

I would like/thank you for your assistance in obtaining the appraisal for my home. Unfortunately the appraisal confirms our suspicions of what transpired during the purchase of our new home in 1995.

First, a little background. I am the father of eight children. We have found just the basic provisions for our family has become more and more difficult. This month, for the second time since we started paying our mortgage, (about 80 payments thus far) we have missed our payment and will not be able to pay June's payment till July 13th. In addition, I was just informed by my company that they will be shutting down the division by the end of the year and I will be out of a job.

After reviewing our appraisal, we find that a George David Miller did it. This appraiser whose MO is well known by a senior fraud investigator at FreddieMac has also had his PA license revoked in 1999. When looking at the comps he chose, we find out the first one is listed as 3 ½ miles away, but in reality is 12 ½ miles and in a completely different neighborhood. The second is listed as 3 miles away but is 11 miles away. The third is listed at 2 ½ miles away but really is 7 ½ also, as far as I can tell exists, but none of the numbers (sq footage) match what is recorded in the public records. Two of these homes have considerable more acreage than our home. He also ignored thousands of homes much closer to my home. It is obvious a certain number had to be achieved and the use of these comps would accomplish that end.

As you must know law enforcement agencies have launched a full investigation into the situation in the Poconos. Both FannieMae and FreddieMac also have opened up investigations into the situation too. Since my mortgage is owned by FannieMae I am asking the following be done. First the immediate elimination of PMI. Secondly, a recast of the mortgage to the actually value of the home. (A recent WABC appraisal came in between 85-90k) Thirdly, an adjustment of the interest and principal paid over the last six years according to the recast of the mortgage and the mortgage further reduced.

Thank you for your time in this matter and if you have any questions, please call my daytime number at 570-422-6006.

Sincerely,

Carl Silverstein

CC: Joseph Terrana, Director - Fannie Mae, Northeastern and Central PA Partnership Office
Matt Birkbeck, Reporter - The Pocono Record
Steve Livingstone, Producer - WABC-TV, NYC
Juan Gonzalez, Reporter - The NY Daily News
Paul Levy, Attorney – The Public Citizen, Washington DC

Enclosed: Transcipt of WABC-TV Special Report

P.O. BOX 1173 • STROUDSBURG PA • 18360
PHONE: 570 894 0414 • FAX: 570 894 8163
EMAIL: CARL@SILVERSTEIN.COM

Valuation Section

UNIFORM RESIDENTIAL APPRAISAL REPORT

File No.

COST APPROACH

ESTIMATED SITE VALUE ..... = $ 30,000

ESTIMATED REPRODUCTION COST-NEW-OF IMPROVEMENTS:

Dwelling 2,100 Sq. Ft @ $ 45.86 = $ 96,300

Sq. Ft @ $ =

Garage/Carport 300 Sq. Ft @ $ 21.30 = 6,400

Total Estimated Cost New ..... = $ 102,700

Less	Physical	Functional	External	
Depreciation	new	--	--	= $ --

Depreciated Value of Improvements ..... = $ 102,700

"As-is" Value of Site Improvements ..... = $ 13,500

INDICATED VALUE BY COST APPROACH ..... = $ 146,200

Comments on Cost Approach (such as, source of cost estimate, site value, square foot calculation and for HUD, VA and FmHA, the estimated remaining economic life of the property): Marshall & Swift Residential Cost Handbook used for cost estimates. Local data from public records, local builders, etc. Life expectancy of this type frame house is 55 years.

SALES COMPARISON ANALYSIS

ITEM	SUBJECT	COMPARABLE NO. 1		COMPARABLE NO. 2		COMPARABLE NO. 3	
Address	58L Skyview Terr	48 Long View Lane		24 Green Chapel Rd		3 Grange Road	
Proximity to Subject		3½ miles		3 miles		2½ miles	
Sales Price	$ 143,425		$ 140,000		$ 135,000		$ 139,000
Price/Gross Liv. Area	$ 66 ☑	$ 81 ☑		$ 88 ☑		$ 63 ☑	
Data and/or Verification Source	Plans/Specs	County Records		County Records		County Records	
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+ (-) $ Adjustment	DESCRIPTION	+ (-) $ Adjustment	DESCRIPTION	+ (-) $ Adjustment
Sales or Financing Concessions		CC	--	CC	--	CC	--
Date of Sale/Time		5/94	--	5/94	--	5/94	--
Location	avg	avg	--	avg	--	avg	--
Leasehold/Fee Simple	fee	fee	--	fee	--	fee	--
Site	avg	avg	--	avg	--	avg	--
View	avg	avg	--	avg	--	avg	--
Design and Appeal	avg	avg	--	avg	--	avg	--
Quality of Construction	avg	avg	--	avg	--	avg	--
Age	new	2	+500 ~~+2,100~~	4	+1000 ~~+4,000~~	1	0 ~~+1,400~~
Condition	avg	avg	--	avg	--	avg	--
Above Grade Room Count (Total / Bdrms / Baths)	8 / 4 / 1	6 / 3 / 2	-2000 ~~-4,000~~	6 / 3 / 2	-2000 ~~-4,000~~	6 / 4 / 2	-2000 ~~-4,000~~
Gross Living Area	2,100 Sq. Ft.	1,729 Sq. Ft.	+4,400	1,536 Sq. Ft.	+6,800	2,200 Sq. Ft.	+1,200
Basement & Finished Rooms Below Grade	none	none	--	none	--	none	--
Functional Utility	avg	avg	--	avg	--	avg	--
Heating/Cooling	BB/none	sim	--	sim	--	sim	--
Energy Efficient Items	avg	avg	--	avg	--	avg	--
Garage/Carport	1G	none	+2000 ~~+5,500~~	none	+2000 ~~+5,500~~	1G	--
Porch, Patio, Deck, Fireplace(s), etc.	typical 1FP	typ 1FP	--	typ none	-- +1500 ~~+2,500~~	typ 1FP	--
Fence, Pool, etc.	none	none	--	none	--	none	--
Net Adj. (total)		x + - $	9,000	x + - $	15,800	+ x - $	1,400
Adjusted Sales Price of Comparable		$ 144900 ~~149,000~~		$ 144300 ~~150,800~~		$ 136200 ~~137,600~~	

Comments on Sales Comparison (including the subject property's compatibility to the neighborhood, etc.): These best comps in neighborhood. Disregard distance between houses in these rural mountain areas. Adjustments only for significant impact items.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Date, Price and Data Source, for prior sales within year of appraisal	none	none	none	none

Analysis of any current agreement of sale, option, or listing of the subject property and analysis of any prior sales of subject and comparables within one year of the date of appraisal: N/A

RECONCILIATION

INDICATED VALUE BY SALES COMPARISON APPROACH ..... $ 145,000

INDICATED VALUE BY INCOME APPROACH (If Applicable) Estimated Market Rent $ /Mo. x Gross Rent Multiplier = $ N/A

This appraisal is made ☐ "as is" ☐ subject to the repairs, alterations, inspections or conditions listed below ☒ subject to completion per plans and specifications.

Conditions of Appraisal: Average conditions. No reliable data available for Income Approach computations.

Final Reconciliation: Most weight to Sales Comparison result as supported by Cost Approach.

The purpose of this appraisal is to estimate the market value of the real property that is the subject of this report, based on the above conditions and the certification, contingent and limiting conditions, and market value definition that are stated in the attached Freddie Mac Form 439/Fannie Mae Form 1004B (Revised 6/93).

I (WE) ESTIMATE THE MARKET VALUE, AS DEFINED, OF THE REAL PROPERTY THAT IS THE SUBJECT OF THIS REPORT, AS OF September 30, 1994 (WHICH IS THE DATE OF INSPECTION AND THE EFFECTIVE DATE OF THIS REPORT) TO BE $ 145,000

APPRAISER:		SUPERVISORY APPRAISER (ONLY IF REQUIRED):	
Signature		Signature	☐ Did ☐ Did Not Inspect Property
Name	GEO. D. MILLER, MSA	Name	
Date Report Signed	10/5/94	Date Report Signed	
State Certification #	GA-001082-L State PA	State Certification #	State
Or State License #	State	Or State License #	State

Property Address: 58L Skyview Terrace City: Tobyhanna State: PA Zip Code: 18466
Legal Description: Lot 58, Section L, A Pocono Country Place Subdivision County: Monroe
Assessor's Parcel #: 0363581175 Tax Year: 1994 R.E. Taxes $: 765 Special Assessments $: --
Borrower: STLVI STEIN, Carl & Terry Current Owner: Y-Rent Occupant: [ ] Owner [ ] Tenant [x] Vacant
Property rights appraised: [x] Fee Simple [ ] Leasehold Project Type: [x] PUD [ ] Condominium (HUD/VA only) HOA$ 42 /Mo.
Neighborhood or Project Name: A Pocono Country Map Reference: PCP-L Census Tract: 3003
Sale Price $: 143,425 Date of Sale: 9/94 Description and $ amount of loan charges/concessions to be paid by seller: --
Lender/Client: Chapel Creek Mortgage Address: Mt. Pocono, PA
Appraiser: Geo. D. Miller Address: Locust Grove, VA

Location	[ ] Urban	[x] Suburban	[ ] Rural	Predominant occupancy	Single family housing PRICE $(000)		AGE (yrs)	Present land use %		Land use change	
Built up	[ ] Over 75%	[x] 25-75%	[ ] Under 25%					One family	50	[x] Not likely	[ ] Likely
Growth rate	[ ] Rapid	[x] Stable	[ ] Slow	[x] Owner	65	Low	new	2-4 family		[ ] In process	
Property values	[ ] Increasing	[x] Stable	[ ] Declining	[ ] Tenant	225	High	20	Multi-family		To:	
Demand/supply	[ ] Shortage	[x] In balance	[ ] Over supply	[x] Vacant (0-5%)	Predominant			Commercial			
Marketing time	[ ] Under 3 mos.	[x] 3-6 mos.	[ ] Over 6 mos.	[ ] Vacant (over 5%)	155		9	vacant	50		

Note: Race and the racial composition of the neighborhood are not appraisal factors.
Neighborhood boundaries and characteristics: PCP and similar wooded subdivisions in the Mt. Pocono area. All served by same salesmen, builder, etc. catering to same class buyers.

Factors that affect the marketability of the properties in the neighborhood (proximity to employment and amenities, employment stability, appeal to market, etc.): Relatively low land costs and taxes draw NYC commuters. City is a little over one hour by bus or carpool. Many buyers can own their home in the Poconos for little more or less than they now pay for city apartments. The area is much safer for families; schools are smaller, etc. There is adequate, well-organized pool and commercial transportation for NYC area commuters.

Market conditions in the subject neighborhood (including support for the above conclusions related to the trend of property values, demand/supply, and marketing time -- such as data on competitive properties for sale in the neighborhood, description of the prevalence of sales and financing concessions, etc.): Market is very active for above reasons. It is a long-term market. Most buyers use standard financing with points for their purchase.

Project information for PUDs (if applicable) -- Is the developer/builder in control of the Home Owners' Association (HOA)? [ ] Yes [x] No
Approximate total number of units in the subject project: 5,000 Approximate total number of units for sale in the subject project: est. 300
Describe common elements and recreational facilities: beaches, pool, clubhouse, tennis, security

Dimensions: Irregular--See PLAT
Site area: abt 14,402 SF Corner Lot: [ ] Yes [x] No
Specific zoning classification and description: R, Single Family
Zoning compliance: [x] Legal [ ] Legal nonconforming (Grandfathered use) [ ] Illegal [ ] No zoning
Highest & best use as improved: [x] Present use [ ] Other use (explain)

Utilities	Public	Other	Off-site Improvements	Type	Public	Private
Electricity	[x]		Street	blacktop	[ ]	[x]
Gas	[ ]	bottled	Curb/gutter	none	[ ]	[ ]
Water	[x]		Sidewalk	none	[ ]	[ ]
Sanitary sewer	[x]		Street lights	none	[ ]	[ ]
Storm sewer	[ ]	none	Alley	none	[ ]	[ ]

Topography	level, wooded
Size	average
Shape	irregular
Drainage	average
View	wooded neighborhood
Landscaping	rustic
Driveway Surface	gravel
Apparent easements	utilities
FEMA Special Flood Hazard Area	[ ] Yes [x] No
FEMA Zone	X Map Date 10-15-91
FEMA Map No.	421886

Comments (apparent adverse easements, encroachments, special assessments, slide areas, illegal or legal nonconforming zoning use, etc.): Nothing adverse

GENERAL DESCRIPTION		EXTERIOR DESCRIPTION		FOUNDATION		BASEMENT		INSULATION	
No. of Units	one	Foundation	parged	Slab	x	Area Sq. Ft.	--	Roof	
No. of Stories	two	Exterior Walls	v. siding	Crawl Space		% Finished		Ceiling	R-32 [x]
Type (Det./Att.)	det.	Roof Surface	shingles	Basement		Ceiling		Walls	R-14 [x]
Design (Style)	colonial	Gutters & Dwnspts.	aluminum	Sump Pump	none	Walls		Floor	R-11 [x]
Existing/Proposed	prop.	Window Type	tilt	Dampness	none	Floor		None	
Age (Yrs.)	new	Storm/Screens	yes/yes	Settlement	none	Outside Entry		Unknown	
Effective Age (Yrs.)	new	Manufactured House	no	Infestation	none				

ROOMS	Foyer	Living	Dining	Kitchen	Den	Family Rm.	Rec. Rm.	Bedrooms	# Baths	Laundry	Other	Area Sq. Ft.
Basement												
Level 1		x	x	x							stor	900
Level 2						x		4	1	x		1,200

Finished area above grade contains: 8 Rooms; 4 Bedroom(s); 1 Bath(s); 2,100 Square Feet of Gross Living Area

INTERIOR	Materials/Condition	HEATING		KITCHEN EQUIP.		ATTIC		AMENITIES		CAR STORAGE:	
Floors	vinyl/carpets	Type	BB	Refrigerator	[x]	None	[ ]	Fireplace(s) # one	[x]	None	[ ]
Walls	drywall	Fuel	elec	Range/Oven	[x]	Stairs	[ ]	Patio	[ ]	Garage	# of cars
Trim/Finish	custom wood	Condition	new	Disposal	[ ]	Drop Stair	[ ]	Deck	[x]	Attached	
Bath Floor	vinyl	COOLING		Dishwasher	[ ]	Scuttle	[x]	Porch	[ ]	Detached	
Bath Wainscot	fiberglass	Central	none	Fan/Hood	[x]	Floor	[ ]	Fence	[ ]	Built-in	one
Doors	luan h/c	Other		Microwave	[ ]	Heated	[ ]	Pool	[ ]	Carport	
		Condition		Washer/Dryer	[ ]	Finished	[ ]			Driveway	

Additional features (special energy efficient items, etc.): rough plumbing for full bath lower level; 10 yr. builder warranty.

