

Appraisals Part of All Fraud Loans

by Lew Sichelman

A faulty or even fake appraisal is said to be at the basis of every fraudulent mortgage transaction. But not every appraiser is at fault, or at least willingly so.

James Blaydes of Blaydes & Associates, a Peru, Ill., appraisal firm says that in many cases, appraisers can't stand up to pressure put on them by mortgage brokers. Either they "hit the numbers" as instructed, he said at the Mortgage Bankers Association's National Fraud Issues Conference in Chicago recently, or they are blackballed.

It's not quite "The Sopranos," the perhaps true-to-Mobster-life TV show where someone who refuses to play along ends up with broken legs or is sometimes whacked. But if an appraiser refuses to inflate a valuation, Blaydes said, he won't be getting any more business, at least from that particular broker.

Speaking for the Appraisal Institute, which has been calling on lawmakers to address mortgage fraud since 1981, when the problem was believed to be in its infancy, the Illinois appraiser said there are plenty of ways to fudge a valuation besides packing the final number.

Among other things, appraisers can ignore the best comparables, or use properties in better neighborhoods as comps, he said. They also can mis-describe a property, such as labeling a commercial building as single-family. Or they can fail to mention physical problems.

But appraisers aren't the only ones who commit such flagrant fouls, Blaydes told the conference. Sometimes loan brokers do their own dirty work.

They have been known to alter an otherwise honest appraiser's work by changing the values of each comparable, he said, deleting noted physical issues or other undesirable influences impacting the subject property or even forging their own appraisal reports.

Upstanding appraisers are doing their best to fight fraud on their own, Mr. Blaydes told the conference. But they need help, and not just from federal and state legislators.

While bills being considered in Congress will "go a long way" toward helping to combat fraud, the AI spokesmen said, lenders can help themselves by separating the appraiser

selection process from loan origination and by preventing loan officers from having any contact with loan officers.

"That's something we can do ourselves," agreed Erik Stein, executive vice president and director of fraud risk management at Countrywide Home Loans, Simi Valley, Calif. "Loan officers shouldn't get to pick the appraiser."

Stein said faulty appraisals are "the single most important issues in collateralized lending."

"All fraud is bad, but the reality is, if the house is worth what the appraiser says, if I have value in the collateral, I'm going to break even."

Blaydes also highly recommended that lenders monitor appraiser rosters by checking with state and local regulators to determine if any disciplinary actions have been taken against a particular appraiser, and running at least an automated valuation on the subject property prior to funding a loan as a quality control measure.

And he called on lenders to protect themselves by filing "well documented complaints" against bad appraisers and brokers, and aggressively pursuing civil suits against the evil doers.

"If you see this kind of stuff going on, there's no way you're going to clean this up" unless detailed complaints are filed, he said. "It needs to be reported."

Countrywide's Stein agreed with those recommendations, too. "Make fraud cost, not pay," he told the meeting, by, among other things, installing an independent hotline so appraisers can report pressure and keeping an internal "Do Not Use" list of suspected bad actors.

"Get involved," he implored. "You are not going to make a change unless you do."

Both speakers said lenders also would do well to support adequate funding for state regulators. "The lower you go" in the regulatory hierarchy, Stein told the meeting, "the greater your chances of actually getting something done."

Emblematic of the scope of the mortgage fraud problem throughout the country is what's going on in Illinois, where three out of ten appraisals are found to be forged, according to Robert Gorman, an East Hazel Crest, Ill., appraiser. "That's a

significant number," he told the meeting. "And that's only the ones we know of. Who knows what we don't know?"

Gorman said in some cases, appraisers who have had their licenses lifted continue to make valuations using someone else's identification. They swipe the names from class rosters, loan files, and even industry websites, he said.

In other instances, he also said, the "appraisers" were never licensed at all, and are part of a larger scheme to fleece lenders.

Gorman told of one crew of 13 fake appraisers who are working out of a factory on Chicago's South side. The authorities would like to shut down this appraisal factory, he said, but they can't. "They're not licensed, so there's nothing we can do," he said. "So they are still there."