Condition of the improvements, depreciation (physical, functional, and external), repairs needed, quality of construction, remodeling/additions, etc.: new bldg.

Adverse environmental conditions (such as, but not limited to, hazardous wastes, toxic substances, etc.) present in the improvements, on the site, or in the immediate vicinity of the subject property: None observed.

ANDERS & MASINGTON, L.L.C.

MARSHALL E. ANDERS, Esquire
NICHOLAS J. MASINGTON, III, Esquire*
ELLEN C. SCHURDAK, Esquire

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njm3esq@marshallanders.com
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Reply to ☒
18 North Eighth Street, Stroudsburg, PA 18360
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Reply to ☐
P.O. Box 910, Brodheadsville, PA 18322
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Facsimile: (570) 992-8601

*admitted PA and NJ

June 11, 2004

Congressman Paul E. Kanjorski
The Stegmaier Building
Suite 400M
7 N. Wilkes-Barre Blvd.
Wilkes-Barre, PA 18702

RE: Foreclosures in Monroe County

Dear Congressman Kanjorski:

In response to Mr. Harper's offer that I could submit my thoughts in the issue of foreclosures in Monroe County and sub-prime lending, I am writing to provide some input, based upon the research and data that myself and my clients have accumulated. I would note, however, that the increase in foreclosures is not a problem unique to Monroe County. See enclosed articles.

The first question which has not been addressed to my knowledge since the initial articles appeared in the Pocono Record is what is being foreclosed upon and what percentage of the foreclosures are recent residential loans. For example, what percentage of the foreclosures have, as their subject matter, fee simple time share interests, campground units, commercial properties or unimproved lots where owners have lost interest, as opposed to recently financed home purchases. Until this determination is made, the scope of the problem can not be addressed.

As to those foreclosures on residential dwellings, the threshold question that must be answered is what causes foreclosures. One thing that is clear is that appraisals do not cause foreclosures. An appraisal, when used in conjunction with a residential mortgage (or a commercial loan for that matter) is an opinion of value given to a lending institution so that it is comfortable that the collateral for the loan will be sufficient if there is a default by the borrower and the lender must exercise its rights against the collateral.

Unfortunately, in this regard, when a foreclosure occurs, the lenders will instruct a real estate broker to sell the property at a below market price simply to remove the loan from its records. Only when the property is sold a second or third time in a non-distress sale does the sales price approach market value. An example of this I recently heard was that a real estate broker purchased a home for $110,000.00 from a lender who acquired the home through foreclosure. After replacing one interior door, he sold the home for $180,000.00.

In addressing the problem, one must consider that Fannie Mae and Freddie Mac have, in recent years, not only loosened credit standing for obtaining loans, but also enabled home purchasers to borrow in excess of 100% of the purchase price. We now have no income verification loans, loans that don't require appraisal, loans where credit is not an issue. As one real estate broker put it, if he has a warm body he can obtain the financing to purchase a home. I recently represented a divorce client who purchased a home that was financed through a first and second mortgage, which not only paid the entire purchase price, but also the majority of the closing costs. If a borrower does not have a good financial sense, this type of lending is a recipe for disaster.

Since appraisals do not cause foreclosures, what does? The most glaring reason is when the home owner obtains a second or even third loan secured by a mortgage. In a recent survey of 93 people who were upset about the price they paid for their home, thirty-five (35) had second and, in many instances, third mortgages. I have enclosed three examples of these. The second and third loans are at higher interest rates and may tremendously increase the burden on the home owner to the point where they simply walk away or used to system to live in the home for free. An example of this is Gilbert and Madeline Vasquez, who purchased a home for $148,668.00, financing $133,800.00 of the purchase price. Then, less than one month later, borrowed $19,999.78; thus, their indebtedness exceeded the amount of the loan. When Mr. Vasquez failed to purchase the business he worked for, he didn't work for over 2 years and didn't pay their mortgage. Mr. and Mrs. Vasquez still reside in the home.

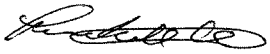
In speaking with bankruptcy attorneys and from information gathered independently, another cause is consumer or credit card debt. Home owners will, after the acquisition of a home, purchase new furniture and other items to furnish the home and, in some instances, new vehicles. Often these purchases are based upon no monthly payments for a period of time. Once the monthly payments begin, this consumer may not be able to pay the mortgage payment or payments and the credit card installments. In these instances, many times the mortgage payment is put on the back burner. One case I am familiar with is a consumer who incurred approximately $50,000.00 of credit card debt after purchasing a home and was unable to pay that indebtedness and the mortgage payment.

Another example is life. People lose their jobs, for any number of reasons, become ill or get divorced. These things create financial strain and the mortgage payment is the last payment to be made, thus creating a foreclosure situation.

In conclusion, there is no one reason as to why foreclosures occur, thus the answer as to how to solve the problem will not be an easy one to determine. A start, however, would be for Freddie Mac to tighten upon the requirements for the borrowing of money to purchase a home. A second would be to educate consumers on how to handle their finances.

Thank you for taking the time to allow me to express my thoughts.

Very truly yours,



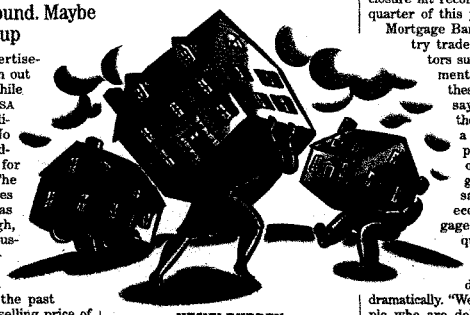
MARSHALL E. ANDERS

MEA:rw
Enclosures
cc: Pocono Mountains Vacation Burea
Ernest D. Preate, Esquire

BANKING

HOME MORTGAGES: WHERE THE MONEY IS EASY—TOO EASY

Loan gimmicks abound. Maybe it's time to tighten up



The ubiquitous advertisements scream: "Cash out your home equity while rates are low!" "All USA homeowners easily qualify!" "Damaged credit? No problem!" There has hardly been a better time for mortgage lenders. The number of new mortgages and refinancings has reached an all-time high, thanks to the sizzling housing market and the lowest rates since 1963. New-home sales hit a record in July. And in the past five years, the average selling price of existing homes has risen 39%—8% in just the past year.

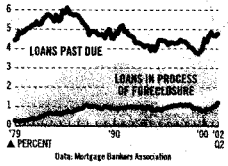
Now, however, foreclosures are reaching record highs, too. And that has many people worried that mortgage lending has spiraled out of control. "The overconfidence that existed in the stock market in the late '90s seems much more in real estate now. That's a danger sign," says Gary Gordon, a managing director at UBS Warburg.

It's not just the online lenders with names such as DirtCheapMortgage.com and cheaper-mortgage.com that are loosening standards. Traditional lenders are also offering more "creative" products, such as "cash-out refinancings" where homeowners borrow the full amount of the newly appraised value of their houses. Then there's the "125% loan," which covers the price of a house as well as moving costs, furniture, and maybe a shiny new boat or recreational vehicle. Intense competition, says James Croft, executive director of Mortgage Asset Research Institute Inc. in Reston, Va., is "leading lenders to say: 'Let's generate a lot of volume.'"

One sign that lending is getting out of hand: the surge in adjustable-rate mortgages (ARMs). The number of ARMs, which offer below-market rates for several years before ratcheting up or down has doubled in the past year, from 10% to 20% of new mortgages. "That shows that people are stretching to be able to afford houses," says Mark Zandi, chief economist at Economy.com Inc. If interest rates go up, homeowners with ARMs may be under unbearable financial pressure. Already, ARMs have almost twice the delinquency rate as conventional, fixed-rate mortgages.

HEAVY BURDEN

Home mortgage foreclosures have hit an all-time high and delinquencies are rising



Data: Mortgage Bankers Association

The anything-goes approach has given rise to a chorus of critics who are worried about the lack of tighter lending requirements. "The housing market seems to be doing so well that everyone's losing their vigilance," says Robert J. Shiller, an economics professor at Yale University. "Downpayments are lower. Credit checks are less stringent."

The upshot is that more and more people can't afford their house payments. Loans in the process of foreclosure hit record levels in the second quarter of this year, according to the Mortgage Bankers Assn., an industry trade group. Economic factors such as rising unemployment account for some of these foreclosures, experts say. But lending tactics themselves probably play a larger role. "New loan products have been put out on the market to get folks in homes," says Phil Colling, an economist at the Mortgage Bankers Assn. Delinquencies—home loan payments that are at least 30 days past due—have also risen dramatically. "We're seeing a lot of people who are delinquent on first, second, or third mortgages and credit cards as well," says Daniel Fenton, director of housing at the National Foundation for Credit Counseling, a nonprofit network of debt counselors.

Indeed, mortgage lenders have become so aggressive that even home buyers with poor credit records are winning loan approvals that would have never been made in more conservative times. The easy cash is also allowing people, even those with good credit, to plunk money down on more house than they can afford. According to financial experts, the total monthly housing outlay shouldn't exceed 28% of a household's gross income. But now, people are spending as much as 42%. And according to the Federal Reserve, Americans on average hold just 55% of equity in their homes—the lowest ownership share on record.

That's why some critics say it is high time that lenders examine their alluring but risky mortgage come-ons. "Lenders who turn cautious last in a frothy market are burned first," warns Zandi. Of course, that goes for borrowers as well—even if they "easily qualify!"

By Marcia Vickers in New York

"We're seeing a lot of people who are delinquent on first, second, or third mortgages and credit cards as well," says a debt counselor

ILLUSTRATION BY TIM BIRKER

As mortgage-backed securities have shifted risk from banks to investors, lending standards have dropped

to qualify as a class action. In May, 2001, Issac Toussie pleaded guilty to fraud in federal court on Long Island for illegally obtaining federal housing loans. On Sept. 25, Robert Toussie's lawyer, Richard C. Hamburger of Hamburger, Maxson & Yaffe LLP in Melville, N. Y., said his client is so confident of the quality of his houses that he will offer to buy back those of Wilson and the two other lead plaintiffs and pay their moving expenses and $5,000. Hamburger said a letter will go out to the plaintiffs on Sept. 26.

Aggressive mortgage practices could haunt banks as the economy weakens. In their eagerness to lend, banks have pushed too many people to take on too much debt. These borrowers are extremely vulnerable to higher interest rates and rising unemployment. That raises the prospect of a flood of defaults. And a wave of distressed properties would have major implications for the housing market—one of the few areas of the economy that is thriving. Fannie Mae and Freddie Mac, government-sponsored mortgage guarantors, which purchase about half of all mortgages, are likely to exercise their right to force banks to buy back bad loans.

Already, the number of home buyers struggling to make monthly payments is ratcheting up. Loan delinquencies have steadily risen in the past 24 months, to the point where nearly 1 in 20 home loans is delinquent—one of the highest rates in the past decade. A record number of loans are in foreclosure—and that's not even counting "subprime" loans to people with bad credit, according to the Mortgage Bankers Assn.

Banks' lax practices bear a heavy share of the blame for creating this anything-goes climate. They promote "125% mortgages" that let people borrow the full price of their house plus extra cash to "pay for a vacation, college tuition, whatever you need it for!", in the words of one ad. Then there's the proliferation of "lo doc" and "no doc" loans requiring little or no documentation of income or employment status and often carry high rates.

The process has become so automated that a borrower can get preapproval in "five minutes or less" on some Web sites. Borrowers can apply for a loan through eloan.com, a portal backed by legitimate banks such as Wells Fargo & Co. that abide by fair lending practices. But there are plenty of Web sites that pitch preapprovals to people with bad credit. Many, say experts, are backed by unscrupulous mortgage brokers or lenders.

SINKING HOUSE
Wilson now believes the builder's instant financing was a tip-off

Securitization, in which banks package mortgages and sell them to insurers and pension funds, has played a big role in the industry's sagging standards. As risk has shifted from their balance sheets, the nation's biggest blue-chip banks have become wholehearted participants in the subprime lending market—a market they avoided in the past and one that has become notorious for abusive practices. Citigroup recently agreed to pay $215 million, the largest consumer mortgage settlement in the history of the FTC. Associates First Capital Corp., which Citigroup bought in 1998, allegedly required thousands of customers to buy unnecessary credit insurance on high-interest-rate mortgages. Citi didn't admit or deny guilt, saying the charges predate the acquisition.

Citi isn't the only one facing such complaints. When a Household Finance Corp. salesman came knocking on the door of one couple's modest Natchez (Miss.) house last year, they invited him in. Within minutes, the salesman had persuaded them to take out a second mortgage and pay off their credit cards. The pitch sounded good: He could consolidate all their bills and reduce their monthly payment. Allegedly, there was one other little thing: They would have to purchase $15,000 in credit insurance. "He told them: 'It's the only way you can get the loan,'" says Methvin, their lawyer. But it turns out credit insurance wasn't required. And the refinancing will cost them twice as much in the long run than if they had simply paid down their credit-card bills, according to their lawyer. They, along with 16 others, are suing Household Finance. Megan Hayden, a Household Finance spokeswoman, says: "The credit insurance these customers purchased was optional and clearly disclosed as such and reinforced through our loan-closing video and satisfaction survey."

Many of the problems, say experts, could be remedied if current laws were enforced—by one regulatory body. The fact is, fraud costs plenty. Who pays for it? "It winds up back in the consumer's pocket in the form of higher fees and rates," says the Mortgage Bankers Assn.'s Duncan. And that's perhaps the biggest scam of all.

By Marcia Vickers and Heather Timmons in New York

ROBIN G. THOMAS

This message is being sent on behalf of Bob Uguccioni.

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The interactive edition of the Pittsburgh Post-Gazette

A Dream Foreclosed: Residents of the region are losing their homes in record numbers

Foreclosures caused by bad choices, the allure of low interest rates and predatory lenders.

Monday, June 07, 2004

Pittsburgh Post-Gazette

The cleaning crew and real estate agent arrived early. An Allegheny County Sheriff's deputy was there, too, watching Joyce and Konrad Schachner run back and forth from their North Side home of five years to the U-Haul truck that now carried their lives.

"Why are the cops here, Mom?" asked 5-year-old Konrad Jr., standing wide-eyed in front of his house on Van Buren Street.

"Because we gotta go," she answered. "I told you, we gotta go."

And within 45 minutes the Schachners were gone, driving to a relative's home for lack of other options. In the wake of their eviction, everything they decided to leave behind -- toys, furniture, clothing -- had been discarded.

"I'm not bitter," Joyce Schachner said. "I knew it was coming for a while."

In fact, it was three years coming, a process that included several tax liens, two bankruptcies and foreclosure that led to the county's sheriff's sale of their home and their eviction.

John Beale, Post-Gazette
Five-year-old Konrad Schachner Jr.'s last day at his North Side home. In the background, a sheriff's deputy is greeted by the real estate agent who will take possession of the house.
Click photo for larger image.

A Dream Foreclosed
A Special Report

Photos by John Beale
Stories by Steve Levin

Index

Many reasons, all painful, for evictions

Around the city, region and country, scenes similar to the Schachners' have been occurring with staggering frequency in the past few years. Although eviction is usually the final act, it is only one part of a trillion-dollar drama of economics, lending practices, demographics and greed that revolves around a single, common protagonist: the homeowner.

- Legalities and heartbreak of Sheriff's sales
- Falling prey to predatory loans
- Small mistakes, giant consequences
- Graphic: Sheriff's Sales
- Resources
- About the authors

Photo Journal:
A Dream Foreclosed

Home ownership has long been central to the American dream. It is the primary way that families build wealth. It strengthens neighborhoods and raises property values. It keeps capital in communities and attracts outside investments.

But during the past decade a combination of factors -- some good, like the lowest mortgage rates in four decades, and some bad, like the growth of personal credit problems -- have produced record foreclosures.

Exactly how many of the country's 73 million homeowners have been foreclosed on is hard to pin down. There is no industry-wide repository of residential foreclosure numbers, and no government agency requires such reporting. But this much is clear: The rates of foreclosure of all residential loans increased during the last quarter of 2003.

The National Consumer Law Center, a Boston-based nonprofit consumer organization, conservatively estimates the number of residential foreclosures pending nationally at the end of 2002 at 677,000, a number roughly equivalent to the population of Baltimore.

Pennsylvania has the seventh highest foreclosure rate in the country, a ranking fueled by the state's weak economy, increased taxes, the costs associated with maintaining old homes and a quantum jump in access to credit.

Allegheny County is in the throes of its worst foreclosure crisis since the early '80s when the bottom fell out of the steel industry. Last year, the county foreclosed on a record 4,147 homes; this year, the number is on track to surpass 4,700. An additional 2,000 homeowners will lose their residences because of judgments or overdue taxes.

John Beale, Post-Gazette
Konrad waits to go to a relative's home after the family is evicted.
Click photo for larger image.

Generally, the legal process of foreclosure begins after nonpayment of taxes or when a homeowner misses three mortgage payments and the loan is considered in default. In Allegheny County, even if a homeowner does nothing to forestall the process, it can still take at least six months before eviction occurs, and, depending on court filings and appeals, it can take longer than six years.

And foreclosure is not inevitable. Up until an hour before the public sale begins, homeowners can file a Chapter 13 bankruptcy petition, which allows them to keep their house by making regular mortgage payments and developing a three- to five-year plan for repaying debt.

Sheriff's Sales

In Allegheny County, sheriff's sales are all-day affairs held the first Monday of the month where speculators compete with attorneys representing mortgage lenders to buy hundreds of foreclosed homes for a fraction of their worth. In the case of the Schachners, their $36,700 North Side home near Ross was sold to a discount consumer credit company for about $9,800.

In all but a handful of cases, attorneys representing the lenders win the bidding. Lenders ultimately resell the foreclosed homes to recoup the loan the borrower used to buy the house.

John Beale, Post-Gazette
Konrad and his mom, Joyce, with the last of the family possessions, head for a new place to live.
Click photo for larger image.

The number of houses available at the county's sheriff's sale have increased more than 500 percent since 1996, from 1,120 to an estimated 7,000 by the end of this year. That's the equivalent of all homeowners in the Pittsburgh neighborhoods of South Oakland, Polish Hill, Stanton Heights, Manchester, Lincoln Place and East Carnegie losing their homes in a year.

At today's June sale, nearly 1,000 homes are up for sale.

So many homes were being sold in Philadelphia earlier this year that a two-month moratorium on sheriff's sales was declared. No such action is expected here.

"It's a big issue [and] I'm very concerned," said Dan Onorato, Allegheny County's chief executive, who blames the county's past two property reassessments in part for triggering the current crisis.

"The foreclosures are bad for neighborhoods and they're bad for the homeowners in this county."

He has vowed to force school districts and municipalities to offer homestead exemptions and senior citizen discounts to property taxpayers. Unless such protections are in place, he said, he would petition Common Pleas Judge R. Stanton Wettick Jr. to block the county's next property assessment, scheduled for 2006.

Foreclosure Trends

There are reasons to think the foreclosure trend will continue.

In 2002 and 2003, lenders nationally originated $5.7 trillion in loans; in other words, 81 percent of all current mortgages were taken out during those two years. A big reason for such robust lending: Until recently, mortgage rates were at 40-year lows. As interest rates moved downward, home prices moved up. Borrowers' loans were bigger, which meant bigger

monthly mortgage payments.

More and more people sought to own homes or pay off existing debt. But some consumers' credit was not good enough to qualify for conventional, or prime, loans. As a result, they agreed to nonconventional, or subprime, loans, which allowed them to refinance their debt, albeit with higher fees and higher interest rates.

John Beale, Post-Gazette
On his first full day at his new home -- a North Side apartment -- Konrad, right, meets a new friend, Brady Doubt, 5.
Click photo for larger image.

Most often, these subprime loans are in the form of debt consolidation or remodeling loans. Through these home equity loans, homeowners substitute the unsecured debt of their credit cards with the secured debt of their homes. While the perception is that a home equity loan provides tax savings -- the lower interest rate is deductible -- the reality is that the money is lent for a greater length of time, costing the home-owner more.

The peak default time for loans is three to five years after origination. That means that between next year and 2007, with the huge number of loans taken out in the past two years, even more could end in foreclosure.

Other factors have been in play. The number of single home buyers has increased to the point where they soon will outnumber couples, a significant trend because of single buyers' poorer ratio of income-to-debt. The number of households headed by divorced people with single incomes also has risen, and consumers' unsecured debt grew from $222.6 billion in 1990 to more than $600 billion in 2000. The result was a record increase in personal bankruptcies to more than 1.5 million in 2003.

Subprime Lending

Many observers blame the subprime market for the current foreclosure crisis. Subprime loans are legal; they are for borrowers with limited incomes or with poor or no credit histories. Originally a positive way of bringing needed credit to underserved communities, they have become the primary source of credit in certain areas. They make up 10 percent of all residential mortgages, although the majority of them -- 61 percent -- are undertaken to refinance debt.

Their growth has been phenomenal. In 1994, they generated $34 billion in loans. By 2003, that figure was nearly 10 times higher: $332 billion. It also has meant a jump in employment and earnings for the mortgage brokers initiating the loans. U.S. Bureau of Labor statistics show the number of mortgage and nonmortgage loan brokers more than doubled between 1998 and 2003, and last year, mortgage brokers' earnings were up 78 percent.

John Beale, Post-Gazette
Konrad answers his mother's call to come home in their new neighborhood.

But while only one in 100 conventional loans ends in foreclosure, one in 12 subprime loans do. In their

2003 book "The Two Income Trap: Why Middle Class Mothers and Fathers are Going Broke," Harvard law professor Elizabeth Warren and her daughter, Amelia Warren Tyagi, compared subprime loans to defective toasters, writing that if one in 12 toasters had a chance of blowing up, the American public would not stand for it. Why, they wrote, should it therefore be acceptable for an industry to market a product with an 8 percent expectation of failure?

Click photo for larger image.

All subprime loans are not predatory loans -- those that take unfair advantage of a borrower through excessive fees, rates, fraud or deception. But all predatory loans are subprime loans.

Studies have revealed a relationship between the level of subprime lending in a neighborhood and subsequent foreclosures there. The U.S. Department of Housing and Urban Development found that a disproportionate percentage of subprime loans are made in low-income neighborhoods and are five times more likely in African-American ones than predominantly white neighborhoods.

The extent of predatory lending nationwide is unknown because of the lack of reliable data. Nevertheless, according to a recent General Accounting Office study, there are indications that it is prevalent. Among those indicators are recent legal settlements.

Two years ago, the attorneys general from several states were successful in negotiating a $484 million settlement with Household International Inc. regarding its mortgage lending practices. About $30 million of the settlement went to Pennsylvanians.

Since 1998, the Federal Trade Commission has brought charges in 13 cases against subprime lenders involving $320 million in fines and restitution.

"The starting point is to make sure lenders are truthful," said Howard Beales, director of the agency's Bureau of Consumer Protection. "There are misrepresentations about what the deal really is, and that's letting consumers get in trouble."

The Schachners' troubles began when they took a relative's advice and got their home mortgage in 1999 with The Associates, then one of the nation's largest subprime lenders. A year later, Associates was bought by Citigroup and merged with CitiFinancial Credit. Citigroup paid $215 million in 2002 to resolve Federal Trade Commission charges that its Associates subsidiaries engaged in systematic and widespread deceptive and abusive lending practices.

Click photo for larger image.

SCHACHNER HOME

Problem: Secured subprime mortgage loan. Didn't realize taxes were over and above their monthly payment.

Joyce Schachner, a food service employee, and her husband, who works odd jobs, made a $1,500 downpayment on his grandparents' home -- a two-bedroom, one-bath, 1,080-square-foot frame structure. The $44,900 mortgage came with 15 percent interest, about twice the market interest rate at the time. Although she knew their monthly mortgage would be $456, the couple didn't realize there also would be more than $1,000 annually in property taxes.

Schachner, 40, said they immediately fell behind in their bills. In 2001, they filed Chapter 13 bankruptcy, which allowed them to keep the house and establish a debt repayment plan through a trustee appointed by the bankruptcy court. Two years later, the Schachners were forced to file Chapter 13 again, but this time they couldn't afford the payments.

Status: Renting North Side apartment. Working and hoping to buy another home.

Quote: "[The lenders] don't care. They just want their money."

They failed to pay municipal taxes for three years and by the time they contacted The Associates to work out a payment plan, it was too late.

"[Associates] wanted all the back pay right away," Joyce Schachner said. "There was no way."

There is an emergency program for Pennsylvanians whose homes are being foreclosed. The Homeowner Emergency Assistance Program, part of the Pennsylvania Housing Finance Agency, was created in 1983 in the wake of the steel mill closings throughout the Mon Valley which left thousands of newly unemployed mill workers unable to pay their mortgages.

Program recipients receive loans to help pay delinquent mortgages, and they may qualify for continuing monthly assistance of up to 24 months or $60,000. In 1996, 5,884 households applied for mortgage assistance and 1,657 received aid. Last year, there were 8,944 applications and 2,298 approvals.

"It's a national problem," said A. William "Bill" Schenck III, the state's Secretary of Banking and chairman of the housing finance agency. "We happen to be one of the largest from a percentage basis."

While Schenck laid blame for "a significant portion of the problem" on unscrupulous lenders, part of the problem rests with "individuals borrowing to get into a house before they were ready."

Schenck's office expects to complete a statewide study by December on predatory lending, including "action steps" for legislation monitoring mortgage brokers, increasing the agency's enforcement capabilities and working more closely with financial counseling agencies.

Nationally, there are about 50 local and state laws governing subprime lending, which lenders grumble raise compliance costs. Instead, lenders favor a federal law to supersede previous legislation. But any action on two such bills now in Congress is unlikely this year.

For the Schachners, they picked life back up in a small North Side apartment off California Avenue that they rent for $350 a month. Konrad Jr. is happy, Joyce said, because his new room is bigger. And she's relieved that the anguish of their foreclosure and eviction is over.

"It got to be too much after a while," she said. "I'm just glad that we're all safe and healthy.