The crooks don't stop at just fake valuations, either, he added. "They go so far as to forge errors and omission insurance documents and any other documents (lenders) might ask for" to make sure the appraiser is on the up-and-up.

Gorman said one easy way for lenders to spot a scam is to make sure the address where checks are sent is the same as the address listed on the appraiser's license. If it's not, he said, it's a pretty good indicator that something's amiss.

"If you just follow the money," he said, "you can solve a lot of your problems."

Blaydes, meanwhile, said the Illinois Coalition of Appraisal Professions and the Chicago Chapter of the Appraisal Institute are working to change licensing laws so that new hires are listed as "trainees" and supervisory appraisers are limited to working with no more than three trainees at any one time.

Absent the trainee designation, he explained, out-of-state lenders have no way of knowing a fledgling appraiser cannot legally perform a valuation without his work being signed off on by his supervisory appraiser.

Sometimes, he added, supervisors work with as many as 10 trainees at a time, which is far too many for "proper supervision."

Reprinted from the article that was published in the June 28, 2006 issue of Realty Times.

**Visit the North Texas Chapter
web site at www.ainorthtexas.org
to register for 2006
courses and seminars.**

Did You Know... Membership Benefits

The North Texas Chapter sponsors eight Chapter meetings per year. Two-hour continuing education programs are held in conjunction with those meetings. The programs feature current topics related to the Dallas/Fort Worth area real estate market.

Attendance at the Chapter meetings qualifies members for 16 hours continuing education credit annually. Over a five-year period, members can accumulate 80 hours of continuing education credits toward their Appraisal Institute requirement of 100 hours by attending Chapter meetings.

Members can meet the Texas Appraiser Licensing and Certification Board continuing education requirement of 28 hours (7 of which must be USPAP Update hours) within a two-year period by attending 11 Chapter meetings (22 hours), and attending a *7-Hour National USPAP Update Course* (required).

Chapter meetings remaining in 2006 will be held at Prestonwood Country Club, and are scheduled on the following dates:

Thursday, September 14
Thursday, October 12
Thursday, November 9

Contact the Chapter Office with any questions about continuing education requirements.

Members Encouraged to Complete Profile

Designated members are encouraged to complete a Member Profile, which is displayed with their listing in the Appraisal Institute's online Member Directory (Find an Appraiser). The profile setup page is accessible by logging into the Members Only area of www.appraisalinstitute.org and clicking on the link to the setup page. Designated members must use their own login to see this link (only designated members will see the link).

In addition to serving as a business-marketing tool for members, a Member Profile can help broaden member-to-member networking. That is why even members who are not available for fee assignment should set up a profile since their experiences and backgrounds in particular facets of the profession can help guide other members.

Fall 2006 Chapter Education Programs

7-Hour National USPAP Update Course August 28

Instructor: Lance Coyle, MAI
Location: University of Phoenix Bldg., Dallas
CE Credits: AI and ACE-7 hours;
MCE-8 hours/0 legal hours

Basic Appraisal Principles Course September 11-14

Instructors: Mike Atwood, MAI, SRA and
George Naeter, MAI
Location: Holiday Inn, Arlington
CE Credits: AI, QE and ACE-28 hours/2 exam hours

Basic Appraisal Procedures Course September 15-18

Instructors: Jay Massey, MAI, SRA and
George Naeter, MAI
Location: Holiday Inn, Arlington
CE Credits: AI, QE and ACE-28 hours/2 exam hours

15-Hour National USPAP Course September 19-20

Instructor: James Jacobs, SRA
Location: Holiday Inn, Arlington
CE Credits: AI, QE and ACE-15 hours/1 exam hour;
MCE-15 hours/0 legal hours

Subdivision Valuation: A Comprehensive Guide to Valuing Improved Subdivisions

October 13
Instructor: Marc Farmer, MAI
Location: University of Phoenix Bldg., Dallas
CE Credits: AI and ACE-7 hours;
MCE-8 hours/0 legal hours

General Applications Course October 16-21

Instructors: Lance Coyle, MAI and Jay Massey, MAI, SRA
Location: Southfork Hotel, Plano
CE Credits: AI, QE and ACE-37 hours/3 exam hours

Scope of Work: Expanding Your Range of Services Seminar

November 8
Instructor: Gregory E. Stephens, SRA
Location: University of Phoenix Bldg., Dallas
CE Credits: AI and ACE-7 hours;
MCE-8 hours/0 legal hours

7-Hour National USPAP Update Course November 10

Instructor: George Naeter, MAI
Location: University of Phoenix Bldg., Dallas
CE Credits: AI and ACE-7 hours;
MCE-8 hours/0 legal hours

Advanced Income Capitalization Course

November 12-18

Instructors: Jay Massey, MAI, SRA and
Sheila Stewart, MAI

Location: Southfork Hotel, Plano

CE Credits: AI, QE and ACE-36 hours/4 exam hours

Registration: www.ainorthtexas.org/education2

Questions: Contact the North Texas Chapter -
ainorthtexas@sbcglobal.net; 972-233-2244 (phone);
972-239-6857 (fax)

Associate Member News

National Board Acts on MAI Experience/Extends GMAT Deadline

The following changes were adopted by the Board of Directors at their June meeting in Chicago.

General Associate Final Level Experience Requirement Changes: General associate members who join after July 1, 2006, will have different requirements for submission of experience credit. There will be no initial level submission requirement. The associate must submit for final level credit only. Experience totaling 4,500 hours will be required. (Associate members who applied for Associate Member status prior to July 1, 2006, may have alternatives available to them.)

General Advisory Review Process Change: Alert your General Associate members that Advisory Review is available at any time prior to submission of their application for final level experience credit – it is not tied to your initial level experience submission. (This change was made for residential associates as of 2005 but the change was made for general associates in 2006.) You may request one or more Advisory Reviews on any work product. (For questions contact Jan Young, MAI, SRA, at jyoung@appraisalinstitute.org or 503-439-9954.)

College Degree Requirement for MAI Designation: Another action taken by the Board in June extends from June 15, 2005, to December 31, 2007, the deadline for SRA members to satisfy the college degree requirements by obtaining the necessary score(s) on the GMAT examination.

In Memoriam

The North Texas Chapter acknowledges
with sincere regret the passing
of Dolores Arvesen,
wife of Edwin A. Arvesen, MAI, SRA.

Yellow Book Seminar to be Added to Schedule

The North Texas Chapter is planning to add the seminar, *Uniform Appraisal Standards for Federal Land Acquisitions: Practical Applications for Fee Appraisers*, (the "Yellow Book Seminar") to the fall 2006 education schedule. Detailed information will be emailed to the Chapter membership when the details have been finalized.

Members Encouraged to Fill Out Leadership Registry

To enhance member involvement and participation in the Appraisal Institute, a Leadership Resource Registry has been developed, which allows members to input information about their particular areas of interest, knowledge and experience. The information provided will help the organization when it seeks member feedback on particular issues and when selecting members to serve on committees, project teams, panels and in other leadership positions.

All members interested in being considered for appointment need to fill out the Resource Registry, even if they filled it out last year. To do so, visit the Members Only area of the web site at www.appraisalinstitute.org/lrr/default.aspx. A member log-in and password are required.

Designated members must also complete a Member Profile to be eligible for committee service.

Members who have questions about or need assistance in completing the Registry may contact Dolores Grabowski at dgrabowski@appraisalinstitute.org.

Announcements

On behalf of the North Texas Chapter, a sincere thank you is extended to John Jordan, MAI and Ann Kostishak, MAI for providing facilities and proctoring student exams.

Chapter Donation - Jack Friedman, MAI, SRA, FRICS has generously donated the book, *Litigation Support Report Writing: Accounting, Finance, and Economic Issues*, which he coauthored with Roman L. Weil. The book can be checked out to Chapter members for review. Contact the Chapter (ainorthtexas@sbcglobal.net or 972-233-2244 for details).

National Seeking Experience Screeners

Experience Review is one of the requirements relating to admission to membership for General and Residential associates. One of the options offered to associates is Advisory Review, which is voluntary. It is a counseling review that provides feedback to the associate about their work. The final level review provides the credit that the associate needs for designation. Screeners review the associates work, talk to them, and either approve experience credit or refer the associate to a review committee for a more thorough review. The review is intended to be educational for the associate while you, as a screener, assess their experience level.