"You make your own messes. You have to clean them up, too."

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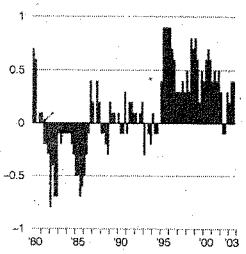
A National Trend, a Local Crisis

Increasing foreclosures are not unique to the Poconos. As public and private incentives for home buying have pushed up the homeownership rate, foreclosures have also surged. Questionable business practices have made the Poconos an extreme example.

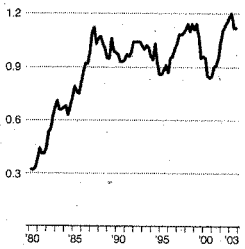
As homeownership rates have risen . . .

YEAR-OVER-YEAR PERCENTAGE-POINT CHANGE IN U.S. HOMEOWNERSHIP RATE, QUARTERLY DATA



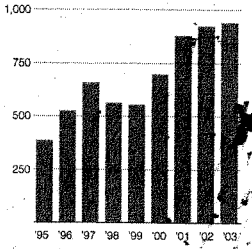
. . . foreclosures have also surged.

PERCENTAGE OF HOMES IN FORECLOSURE, QUARTERLY DATA



The Poconos have been hit hard.

NUMBER OF FORECLOSURES IN MONROE COUNTY, PENNSYLVANIA*



*Figures reflect all initial foreclosure filings; not all result in eviction. Single family homes account for an estimated 91 percent of the foreclosure filings.

Sources: U.S. Census Bureau; Mortgage Bankers' Association; Monroe County Prothonotary; The Reinvestment Fund

The New York Times

lenders take pains to verify that down payments really come from the borrowers and not from a relative or the seller.

But whatever the truth, the people who did this verification work under contract for Chase say they were hampered in several ways. They say Chase did not tell them that Mr. Percudani, the loan broker, had also built the homes, so they were not especially cautious in their reviews.

Two such reviewers, known as underwriters, also say they were blocked at times from obtaining the bank statements they needed to trace the down payments. Lynda Davis, who underwrote the bulk of the Pocono loans, says that she told a Pennsylvania grand jury in 2003 that Mr. Percudani's loan brokerage unit would refuse on occasion to forward the statements, and that when this happened Mr. Spaner, the Chase manager, instructed her to rely instead on a ledger provided by the brokerage unit, which did not reveal the rent subsidy. "I went along with it because I felt it was on Chase's head. He told me it was O.K. with Chase," Ms. Davis said she told the grand jury.

Reached at his office, Mr. Spaner said he

Chase said that it had successful relationships with other builders who acted as their own mortgage brokers and that it had confidence in its wholesale lending operations. "One of the things we pride ourselves on is our nationwide capabilities and our local execution," the bank said.

Chase further said that its share of foreclosure proceedings in Monroe County was at most 7 percent, and that numerous other lenders were caught up in the debacle.

As it turned out, Chase almost dodged the pain.

The bank regularly sold its Pocono loans to Freddie Mac, the government-backed securities giant that is under its own federal pressure to increase minority lending. But the agency, whose own appraisal reviews were finding numerous instances of overpricing, eventually got cold feet. In the fall of 2000, Freddie Mac told Chase it was investigating. Chase then halted its dealings with Mr. Percudani. And, in a rare move, Freddie Mac asked the bank in 2002 to take back the Pocono loans.

Inquiries Into a 'Nightmare'

But drawing attention to the problems and doing something about them were two different things. The following month, a dozen law enforcement officials met privately in the Monroe County Courthouse to find a solution, but little came out of the meeting.

The United States Department of Housing and Urban Development determined that few of the loans involved its programs.

The United States attorney for middle Pennsylvania decided against pursuing criminal action against Mr. Percudani, citing, in part, Chase's reluctance to pursue the matter. "According to Chase's counsel, this whole episode has been a public relations nightmare, and they do not want to publicize this matter any further," an assistant United States attorney, Bruce Brandler, wrote in an Aug. 18, 2003, letter to state officials obtained by The New York Times. Chase says it told Mr. Brandler that it would cooperate.

The Monroe County district attorney's office began an investigation that distilled more than 200 interviews into a scathing report on possible price gouging, coercion and tax evasion by developers, brokers and real

ignored during the booming 1990's, w
posed. Prospective buyers should be
that a house is an investment that c
value, he and other housing experts s

Many people, no doubt, were helpe
homeownership drive, and in the F
there are many buyers who say th
pleased with their homes and the
There is also hope that a rising mar
compensate for any overpricing.

Still, Marc Weiss, who helped sha
Clinton administration's homebuye
paign, says the program did no
enough safeguards to protect fir
homebuyers. "We were so focused
panding homeownership that we pr
didn't put enough attention with our
sector partners on what is needed
people from getting in trouble," h
Now, those in trouble are trying to get

The Vazquezes moved into their
home. Had a son. Made it through jo
and unemployment. But only by
deeper in debt did they ward off two f
sure actions.

Then in October 2003, after susp
their payments to resolve the
against Chase, the bank brought it
foreclosure against them. "There c
words to describe the tears I cried,
my home and having to be an emb
ment for my family," Mrs. Vazquez sa

Ms. Walton never even made it to
conos. She was paying into the credi
seling and savings plan when Mr. Per
suspended it. The family adores the
Monopoly, and now has a running jo
It is the only way they will ever buy a
Better to laugh than cry, Ms. Walton s

"We're pretty much living hand to
now," she said. "It was a big letdown
boys. It's like being told you can have
py, petting it, and then never being giv

As for Ms. Davis, it is difficult to pi
she says, just what sent her over the
There was the $3,000 in annual scho
property taxes, a $3,600 yearly heati
and $500 in homeowners' associatio
which she says she had not expected.

Soon after Christmas of 2000, her h
announced that he would stay in New
The talked-about train to New York C
never materialized. The traffic tie-up
endless. "All you talk about is bills
bills," she recalled him saying.

Their divorce left Lascelles alone
house all week and Ms. Davis wracke
guilt as she stayed in New York week
to save the bus fare. She did not da
anyone and slept with her cellphone
pillow. On weekends, she would return
and pack. For months, they lived
lives with boxes filling every room. As

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June 10, 2004

Congressman Paul Kanjorski
7 North Wilkes Barre Blvd.
Suite 400 M
Wilkes Barre, PA 18702

Dear Congressman Kanjorski,

Pursuant to your request, I respectfully submit the following for your consideration and the consideration of the Congress of the United States as a whole at the June 14, 2004 hearing of the Capital Markets Subcommittee entitled "Broken Dreams in the Poconos: The Response of the Secondary Markets and Implications for Federal Legislation.

Facts

Alleged fraud and deceptive practices within the real estate industry in Monroe County, Pennsylvania are rampant and out of control and have been for many years.

There are, as of this writing, several cases alleging fraud in the real estate industry that are awaiting due process.

I have been involved with attempts to rectify this situation for over 10 years.

For a period of 5 years, I was contracted by the Commonwealth of Pennsylvania to review appraisals suspected of being fraudulent and preparing evidence for testimony before the Pennsylvania Board of State Certified Real Estate Appraisers for charges of fraud against several individual appraisers.

As a result of my work for the Commonwealth of Pennsylvania as indicated above, I have formed some definitive opinions relevant to the methodology employed by appraisers to fraudulently inflate value opinions concerning residential dwellings in Monroe County, Pennsylvania.

The **Dictionary of Real Estate Appraisal**, published by the Appraisal Institute defines a neighborhood as "A group of complementary land uses."

Methodology

An appraiser attempting to deliberately overstate the value of a residential dwelling, typically employs the following steps to achieve that goal.

1. The "range of values" in the "Neighborhood" section on the FNMA Appraisal Form is overstated.

2. The boundaries of the "Neighborhood" as indicated on the FNMA Appraisal form is expanded far beyond the geographic boundaries of the market area of the subject property.

Example:

An appraiser will indicate that the neighborhood is "Coolbaugh Township".

Coolbaugh Township is approximately 15 miles wide in a east/west direction and 3 to 5 miles wide in a north/south direction.

Within Coolbaugh Township, there is a residential subdivision known as A Pocono Country Place. The range of values in this subdivision as of this writing are approximately $80,000 to $120,000, with a few exceptions.

Also within Coolbaugh Township, this is a residential subdivision known as Lake Naomi along with its adjoining sister subdivision known as Timber Trails. The range of selling prices in these two subdivisions is, as of this writing, approximately $100,000 to $500,000 with a few exceptions.

By indicating that the "Neighborhood" as Coolbaugh Township, allows the appraiser to go to Lake Naomi and Timber Trails for comparable properties when appraising a house in A Pocono Country Place and indicate that all comparable properties are within the subject's neighborhood.

Such a "Neighborhood" boundary description also allows the appraiser to overstate the value of the "Subject Site" in the Cost Approach to Value in the FNMA Appraisal Form.

Lots in A Pocono Country Place, as of this writing, typically sell for between $5,000 and $10,000 if they are "arm's length transactions" and meet the criteria for "Market Value" as indicated in the definition of "Market Value" as stated in FIRREA.

Lots in Lake Naomi and Timber Trails, as of this writing, typically sell for between $40,000 and $60,000 if they are "arm's length transactions" and meet the criteria for "Market Value" as indicated in the definition of "Market Value" as stated in FIRREA.

Using comparable properties, both improved and unimproved, in subdivisions with vastly differing selling prices, but within what the appraiser defines as the "Neighborhood", provides the appraiser the opportunity to significantly overstate the value of the residential property being appraised, while making it seem that all of the residential properties within the neighborhood are of similar value.

The Problem

The definition of "Neighborhood" is very broad and open to individual interpretation.

An appraiser needs the latitude to expand the geographic search parameters for comparable sales when necessary to identify properties that are truly comparable to the property being appraised.

This freedom opens the door for the appraiser attempting to overinflate the value of the property being appraised.

Suggested Possible Solutions:

Develop a more specific definition of the neighborhood.

Replace the term "Neighborhood" with some other term, possible "Competitive Market Area"

Require the appraiser to include in the appraisal a search of sold properties, in chart form, demonstrating the selling prices in the area of the property being appraised. **SEE ATTACHED CHART OF SALES IN A POCONO COUNTRY PLACE, LAKE NAOMI AND TIMBER TRAILS .**

(If you look at the bottom of the Chart of Improved Sales in A Pocono Country Place, it indicates that the average sales price was $60.95 per square foot, the median selling price was $61.72 per square foot, the lowest sales price was $24.33 per square foot and the highest sales price was $105.87 per square foot.)

(If you look at the both of the Chart of Improved Sales in Lake Naomi, it indicates that the average sales price was $127.23 per square foot, the median selling price was $121.88 per square foot, the lowest sales price was $61.50 per square foot and the highest sales price was $243.61 per square foot.)

(If you look at the both of the Chart of Improved Sales in Timber Trails, it indicates that the average sales price was $156.59 per square foot, the median selling price was $159.96 per square foot, the lowest sales price was $100.00 per square foot and the highest sales price was $263.50 per square foot.)

Considering the above information, if an appraiser submitted such data and attempted to use sales in either Lake Naomi or Timber Trails as comparable properties, it would be obvious to even the untrained eye, that something was incorrect.

Positive Aspects

By either altering the definition of a neighborhood or requiring the above information in all appraisals, it will be more difficult to overinflate the value of residential property.

Negative Aspects

The enclosed searches took 3 hours to prepare. This is going to increase the cost of an appraisal and increase the turn around time. However, the benefits may just be worth the effort.

I hope these suggestions help.

Thank you very much.

Very truly yours,

Joseph C. Fisher
Pennsylvania Certified
General Appraiser
Certificate Number
GA 000627 L

Attachments: Charts of sales, A Pocono Country Place, Lake Naomi and Timber Trails, Curriculum Vitea of Joseph C. Fisher

Source
Pocono Mts. Association of Realtors
Multiple Listing Service

Improved Residential Sales
Lake Naomi
December 2003 through June 2004

	Address	Parcel Number	Sold Date	Days On Market	Original List Price	Final List Price	Price Reduction	Sold Price	% of List Achieved	Total Sqft	Sales Price per SF	Year Built	Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
1	194 WOODLAND	19-6335-02-55-2722	April 30, 2004	56	$245,000	$245,000	$0	$232,500	94.90%	2,358	$98.60	1971	33	0.33	2	9	4	2
2	6 SYCAMORE CT.	19-6335-02-76-9671	April 9, 2004	38	$159,000	$159,000	$0	$155,000	97.48%	850	$182.35	1985	19	0.29	2	6	3	2
3	55/56 APPLESEED/GROSS DR. EAST	19-6325-16-94-0664	April 16, 2004	483	$118,900	$118,900	$0	$120,000	100.93%	1,120	$107.14	1973	31	0.34	1	6	3	2
4	38 Beechspring Drive	19-6335-13-03-5659	April 22, 2004	284	$149,500	$149,500	$0	$149,500	100.00%	1,200	$124.58	1981	23	0.34	2	6	3	1.5
5	16 Clear Pond Road	19-6335-02-56-0105	March 12, 2004	216	$229,000	$210,000	$19,000	$190,000	90.48%	1,645	$115.50	1987	17	0.31	2	7	3	2
6	30 Clear Pond Road	1.96335E+13	April 30, 2004	130	$139,900	$139,900	$0	$135,000	96.50%	1,008	$133.93	1970	34	0.32	2	5	3	1
7	9 Greenhill Road	19-6335-13-04-1134	April 19, 2004	138	$249,500	$249,500	$0	$227,500	91.18%	1,600	$142.19	1985	19	0.34	1.5	7	3	2
8	23 Longview Lane	19-6335-04-52-5424	April 30, 2004	149	$225,000	$225,000	$0	$205,000	91.11%	1,161	$176.57	1984	20	0.56	2	7	3	2
9	13 PINE CONE	19-6325-02-65-5219	April 8, 2004	11	$125,000	$125,000	$0	$120,000	96.00%	768	$156.25	1969	35	0.5	1	6	3	1
10	12 Lakeview Drive	19-6335-03-34-6756	April 6, 2004	0	$695,000	$695,000	$0	$640,000	92.09%	2,800	$228.57	1982	22	0.28	3	8	3	2.5
11	44 HEMLOCK TRAIL	19-6335-02-76-7750	January 29, 2004	285	$169,000	$146,500	$22,500	$138,000	94.20%	1,160	$118.97	1975	29	0.44	1	5	2	2
12	12 SWEET BRIAR ROAD	19-6325-16-83-8078	February 13, 2004	257	$137,500	$129,900	$7,600	$120,000	92.38%	1,008	$119.05	1978	26	0.39	1	6	3	1
13	7 Sycamore Court	19-6335-02-76-9786	December 15, 2003	148	$144,500	$129,950	$14,550	$117,000	90.03%	960	$121.88	1975	29	0.32	1	6	3	1
14	21 APPLESEED	19-6325-16-94-0290	January 26, 2004	21	$94,000	$96,000	-$2,000	$86,000	89.58%	754	$114.06	1973	31	0.4	1	4	2	1
15	4 WOODLAND	19-6335-03-24-7728	December 19, 2003	390	$149,900	$149,900	$0	$141,000	94.06%	1,684	$83.73	1970	34	0.5	2	6	3	2
16	11 REDWOD TERRACE	19-6335-01-15-8085	January 2, 2004	170	$274,999	$249,900	$25,099	$233,500	93.44%	1,711	$136.47	1990	14	0.34	2	8	3	2
17	5 ALPINE CT.	19-6326-16-94-5263	December 19, 2003	162	$119,900	$119,900	$0	$117,000	97.58%	1,539	$76.02	1985	19	0.34	1	9	4	2
18	16 Redwood Terrace	19-6335-01-25-0342	January 16, 2004	123	$139,000	$134,500	$4,500	$121,500	90.33%	950	$127.89	1976	28	0.46	2	5	2	1
19	228 Woodland Ave	19-6335-02-75-6127	December 22, 2003	138	$159,900	$159,900	$0	$150,000	93.81%	1,540	$97.40	1979	25	0.5	2	6	3	2
20	186 Woodland	19-6335-01-45-6933	February 9, 2004	14	$154,000	$154,000	$0	$149,000	96.75%	1,224	$121.73	1983	21	0.37	1	7	3	2
21	32 Gross Drive East	19-6325-16-94-6648	February 13, 2004	0	$249,900	$249,900	$0	$242,000	96.84%	1,650	$146.67	2003	1	0.34	2	7	3	2
22	2 Lakeview Court	19-6335-03-44-3268	March 26, 2004	234	$179,900	$164,500	$15,400	$150,000	91.19%	1,350	$111.11	1975	29	0.41	1	9	3	2
23	7 NAOMI DRIVE	19-6325-04-62-9324	March 18, 2004	133	$164,500	$164,500	$0	$150,000	91.19%	1,920	$78.13	1974	30	0.54	2	8	4	2
24	26 Hemlock Circle	1.96335E+13	March 13, 2004	104	$139,900	$144,900	-$5,000	$134,500	92.82%	1,456	$92.38	1979	25	0.34	2	7	4	2
25	53 WOODLAND AVE.	19-6335-03-03-2180	February 27, 2004	126	$289,500	$289,500	$0	$280,000	96.72%	2,664	$105.11	2003	1	0.33	3	9	4	3
26	45 Gross Drive East	19-6335-13-04-3944	February 27, 2004	123	$289,000	$289,000	$0	$265,000	91.70%	2,050	$129.27	1995	9	0.34	2	9	3	3
27	23 PINE CONE	19-6325-02-65-0127	March 25, 2004	115	$129,000	$129,000	$0	$110,000	85.27%	1,260	$87.30	1970	34	0.54	2	5	3	1
28	160 WOODLAND	19-6335-01-35-3065	February 13, 2004	73	$285,000	$285,000	$0	$272,500	95.61%	1,732	$157.33	1985	19	0.34	2	6	3	3
29	4 STONEWALL	19-6335-13-14-4384	February 13, 2004	41	$99,500	$99,500	$0	$95,000	95.48%	884	$107.47	1968	36	0.37	1	5	2	1
30	94 LONGVIEW LANE	19-6335-04-84-8273	February 27, 2004	69	$225,000	$225,000	$0	$220,000	97.78%	1,500	$146.67	1973	31	0.5	2	7	4	2
31	29 SPLIT ROCK	19-6335-03-42-7415	March 10, 2004	43	$335,000	$335,000	$0	$317,000	94.63%	2,160	$146.76	1999	5	0.64	2	8	4	3
32	74 Gross Drive East	19-6335-03-24-5829	February 27, 2004	63	$149,500	$149,500	$0	$139,000	92.98%	1,368	$101.61	1974	30	0.34	2	8	4	2
33	88 REDWOOD TERRACE	19-6335-01-26-9623	April 2, 2004	25	$189,900	$189,900	$0	$189,900	100.00%	1,390	$136.62	1988	16	0.49	2	5	3	2
34	46 GROSS DRIVE EAST	19-6335-13-04-4754	April 2, 2004	275	$82,500	$77,000	$5,500	$80,000	103.90%	700	$114.29	1968	36	0.34	1	5	2	1
35	Redwood Terrace	19-6335-13-14-9430	May 24, 2004	273	$139,900	$139,900	$0	$123,000	87.92%	2,000	$61.50	1975	29	0.38	2	8	3	2
36	54 Hillcrest Drive	19-6335-02-85-5245	May 21, 2004	210	$254,900	$254,900	$0	$239,750	94.06%	1,580	$151.74	1986	18	0.45	1.5	6	3	2
37	105 LONGVIEW LANE	19-6335-04-94-0596	May 13, 2004	161	$139,900	$139,900	$0	$124,000	88.63%	900	$137.78	1980	24	0.45	1.5	5	3	1
38	76 MILLER DR	19-6335-04-53-6481	April 30, 2004	15	$249,900	$249,900	$0	$230,000	92.04%	1,860	$123.66	1989	15	0.34	2	7	3	2
39	51 MILLERS DR	19-6335-03-42-7719	May 25, 2004	15	$590,000	$590,000	$0	$562,000	95.25%	2,307	$243.61	1986	18	0.35	2	8	3	2
			Average	**136**	**$206,697**	**$203,950**	**$2,747**	**$191,568**	**94.02%**	**1,481**	**$127.23**	**1981**	**23**	**0.40**	**2**	**7**	**3**	**2**
			Median	**126**	**$159,900**	**$159,000**	**$0**	**$150,000**	**94.06%**	**1,456**	**$121.88**	**1979**	**25**	**0.35**	**2**	**7**	**3**	**2**
			Low	**0**	**$82,500**	**$77,000**	**-$5,000**	**$80,000**	**85.27%**	**700**	**$61.50**	**1968**	**1**	**0.28**	**1**	**4**	**2**	**1**
			High	**483**	**$695,000**	**$695,000**	**$25,099**	**$640,000**	**103.90%**	**2,800**	**$243.61**	**2003**	**36**	**0.64**	**3**	**9**	**4**	**3**

Excel
Kanjerski 2. Suggestions
Naomi Sales

Demonstration Sales Data

Source
Pocono Mts. Association of Realtors
Multiple Listing Service

Improved Residential Sales
Timber Trails
December 2003 throu June 2004

	Address	Parcel Number	Sold Date	Days On Market	Original List Price	Final List Price	Price Reduction	Sold Price	% of List Achieved	Total Sqft	Sales Price per SF	Year Built	Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
1	22 Lakeshore Drive	03-6326-04-80-9288	May 21, 2004	63	$295,000	$295,000	$0	$278,500	94.41%	1,720	$161.92	1982	22	1.63	3	8	4	3
2	19 Crockett's Crescent	19-6325-02-95-1111	April 30, 2004	244	$195,000	$189,500	$5,500	$170,000	89.71%	1,700	$100.00	1978	26	1	2	8	4	2
3	12 Deerwood Drive	19-6325-02-85-1107	March 30, 2004	169	$289,900	$289,900	$0	$270,000	93.14%	1,600	$168.75	1983	21	1.3	2	6	3	2
4	65 BLUE OX ROAD	03-6336-03-10-1340	April 20, 2004	91	$217,000	$217,000	$0	$198,000	91.24%	1,452	$136.36	1975	29	1	1	6	4	2
5	86 OLD CREEK PATH	03-6336-03-11-3185	January 30, 2004	387	$389,000	$324,900	$64,100	$279,000	85.87%	2,502	$111.51	1980	24	1	2	9	3	2
6	110 BEARTRACK TRAIL	03-6335-01-49-3201	December 30, 2003	80	$225,000	$225,000	$0	$208,000	92.44%	1,250	$166.40	1980	24	1.52	2	6	3	2
7	11 LAKESHORE	03-6325-02-99-7667	December 12, 2003	24	$549,000	$549,000	$0	$480,620	87.54%	1,824	$263.50	1982	22	1	2	8	4	2
8	95 BEARTRACK TRAIL	03-6335-01-49-6410	April 15, 2004	448	$325,000	$325,000	$0	$272,250	83.77%	1,702	$159.96	1985	19	1.09	2	7	4	2
9	69 PAUL BUNYAN TRAIL	03-6336-03-10-8001	May 3, 2004	13	$355,000	$355,000	$0	$338,000	95.21%	2,399	$140.89	1989	15	1.02	2	10	4	3
			Average	**169**	**$315,544**	**$307,811**	**$7,733**	**$277,152**	**90.37%**	**1,794**	**$156.59**	**1982**	**22**	**1**	**2**	**8**	**4**	**2**
			Median	**91**	**$295,000**	**$295,000**	**$0**	**$272,250**	**91.24%**	**1,702**	**$159.96**	**1982**	**22**	**1**	**2**	**8**	**4**	**2**
			Low	**13**	**$195,000**	**$189,500**	**$0**	**$170,000**	**83.77%**	**1,250**	**$100.00**	**1975**	**15**	**1**	**1**	**6**	**3**	**2**
			High	**448**	**$549,000**	**$549,000**	**$64,100**	**$480,620**	**95.21%**	**2,502**	**$263.50**	**1989**	**29**	**2**	**3**	**10**	**4**	**3**

Excel
Kanjorski 2, Suggestions
Sales, Timber Trails

Demonstration Sales Data

Prepared by
Joseph C. Fisher
Fisher and Fisher Appraisals
June 10, 2004

Source
Pocono Mtn. Association of Realtors
Multiple Listing Service

Improved Residential Sales
A Pocono Country Place
December 2003 through June 2004

	Address	Parcel Number	Sold Date	Days On Market	Original List Price	Final List Price	Price Reduction	Sold Price	% of List Achieved	Total Sqft	Sales Price per SF	Year Built
1	122 Shadow Terr	03-6358-09-16-8851	June 4, 2004	214	$124,500	$124,500	$0	$120,000	96.39%	1,700	$70.59	2001
2	46 Lakeside Drive	3.63592E+12	April 22, 2004	105	$249,500	$249,500	$0	$238,500	95.59%	2,556	$93.31	1987
3	8370 SUNSET DR	03-6358-09-16-3079	April 14, 2004	352	$88,400	$79,000	$9,400	$72,000	91.14%	1,320	$54.55	1996
4	K-759 Knollwood Drive	03-6369-13-02-5948	April 30, 2004	249	$79,500	$79,500	$0	$81,900	103.02%	1,088	$75.28	1986
5	2442 WINDING WAY	03-6359-16-72-6729	April 6, 2004	239	$119,000	$115,000	$4,000	$118,720	103.23%	1,726	$68.78	1988
6	7462 LEILA CT	03-6358-13-24-1630	April 27, 2004	211	$135,900	$121,000	$14,900	$124,630	103.00%	1,900	$65.59	1987
7	482 Juniper Dr	03-9C-1-426	April 15, 2004	135	$58,500	$42,500	$16,000	$36,500	85.88%	1,500	$24.33	1979
8	4329 WOODLAND DR	03-6358-19-62-2207	April 16, 2004	136	$64,900	$62,000	$2,900	$57,000	91.94%	960	$59.38	1978
9	G509 Ventnor Drive	03-6358-09-25-0559	April 14, 2004	163	$74,900	$74,900	$0	$74,000	98.80%	1,100	$67.27	1988
10	J-137 Brandywine	03-6359-19-60-1440	April 23, 2004	151	$87,500	$83,900	$3,600	$78,000	92.97%	1,272	$61.32	1992
11	9816 DEERWOOD TER	03-6359-15-52-1715	April 6, 2004	110	$152,000	$147,900	$4,100	$145,000	98.04%	2,250	$64.44	1994
12	D-162 Woodland Dr	03-6358-16-72-5504	March 30, 2004	89	$79,900	$79,900	$0	$79,000	98.87%	1,270	$62.20	1984
13	H656 Chipmunk Dr	03-6358-09-07-8319	April 13, 2004	95	$123,900	$122,478	$1,422	$125,080	102.12%	2,550	$49.05	1995
14	9129 BRANDYWINE DR	03-6359-19-60-3342	March 29, 2004	61	$104,500	$94,900	$9,600	$95,000	100.11%	2,222	$42.75	1987
15	1885 BEVERLY CT	03-6369-13-03-9962	April 2, 2004	39	$85,000	$85,000	$0	$78,000	91.76%			1989
16	423 Deerwood Terr	03-6359-14-42-9763	April 23, 2004	36	$68,777	$68,777	$0	$65,777	95.64%	840	$78.31	1981
17	5386 VINE TER	03-6358-11-66-6159	April 2, 2004	23	$97,500	$97,500	$0	$98,800	101.33%	1,300	$76.00	1981
18	Lt 355 Stony Hollow Drive	03-6359-18-31-9920	March 30, 2004	263	$164,900	$149,950	$14,950	$153,000	102.03%	2,187	$69.96	1994
19	779K ROLLING HILLS	03-6369-13-02-1673	April 19, 2004	168	$89,000	$89,000	$0	$87,550	98.37%	1,292	$67.76	1985
20	G250 Sawmill	03-6358-10-26-9499	April 8, 2004	73	$99,900	$99,900	$0	$97,520	97.62%	1,836	$53.12	1984
21	H-637 RACCOON TRAIL	03-6358-05-07-6597	April 16, 2004	98	$66,900	$66,900	$0	$65,000	97.16%	1,296	$50.15	1978
22	L291 WINDING WAY	03-6359-19-72-4275	April 15, 2004	27	$71,900	$71,900	$0	$67,500	93.88%	1,800	$37.50	1979
23	H-509 Country Place Dr. E.	03-6358-05-07-3849	April 23, 2004	48	$73,500	$73,500	$0	$68,000	92.52%	1,080	$62.96	1989
24	Lt 333 Fairhaven Drive	03-6359-16-84-3534	April 2, 2004	23	$89,000	$89,000	$0	$87,000	97.75%	1,136	$76.58	1980
25	354 K Radburn Terrace	03-6369-17-01-8925	March 29, 2004	26	$59,000	$59,000	$0	$54,000	91.53%	1,092	$49.45	1988
26	J-333 Idlewild Dr	03-6359-18-31-1812	April 2, 2004	19	$87,000	$87,000	$0	$83,000	95.40%	1,221	$67.98	1987
27	703 Midwood Terr	03-6369-13-13-3307	January 30, 2004	361	$89,500	$74,700	$14,800	$76,220	102.03%	1,098	$69.42	1987
28	2854 FAIRHAVEN DR	03-6359-16-94-0344	January 30, 2004	180	$98,000	$98,000	$0	$103,000	105.10%	1,365	$75.46	1992
29	L-477 Pocono Ctry Place	03-6359-16-93-2389	December 30, 2003	1	$114,900	$114,900	$0	$110,000	95.74%	1,550	$70.97	1985
30	H-649 BEAR TRAIL	03-6358-09-06-6897	January 9, 2004	137	$114,900	$114,900	$0	$106,500	92.69%	1,952	$54.56	1989
31	323 Idlewild Drive	03-6359-18-31-7309	January 26, 2004	132	$69,900	$69,900	$0	$71,550	102.36%	1,080	$66.25	1977
32	G-517 MEADOWLARK DR	03-6358-09-25-0200	December 22, 2003	131	$95,000	$84,900	$10,100	$83,000	97.76%	1,764	$47.05	1985
33	7106 ROBINWOOD DR	03-6358-10-36-9003	January 23, 2004	168	$62,000	$62,000	$0	$58,000	93.55%	844	$68.72	1982
34	1377 RADBURN TER	03-6369-17-02-8198	January 30, 2004	163	$76,000	$69,900	$6,100	$62,000	88.70%	1,088	$56.99	1986
35	F359 Park Place	03-6358-14-33-5286	January 23, 2004	151	$76,900	$68,500	$8,400	$45,000	65.69%	1,000	$45.00	1980
36	K-539 HORSESHOE BEND	03-6369-13-13-5828	December 18, 2003	53	$72,500	$72,500	$0	$68,000	93.79%	1,008	$67.46	1976
37	304 IDLEWILD	03-6359-18-31-7518	December 26, 2003	104	$69,900	$59,900	$10,000	$55,000	91.82%	1,500	$36.67	1988
38	L-268 Clermont Road	03-6359-16-83-7730	February 3, 2004	134	$85,000	$79,500	$5,500	$71,000	89.31%	1,104	$64.31	1988
39	674 H PHEASANT LANE	3.63581E+12	January 23, 2004	68	$93,900	$87,900	$6,000	$87,000	98.98%	1,842	$47.23	1996
40	538 POCONO CTY PLACE DR	3.63581E+12	January 12, 2004	66	$78,900	$72,900	$6,000	$72,000	98.77%	1,290	$55.81	1986
41	4579 BRIARCLIFF TER	03-6358-15-72-1722	February 6, 2004	79	$68,000	$68,000	$0	$65,000	95.59%	978	$66.46	1978
42	J217 Jasmine Drive	03-6359-19-50-2827	January 27, 2004	44	$89,900	$89,900	$0	$89,000	99.00%	1,340	$66.42	1987
43	513G MEADOWLARK DR	03-6358-09-15-9413	February 4, 2004	41	$84,900	$84,900	$0	$81,600	96.11%	1,688	$48.34	1991

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44	1366 Kodiak Terrace	03-6369-17-02-4097	January 21, 2004	21	$129,900	$129,900	$0	$128,600	99.00%	2,100	$61.24	1990
45	L-355 STARLIGHT TERRACE	03-6359-16-84-9963	January 9, 2004	28	$49,900	$49,900	$0	$44,800	89.98%	1,040	$43.17	1987
46	281-2 Crestview	03-6358-10-26-8042	February 3, 2004	2	$58,103	$58,103	$0	$58,000	99.82%	1,800	$32.22	1988
47	H-449 Moose Lane	03-6358-09-06-0538	February 5, 2004	41	$59,900	$57,900	$2,000	$54,500	94.13%	980	$55.61	1980
48	1441 LAKESIDE DR	03-6359-20-81-8227	January 12, 2004	213	$189,000	$169,000	$20,000	$155,000	91.72%	2,580	$60.08	1985
49	2215 OVERLOOK DR	03-6359-15-62-8582	December 11, 2003	71	$116,500	$116,500	$0	$116,600	100.09%	1,948	$59.86	1988
50	A-27 SUNNYFIELD TERRACE	03-6358-20-82-5230	December 18, 2003	147	$112,000	$109,000	$3,000	$109,000	100.00%	1,250	$87.20	1989
51	1978 Beverly Court	03-6369-13-03-6652	January 22, 2004	203	$98,500	$95,000	$3,500	$96,000	101.05%	1,824	$52.63	1985
52	F-214 BOARDWALK DR	03-6358-14-43-8596	January 15, 2004	205	$145,000	$145,000	$0	$136,500	94.14%	1,300	$105.00	1990
53	284 Country Place Dr	03-6348-12-95-9373	January 15, 2004	185	$119,500	$105,500	$14,000	$105,000	99.53%	1,500	$70.00	1982
54	102/103 Corner Browning & Park	03-6358-15-54-1546	December 17, 2003	183	$91,900	$87,700	$4,200	$83,000	94.64%	1,200	$69.17	1985
55	243J Bluebird Terrace	03-6359-19-51-2710	January 29, 2004	212	$114,500	$97,500	$17,000	$97,500	100.00%	1,800	$54.17	2001
56	1151 PLACID LN	03-6358-20-90-2416	December 19, 2003	157	$89,000	$89,000	$0	$92,920	104.40%	1,100	$84.47	1988
57	E-42 Jennifer Lane	03-6358-16-83-0277	January 12, 2004	114	$84,000	$84,000	$0	$84,000	100.00%	1,344	$62.50	1975
58	211K SUNNYSIDE DR	03-6359-20-90-5414	December 22, 2003	85	$72,500	$72,500	$0	$65,000	89.66%	1,210	$53.72	1979
59	H-651 Pheasant Lane	03-6358-09-07-7011	December 22, 2003	95	$69,500	$69,500	$0	$63,000	90.65%	1,074	$58.66	1985
60	461 Lakeside Dr	03-6359-16-92-4873	December 29, 2003	93	$174,900	$174,900	$0	$165,000	94.34%	2,000	$82.50	1986
61	667 Meadow Lane	03-6359-18-32-8232	January 9, 2004	101	$64,900	$64,900	$0	$68,620	105.73%	960	$71.48	0
62	226H Natures Drive	03-6358-09-05-4651	January 23, 2004	93	$98,900	$93,900	$5,000	$96,000	102.24%	2,643	$36.32	1999
63	326K KNOLLWOOD	03-6369-17-01-2823	December 15, 2003	64	$52,500	$52,500	$0	$53,000	100.95%	1,086	$48.80	1986
64	K-82 ROLLING HILLS	03-6359-20-81-9095	December 25, 2003	17	$109,900	$109,900	$0	$108,150	98.41%	1,415	$76.43	1988
65	73 Rolling Hills	03-6359-20-80-5551	January 20, 2004	85	$49,900	$49,900	$0	$39,500	79.16%	1,398	$28.25	1986
66	J-521 Deerwood Dr	03-6359-15-52-2993	December 23, 2003	41	$77,900	$77,900	$0	$77,900	100.00%	1,192	$65.35	1980
67	1158 JEWEL TER	03-6359-20-90-8861	December 22, 2003	38	$91,500	$91,500	$0	$93,280	101.95%	1,345	$69.35	1986
68	D-179A BRIARWOOD DR	03-6358-15-63-8172	December 15, 2003	15	$89,000	$89,000	$0	$83,000	93.26%	1,632	$50.86	1985
69	177 Fairview Court	03-6359-19-50-8342	January 9, 2004	504	$75,000	$69,900	$5,100	$69,000	98.71%	1,552	$44.46	1978
70	C155 WOODLAND DR	03-6358-19-51-4671	January 20, 2004	0	$110,000	$110,000	$0	$90,000	81.82%	1,500	$60.00	1988
71	H64 Possum Court	03-6358-05-27-0599	December 29, 2003	342	$99,900	$89,900	$10,000	$85,000	94.55%	1,840	$46.20	1990
72	6348 VENTNOR DR	3.63581E+12	December 11, 2003	71	$89,900	$82,900	$7,000	$70,000	84.44%	1,380	$50.72	1998
73	K631 Winding Way	03-6369-13-23-1762	December 19, 2003	70	$115,000	$115,000	$0	$118,000	102.61%	1,500	$78.67	1995
74	253L WINDING WAY	03-6359-16-83-5621	December 19, 2003	55	$72,900	$72,900	$0	$63,000	86.42%	1,260	$50.00	1986
75	519 meadowlark drive	03-6358-09-25-1143	December 19, 2003	65	$65,000	$65,000	$0	$65,720	101.11%	960	$68.46	1987
76	9101 IDLEWILD DR	03-6359-18-31-3826	January 16, 2004	48	$89,127	$89,127	$0	$96,500	108.27%	1,344	$71.80	1991
77	6051 BOARDWALK DR	03-6358-14-43-7309	December 19, 2003	39	$149,900	$149,900	$0	$143,000	95.40%	1,972	$72.52	1978
78	7759 COUNTRY PLACE DR	03-6358-13-14-9254	December 10, 2003	2	$78,000	$78,000	$0	$75,000	96.15%	1,208	$62.09	1985
79	1888 Susan Terrace	03-6369-13-03-0282	December 12, 2003	28	$75,000	$75,000	$0	$70,000	93.33%	1,148	$60.98	1990
80	428G Parkway & Robinwood Dr	03-6358-09-16-9210	January 14, 2004	0	$59,900	$59,900	$0	$45,000	75.13%	1,010	$44.55	1978
81	135 Glendale Terr.	03-6358-08-89-7784	February 11, 2004	15	$129,900	$129,900	$0	$125,000	96.23%	1,816	$68.83	1990
82	296 Country Place Drive	03-6358-10-25-9330	January 30, 2004	18	$90,000	$90,000	$0	$85,000	94.44%	1,750	$48.57	1999
83	G602 Leila Court	03-6358-13-14-7863	February 9, 2004	5	$69,900	$69,900	$0	$60,000	85.84%	960	$62.50	1984
84	269 Eagle Rock	03-6359-10-25-7837	March 27, 2004	200	$74,900	$69,900	$5,000	$61,000	87.27%	956	$63.81	1985
85	1726 ROLLING HILLS DR	3.63592E+12	March 3, 2004	98	$48,900	$44,900	$4,000	$38,000	84.63%	800	$47.50	1987
86	9107 IDLEWILD DR	03-6359-18-32-1030	February 16, 2004	26	$96,900	$79,700	$17,200	$72,000	90.34%	1,800	$40.00	1996

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87	6689 COUNTRY PLACE DR	03-6358-14-33-7729	February 27, 2004	47	$73,900	$68,900	$5,000	$75,000	108.85%	1,100	$68.18	1985
88	1043 KNOLLWOOD DR	03-6359-20-80-6120	April 13, 2004	277	$98,000	$98,000	$0	$90,000	91.84%	1,436	$62.67	1989
89	K-469 Foxledge Drive	03-6359-16-93-4183	March 19, 2004	563	$94,500	$79,900	$14,600	$78,000	97.62%	1,900	$41.05	1987
90	216 Shannon Lane	03-6358-09-15-0008	March 9, 2004	188	$64,900	$49,900	$15,000	$41,500	83.17%	1,080	$38.43	1985
91	G558 Shady Lane	03-6358-09-15-4585	March 31, 2004	167	$72,558	$58,558	$14,000	$57,500	98.19%	1,004	$57.27	1985
92	F210 Boardwalk Dr	03-6358-14-43-9872	April 12, 2004	161	$169,900	$169,900	$0	$140,000	82.40%	1,600	$87.50	1987
93	1056 KNOLLWOOD DR	03-6359-20-90-0451	February 20, 2004	119	$69,900	$59,900	$10,000	$59,900	100.00%	960	$62.40	1984
94	J37 Jasmine Dr	03-6359-18-41-9527	March 12, 2004	99	$88,000	$88,000	$0	$78,000	88.64%	1,100	$70.91	1987
95	402 Bonny View Lane	03-6359-16-84-4254	March 29, 2004	127	$115,900	$104,900	$11,000	$96,000	91.52%	2,392	$40.13	1998
96	9313 FAIRMOUNT DR	3.63592E+12	February 17, 2004	132	$49,900	$45,900	$4,000	$41,000	89.32%	780	$52.56	1989
97	1822 FAIRHAVEN DR	03-6359-16-93-9662	February 10, 2004	195	$147,900	$139,900	$8,000	$134,500	96.14%	2,200	$61.14	1985
98	F388 Country Place Drive	03-6358-14-33-6875	February 20, 2004	133	$69,900	$69,900	$0	$65,000	92.99%	1,000	$65.00	1986
99	659G Country Place Drive	03-6358-13-14-4254	February 27, 2004	107	$86,000	$81,000	$5,000	$72,000	88.89%	1,194	$60.30	1987
100	O66 Briarcliff Terrace	03-6358-20-71-5288	March 12, 2004	120	$92,000	$80,000	$12,000	$70,000	87.50%	1,350	$51.85	1986
101	G-199 Mountain Lane	03-6358-10-36-3382	March 18, 2004	94	$73,000	$73,000	$0	$72,234	98.95%	1,352	$53.43	1985
102	457 J Juniper dr	03-6359-19-52-7101	March 5, 2004	79	$92,900	$85,900	$7,000	$91,300	106.29%	1,428	$63.94	2000
103	6346 VENTNOR DR	03-6358-14-34-8144	February 17, 2004	61	$105,900	$95,000	$10,900	$98,000	103.16%	1,380	$71.01	1998
104	F-40 COUNTRY PLACE DR	03-6358-11-55-0007	March 16, 2004	73	$69,900	$69,900	$0	$72,080	103.12%	1,020	$70.67	1984
105	128 OVERLOOK	3.63592E+12	March 8, 2004	30	$96,500	$96,500	$0	$91,752	95.08%	1,700	$53.97	1998
106	F293 Boardwalk	03-6358-14-43-7787	March 5, 2004	52	$93,500	$93,900	-$400	$90,250	96.11%	1,800	$50.14	2000
107	131 ROBINWOOD DR	3.63581E+12	April 26, 2004	103	$84,900	$69,900	$15,000	$79,500	113.73%	1,848	$43.02	1985
108	8541 BUMBLE BEE WAY	03-6348-12-96-6300	March 26, 2004	24	$105,000	$105,000	$0	$105,000	100.00%	1,537	$68.31	1989
109	93 IDLEWILD DR	3.63581E+12	March 30, 2004	59	$88,900	$79,900	$9,000	$77,730	97.28%	1,500	$51.82	1997
110	K-386 KNOLLWOOD DR	03-6369-17-02-3217	March 15, 2004	24	$84,900	$84,900	$0	$81,600	96.11%	1,288	$63.35	1991
111	4153 Fox Chase Terrace	03-6358-19-62-4217	March 26, 2004	15	$136,500	$136,500	$0	$132,000	96.70%	1,800	$73.33	1900
112	7318 MEADOWLARK DR	03-6358-09-25-1098	March 12, 2004	103	$69,900	$69,900	$0	$64,000	91.56%	840	$76.19	1978
113	D159 Woodland Dr	03-6358-16-72-6742	February 24, 2004	255	$125,000	$125,000	$0	$120,000	96.00%	1,896	$63.29	1990
114	609J Stoney Hollow	03-6359-14-43-0405	March 19, 2004	196	$125,000	$125,000	$0	$125,000	100.00%	2,268	$55.11	1996
115	98 OVERLOOK DR	03-6359-15-72-3671	April 14, 2004	666	$105,000	$89,900	$15,100	$89,900	100.00%	2,020	$44.50	1977
116	C88 Summit Drive	03-6358-19-61-6455	March 2, 2004	53	$68,808	$68,808	$0	$65,000	94.47%	1,100	$59.09	1984
117	87 Briarcliff Drive	03-6358-19-72-1476	April 13, 2004	82	$92,500	$88,500	$4,000	$90,500	102.26%	1,600	$56.56	1994
118	3132 LAKEVIEW DR	9999	February 11, 2004	21	$60,900	$60,900	$0	$61,000	100.16%	1,520	$40.13	0
119	E5 Ridgefield	03-6358-16-82-4918	February 27, 2004	9	$74,900	$74,900	$0	$70,000	93.46%	1,200	$58.33	1986
120	5430 RIDGEFIELD DR	03-6358-16-73-9654	March 15, 2004	13	$123,000	$123,000	$0	$122,055	99.23%	1,872	$65.20	1996
121	9425 JUNIPER DR	03-6359-19-51-9794	February 17, 2004	4	$88,000	$88,000	$0	$85,000	96.59%	1,388	$61.24	1988
122	F-141 VENTNOR DR	03-6358-14-45-8010	February 27, 2004	19	$149,900	$149,900	$0	$147,400	98.33%	2,385	$61.80	19
123	9525 JASMINE DR	03-6359-19-51-3281	March 23, 2004	9	$89,999	$89,999	$0	$87,999	97.78%	1,100	$80.00	1985
124	E315 Pembrook Dr	03-6358-11-77-3121	April 23, 2004	4	$119,900	$119,900	$0	$123,404	102.92%	1,744	$70.76	1997
125	G695 Sleepy Hollow	03-6358-13-14-2562	April 16, 2004	6	$79,900	$79,900	$0	$70,000	87.61%	1,440	$48.61	1991
126	G634 Fawn Lane	03-6358-13-23-0647	May 21, 2004	108	$77,500	$79,900	-$2,400	$82,300	103.00%	1,086	$75.78	1986
127	F-148 Ventnor Drive	03-6358-14-44-5515	May 3, 2004	343	$84,800	$79,998	$4,802	$80,500	100.63%	1,100	$73.18	1986
128	274D LAKEVIEW DR	03-6358-15-52-8648	May 24, 2004	256	$77,000	$69,900	$7,100	$72,100	103.15%	1,152	$62.59	1984
129	7817 COUNTRY PLACE DR	03-6358-10-37-3107	May 14, 2004	253	$59,900	$59,900	$0	$57,165	95.43%	1,008	$56.71	1982

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130	G591 Rainbow Dr	03-6358-13-14-9559	May 21, 2004	149	$62,900	$62,900	$0	$61,000	96.98%	1,150	$53.04	1986
131	G-468 Ventnor Dr.	03-6358-09-25-2609	May 5, 2004	63	$89,900	$89,900	$0	$83,000	92.32%	1,564	$53.07	1979
132	D-211 BRIARWOOD DR	03-6358-19-62-8091	May 28, 2004	49	$149,900	$149,900	$0	$145,000	96.73%	2,260	$64.16	1991
133	C-187 Lakeview Drive	03-6358-19-52-3382	May 18, 2004	81	$165,900	$165,900	$0	$155,000	93.43%	1,464	$105.87	1973
134	D-136 Brentwood Drive	03-6358-16-72-8875	May 19, 2004	66	$114,000	$114,000	$0	$110,000	96.49%	1,564	$70.33	1987
135	239 E Oak Terrace	03-6358-12-77-6305	May 5, 2004	84	$118,900	$107,900	$11,000	$100,000	92.68%	1,800	$55.56	1999
136	692 FAIRMOUNT TERRACE	03-6359-18-32-3000	May 7, 2004	102	$117,900	$99,900	$18,000	$104,000	104.10%	1,700	$61.18	2000
137	261 H Country Place Drive	03-6358-13-04-6825	May 13, 2004	84	$114,900	$114,900	$0	$114,900	100.00%	1,728	$66.49	1997
138	282G ROBINWOOD DR	03-6358-10-26-9093	April 15, 2004	76	$115,500	$115,500	$0	$105,000	90.91%	1,786	$58.79	2000
139	G653 Country Place Dr.	03-6358-13-14-2168	April 30, 2004	54	$74,900	$74,900	$0	$74,881	99.97%	840	$89.14	1980
140	474 Melody Lane	03-6359-16-93-3509	May 14, 2004	57	$92,500	$92,500	$0	$95,000	102.70%	1,200	$79.17	1989
141	722 Winding Way	03-6369-13-12-2549	May 27, 2004	10	$109,000	$109,000	$0	$111,000	101.83%	1,300	$85.38	1988
142	427J Deerwood	03-6359-14-42-6559	May 13, 2004	6	$110,000	$110,000	$0	$106,500	96.82%	1,728	$61.63	1997
143	477 Meadowlark Drive	03-6358-13-24-4920	May 28, 2004	16	$99,900	$99,900	$0	$95,000	95.10%	1,560	$60.90	1987
144	9227 Westwood Drive	03-6359-19-50-9807	May 7, 2004	7	$72,500	$72,500	$0	$65,000	89.66%	1,000	$65.00	1987
145	708 Idlewild	03-6359-18-22-9154	May 6, 2004	12	$29,900	$29,900	$0	$29,900	100.00%	960	$31.15	1992
146	L468 Foxledge Drive	03-6359-16-93-0997	March 19, 2004	263	$87,000	$87,000	$0	$87,000	100.00%	1,200	$72.50	1985
147	8051 POSSUM CT	03-6358-09-17-9428	May 19, 2004	13	$115,000	$115,000	$0	$120,000	104.35%	2,000	$60.00	1988
148	73 Rolling Hills Road	03-6359-20-80-5551	May 25, 2004	26	$95,500	$95,500	$0	$98,000	102.62%	1,398	$70.10	1986
149	7179 Mountain Lane	03-6358-10-36-5544	June 1, 2004	3	$84,900	$84,900	$0	$84,000	98.94%	1,788	$46.98	1994
150	57 E Brentwood Drive	03-6358-166-7361-81	May 4, 2004	14	$85,000	$85,000	$0	$86,000	101.18%	2,045	$42.05	1986
151	D-212 BRIARWOOD	03-6358-19-62-8174	May 21, 2004	27	$64,900	$64,900	$0	$60,000	92.45%	968	$61.98	1986
			Average	**106**	**$94,056**	**$90,993**	**$3,063**	**$87,767**	**96.16%**	**1,460**	**$60.95**	**1948**
			Median	**79**	**$89,000**	**$85,000**	**$0**	**$83,000**	**96.73%**	**1,373**	**$61.72**	**1987**
			Low	**0**	**$29,900**	**$29,900**	**-$2,400**	**$29,900**	**65.69%**	**780**	**$24.33**	**0**
			High	**666**	**$249,500**	**$249,500**	**$20,000**	**$238,500**	**113.73%**	**2,643**	**$105.87**	**2001**

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PCP Sales

Demonstration Sales Data

Prepared by
Joseph C. Fisher
Fisher and Fisher Appraisals
June 10, 2004

Improved Residential Sales
A Pocono Country Place
December 2003 through June 2004

Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
3	0.24	2	9	3	1.5
17	0.23	2	8	5	2
8	0.18	1.5	6	3	2
18	0.27	1.5	5	3	2
16	0.54	2	10	4	2
17	0.23	2	7	3	2
25	0.47	2	5	3	1
26	0.22	1	5	2	2
16	0.2	2	5	2	2
12	0.22	2	7	3	2
10	0.3	2	9	4	3
20	0.3	1.5	9	3	2
9	0.23	2	11	3	2
17	0.31	2	13	5	3
15	0.39	2.5	6	3	2
23	0.28	2	6	3	2
23	0.22	2	5	3	2
10	0.37	2	8	3	3
19	0.22	2	8	4	2
20	0.26	2.5	7	3	2
26	0.17	1	7	3	1
25	0.22	1.5	7	3	1.5
15	0.17	1.5	5	2	2
24	0.22	1	6	2	2
16	0.38	1	6	3	1
17	0.21	2	7	3	2
17	0.45	1.5	5	3	2
12	0.3	2	6	3	2
19	0.81	1	7	3	2
15	0.19	2	9	3	2
27	0.23	2	7	3	2
19	0.23	2	7	3	2
22	0.19	1	5	2	1
18	0.55	1.5	7	3	1
24	0.2	2	6	3	1
26	0.18	1	6	3	1
16	0.22	2	7	4	2
16	0.22	1	5	3	2
8	0.32	2	8	3	2
18	0.22	2	7	2	2
26	0.21	1	5	3	1
17	0.27	2	8	3	2
13	0.25	2	7	3	2

Demonstration Sales Data

Source
Pocono Mts. Association of Realtors
Multiple Listing Service

Improved Residential Sales
A Pocono Country Place
December 2003 through June 2004

Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
14	1	2	9	4	3
17	0.21	1	6	3	2
16	0.26	1.5	5	3	2
24	0.24	1.5	4	2	1
19	0.25	3	8	3	2
16	0.25	2	11	4	2
15	0.52	2	7	3	2
19	0.3	2	6	3	2
14	0.19	2	7	3	2
22	0.38	2	8	3	2.5
19	0.5	1.5	4	3	2
3	0.32	2	9	3	2
16	0.34	2	5	3	2
29	0.21	2	6	3	2
25	0	2	6	3	2
19	0.27	1.5	5	2	1
18	0.37	2	10	3	2
2004	0.25	1	6	3	1.5
5	0.19	2	7	3	2
18	0.29	1.5	5	3	2
16	0.2	1.5	8	3	2
18	0.26	2	6	3	2
24	0.23	1.5	6	3	2
18	0.34	2	7	3	2
19	0.22	2	8	3	2
26	0.21	3	8	3	2
16	0.29	2	10	3	2
14	0.24	2	10	5	2
6	0.21	2	6	3	2
9	0.3	2	6	3	2
18	0.33	2	5	3	2
17	0.19	1	6	3	1
13	0	2	6	4	2
26	0.25	2	7	4	2
19	0.22	2	6	3	2
14	0.38	2.5	6	3	2
26	0.28	1	8	3	2
14	0.43	1	11	4	2
5	0.25	2	7	3	1.5
20	0.21	1.5	6	3	2
19	0.21	2	5	2	2
17	0.27	1	5	2	1
8	0.23	2	9	4	2

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PCP Sales

Demonstration Sales Data

Prepared by
Joseph C. Fisher
Fisher and Fisher Appraisals
June 16, 2004

Source
Poconos Mts. Association of Realtors
Multiple Listing Service

Improved Residential Sales
A Pocono Country Place
December 2003 through June 2004

Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
19	0.25	2	6	3	2
15	0.18	2	8	3	2
17	0.2	2	8	4	1
19	0.24	1.5	6	3	1
19	0.26	2	4	3	1.5
17	0.2	3	7	2	2
20	0.24	1	6	3	1
17	0.28	1	6	3	2
6	0.25	2	7	3	2
15	0.22	1	5	2	1
19	0.32	2	11	4	2
18	0.33	1	4	2	1.5
17	0.2	1.5	6	3	2
18	0.26	3	8	3	2
19	0.18	1.5	5	2	2
4	0.21	2	6	3	2
6	0.21	2	6	2	2
20	0.24	1.5	5	3	1
6	0.25	2	7	3	2
4	0.2	2	9	3	2.5
19	0.2	2	7	4	3
15	0.27	2	9	3	2
7	0.3	2	6	3	2
13	0.33	2	9	3	2
104	0.32	2	8	4	2
26	0.19	2	5	3	2
14	0.31	1	9	3	2
8	0.29	2	8	4	3
27		3	7	3	2
20	0.33	2	6	2	1
10	0.31	2	3	3	3
2004	0.3	2	5	3	2
18	0.26	1.5	5	3	2
8	0.24	2	9	3	2
16	0.31	2	6	3	2
1985	0.33	2	10	3	3.5
19	0.25	2	7	3	2
7	0.35	2	7	3	1.5
13	0.3	1.5	8	2	2
18	0.28	2	5	3	2
18	0.18	1	7	3	2
20	0.26	2	7	3	1.5
22	0.18	1	5	2	1

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PCP Sales

Demonstration Sales Data

Prepared by
Joseph C. Fisher
Fisher and Fisher Appraisals
June 10, 2004

Source
Pocono Mts. Association of Realtors
Multiple Listing Service

Improved Residential Sales
A Pocono Country Place
December 2003 through June 2004

Age	Lot Acres	Stories	Total Rms	Total Bdrms	Total Bthrms
18	0.7	2	5	2	1
25	0.2	2	7	3	2
13	0.26	2	10	4	3
31	0.3	2	7	2	2
17	0.24	2	7	4	2
5	0.29	2	8	3	2
4	0.23	2	8	3	2
7	0.25	2	8	3	2
4	0.22	2	6	3	1.5
24	0.31	2	3	3	1
15	0.33	3	7	3	2
16	0.44	2	6	3	2.5
7	0.29	2	8	3	1.5
17	0.28	1.5	7	3	2
17	0.22	1	8	3	1
12	0.27	1	6	3	1
19	0	1.5	6	3	2
18	0.5	2	10	3	2
18	0.26	2	7	3	2
10	0.27	2	9	3	2
18	0.25	1.5	8	4	2
18	0.25	1	5	2	1
56	**0**	**2**	**7**	**3**	**2**
17	**0**	**2**	**7**	**3**	**2**
3	**0**	**1**	**3**	**2**	**1**
2004	**1**	**3**	**13**	**5**	**4**

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PCP Sales

Prepared by
Joseph C. Fisher
Fisher and Fisher Appraisals
June 10, 2004

CURRICULUM VITAE

JOSEPH C. FISHER, M. Ed
1177 Cranberry Creek Road
Cresco, Pennsylvania
18326
570 629 9370

Professional Credentials

Pennsylvania State Certified General Appraiser
Certificate Number GA-000627-L

Real Estate Instructor
Certificate Number RI-001310-L

Pennsylvania Real Estate Broker
License Number AB-045759-L

National Instructor, Uniform Standards of Professional Appraisal Practice
Certified by the Appraisal Qualifications Board
Certification Number 10056
Appraisal Foundation
Washington, DC

Candidate Member(MAI), Appraisal Institute

EDUCATIONAL BACKGROUND

1967, Bachelor of Science, Kutztown State College, Art Education
1979, Master of Education, East Stroudsburg State College, Health and Physical Education
Society of Real Estate Appraisers
Course 101

Appraisal Institute
Courses 102, Uniform Standards of Professional Appraisal Practice A, B & C, Income Capitalization A and B

Appraisal Foundation
Uniform Standards of Professional Appraisal Practice
Update Course, 1993
Boston, Mass.

Uniform Standards of Professional Appraisal Practice
2001 USPAP Update for Instructors and Regulators
February 2001
Washington, DC

Uniform Standards of Professional Appraisal Practice
Update Course
2002 USPAP Update for Instructors and Regulators
December 2001
New Orleans, LA

Uniform Standards of Professional Appraisal Practice
Instructor Certification Course
March 2002
Phoenix, Az

BUSINESS EXPERIENCE

Owner/President
Fisher & Fisher Appraisals, Inc.
Cresco, PA

Providing appraisal and consulting services on all types of real estate throughout Northeastern Pennsylvania for the past 13 years. This includes assignments for acquisition and disposition, internal lender asset reviews, restructuring, reorganization, bankruptcy, liquidation and workouts, estate and gift tax, property tax analysis, expert witness activity including appraisal reviews and the preparation of evidence for hearings before the Pennsylvania Board of Certified Real Estate Appraisers. Some of these appraisal assignments require expert testimony in various courts of law.

Educator/Curriculum Development
Pocono Real Estate Academy
East Stroudsburg, PA
1991 through the present

Faculty, Pennsylvania Bar Institute
Continuing Legal Education
Pennsylvania Bar Association, Family Law Section
Summer Meeting
Toronto, Canada
July 11-14, 1996
Topic: Understanding Real Estate Appraisals and Appraisers

Faculty, Pennsylvania Bar Institute
Continuing Legal Education
Pennsylvania Bar Association
Pittsburgh, Harrisburg and Philadelphia
August, 1997
Topic: Understanding Real Estate Appraisals and Appraisers

Co-Author
Understanding Real Estate Appraisals & Appraisers,
Pennsylvania Bar Institute, 1997
Topic: Understanding Real Estate Appraisals and Appraisers

Faculty, Pennsylvania Bar Institute
Continuing Legal Education
Pennsylvania Bar Association
Pittsburgh, Harrisburg and Philadelphia
November, 1999
Topic: Understanding Real Estate Appraisals and Appraisers

Contracted Expert Witness

Pennsylvania Department of State
Bureau of Professional and Occupational Affairs
Harrisburg, PA
July 1998 - July 2003

Cumberland Development and Marketing v. Lake Adventure Community Association.
Lenahan and Dempsey, Attorneys at Law
16 Washington Ave
Scranton, PA
March, 2001

ANR Pipeline Company v. Arent's et al
Roth and Binn, Attorneys at Law
Park Plaza
15850 West Bluemound Road
Brookfield, Wisconsin, 53005-6060
March 2002

Guest Lecturer

Northeast Chapter, Pennsylvania Assessors Association
Continuing Education
Bloomsburg, Pennsylvania
September, 1997
Reviewing Appraisal Reports

Northeast Chapter, Pennsylvania Assessors Association
Continuing Education
Bartonsville, Pennsylvania
March, 1998
Topic: The Appraisal of Time Share Resort Properties

Northeast Chapter, Pennsylvania Assessors Association
Continuing Education
Harrisburg, Pennsylvania
November, 1998
Topic: The Appraisal of Time Share Resort Properties

Allentown Chapter, Independent Fee Appraisers Association
Allentown, Pennsylvania
May 2000
Topic: Fraudulent Appraisals

Northeast Chapter, Pennsylvania Assessors Association
Continuing Education
Scranton, Pennsylvania
April, 2001
Topic: Wetlands Mitigation Banking

Pennsylvania State Assessors Association
Continuing Education
Lake Harmony, Pennsylvania
May, 2001
Topic: Wetlands Mitigation Banking

Century 21 Commercial Investment Network 2001 Fall Conference
Horizon Casino and Hotel
Lake Tahoe, NV
October 2001
Topic: Risk Management, Commercial, Industrial and Special Use Property

Northeast Pennsylvania Assessors Association
Hazelton, PA.
December 2001
Topic: Appraising Resorts and Time-Share Resorts

Northeast Pennsylvania Assessors Association
Delaware Water Gap, PA.
September 2002
Topic: Appraising Difficult and Unique Properties

Pennsylvania Assessors Association
State College, Pennsylvania
November 2002
Topic: Land Use, Planning and Zoning

PRIOR EXPERIENCE

Owner/President
Fisher/Smiley Realty, Inc.
East Stroudsburg, PA

October 1985 through Fall 1988, full time real estate brokerage and appraisal service. This corporation is still active, but on paper only to retain Pennsylvania Real Estate Broker License.

Real Estate Salesperson, Part Time
Barbara Samet Real Estate, Ltd.
East Stroudsburg, PA
May 1981 through October 1985

Educator
Penn State University, Adjunct Faculty
Hazleton, PA
1992 through 1995

Educator
Stroudsburg Area School District
Stroudsburg, PA
September 1969 through June 1986

Educator
Pen Argyl School District
Pen Argyl, PA
September 1968 through June 1969

Educator
Binghamton Central High School
Binghamton, N.Y.
September 1967 through June 1968

PROFESSIONAL AFFILIATIONS

Member, National Association of Realtors
Member, Pennsylvania Association of Realtors
Member, Pocono Mountains Board of Realtors

COURT TESTIMONY

Carbon County Board of Revision of Taxes
Monroe County Court of Common Pleas
Monroe County Tax Appeal Board of View
Pike County Court of Common Pleas
United States Bankruptcy Court- Northeastern Division
Pennsylvania Board of Certified Real Estate Appraisers
Circuit Court, Waukesha County, Wisconsin

IMPACT ISSUES

City of Scranton, Lackawanna County, PA
Value Impact of the Interstate Highway System to Residential Property

Tobyhanna Township Sewage Treatment System, Monroe County, PA
Impact on Commercial Properties
Impact on Unimproved Commercial Land
Impact on Unimproved Residential Lots
Impact on Improved Residential Properties

Stroud Township, Monroe County, PA
Impact of Home Depot Development on Surrounding Residential Properties

Coolbaugh Township, Monroe County, PA
Impact on the Value of Residential Property if any, as a result of the proposed construction of a Secure Juvenile Residential Facility.

Mount Joy Township, Adams County, PA
Impact of the development of the Yingling property and the anticipated increased traffic on the property value in Lake Heritage and the property of the Lake Heritage Property Owner's Association, Gettysburg, PA.

AUTHORSHIP

Appraisal Re-Certification Course, 1995, 1997, 1999, 2001
Joseph C. Fisher, Author/Developer and Instructor
For, Pocono Real Estate Academy
27 Dansbury Terrace
East Stroudsburg, PA
18301
The above 4 courses were approved by the Pennsylvania Board of Certified Real Estate Appraisers for the Mandatory Continuing Education Requirements of the Appraisal Foundation in Washington DC.

EXAMPLES OF APPRAISAL EXPERIENCE

1-4 Family Residential
Apartment Complexes
Boarding Houses
Bulk Land
Children's Camps
Day Care Centers
Dumps
Farms
Fraternity Houses
Gas Stations
Hotels
Manufacturing Facilities
Motels
Printing Facilities
Regional Distribution Centers
Resorts
Retail/Office Space
Schools
Trailer Parks
Vacant Land/Developments
Wetlands Issues
Reviews of Residential and Commercial Appraisals
Airports
Automobile Dealerships
Bed and Breakfasts
Camp Grounds
Convenience Stores
Diners
Equine Facilities
Fast Food Stores
Fuel Distribution Centers
General Stores
Hunting Camps
Mixed Use Buildings
Quarries
Radio Stations
Religious Retreats
Restaurants
Shopping Centers
Taverns
Truck Sales and Repair Facilities
Warehouses

PARTIAL CLIENT LIST

Brenda Wise Goodman, Esquire
C. Daniel Higgins, Esquire
Commonwealth of Pennsylvania
East Stroudsburg Area School District
Elizabeth Bennsinger Weeks, Esquire
FJR Investment Corp.
FNMA
First Community Bank
First Union Bank
First Eastern Bank
Five Star Printing
Four Maples Press
Frank Buck Motors, Inc.
Franklin First Federal Savings and Loan Association
George Westervelt, Attorney at Law
Great American Mortgage
Hanna, Young and Upright, Attorneys at Law
Krawitz & Krawitz, Attorneys at Law
LA Bank
Loan America
Robert Maskrey, Esquire
Mellon Bank
Meridian Bank
Nazareth National Bank
North Penn Bank
Penn Security Bank and Trust Company
Pocono Community Bank
Pocono Mountain School District
Primrose, Lions and Quigley, Attorneys at Law
PNC Bank
Rosenblum and Anders, Attorneys at Law
Randall W. Turano, Esquire
Sovereign Bank
Stroud Township
Timothy B. Fisher, Esquire
Timothy J. McManus, Esquire
Thomas F. Dirvonas, Esquire
Tobyhanna Township
William E. Livesey Jr., CPA
Zito, Martino and Karasek, Attorneys at Law.

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