We need experienced appraisers like you to serve as screeners. Volunteers do the majority of AI's experience review and we always need help.

We are looking for AI members who enjoy being up-to-date in their skills and are willing to share their expertise with others. The initial training for a screener consists of a 3-hour Experience Review Training seminar for which you will receive continuing education credit. Once you have taken the seminar, you will be mentored through several reviews by an experienced screener.

What is the incentive of being an experience screener?

- Reviewing experience will expand your knowledge as well as providing the satisfaction of mentoring our associate members.
- Each screener will receive \$75.00 per completed experience screening.

The training will be held Saturday September 16, 2006 from 9:00 am-12:00 pm, during the 23rd Pan Pacific Congress/Appraisal Institute Summer Conference. To sign up please email Marilyn Moore at mmoore@appraisalinstitute.org, or sign up online at <http://www.appraisalinstitute.org/conf/ppc.asp> and check the Appraisal Institute Committee Meetings/Chapter Leadership Program Registration box.

**Please note the North Texas
Chapter's email address in
your address book:**

ainorthtexas@sbcglobal.net

North Texas Chapter Leadership

2006 Officers

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Vice President Mark O'Briant, MAI
Secretary K. Lynn Naugher, MAI
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2006 Committee Chairs

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Education Jeff Briggs, MAI
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Guidance Joe Milkes, MAI
Membership Development/
Retention Mitchell Todd, MAI
Newsletter Jack Poe, MAI
Programs Mark O'Briant, MAI
Public Relations Doug Prickett, MAI
Telephone Bruce Minchey
Web Site Richard Baker, MAI

Chapter Office

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972-233-2244; 972-239-6857 (fax)
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Summer Book Sale in Progress

The Appraisal Institute is offering a 30% discount off the following textbooks:

- *Analysis and Valuation of Golf Courses and Country Clubs*
- *Appraising Industrial Properties*
- *A Business Enterprise Value Anthology*
- *Convenience Stores and Retail Fuel Properties*
- *Hotels and Motels-Valuations and Market Studies*
- *Land Valuation: Adjustment Procedures and Assignments*
- *Market Analysis and Valuation of Self-Storage Facilities*
- *Valuation and Market Studies for Affordable Housing*
- *Valuation of Marinas*
- *The Valuation of Wetlands, 2nd edition*

Books can be ordered by phone at 800-504-7440 or online at www.appraisalinstitute.org/ecom/publications. Please use promo code BS2006 to get the 30% discount. Sale prices are in effect through August 31, 2006.

2006 Calendar of Events

August

28 *7-Hour National USPAP Update Course - Univ. of Phoenix Bldg., Dallas*

September

11-14 *Basic Appraisal Principles Course - Holiday Inn-Arlington*
14 *Board of Directors and Chapter Meetings - Prestonwood Country Club*
15-18 *Basic Appraisal Procedures Course - Holiday Inn-Arlington*
19-20 *15-Hour National USPAP Course - Holiday Inn-Arlington*

October

12 *Board of Directors and Chapter Meetings - Prestonwood Country Club*
13 *Subdivision Valuation: A Comprehensive Guide to Valuing Improved Subdivisions Seminar - University of Phoenix Bldg., Dallas*
16-21 *General Applications Course - Southfork Hotel, Plano*

November

8 *Scope of Work: Expanding Your Range of Services Seminar - University of Phoenix Bldg., Dallas*
9 *Board of Directors and Chapter Meetings - Prestonwood Country Club*
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12-18 *Advanced Income Capitalization Course - Southfork Hotel, Plano*

Marketplace

Dallas area mortgage originator is seeking to fill review position with a qualified appraiser. Experience in the appraisal management process is a plus. Minimum requirements include 5+ years appraisal/review experience and State Certified - General license requirement. Advanced Appraisal Institute candidate or MAI a plus. Competitive salary and benefit package with a growing company. Send resume and salary requirements to abansgopaul@blx.net.

Fort Worth appraisal firm has openings for 2-3 appraisers. Consideration is being given to a wide range of experience levels, from trainee to professionally designated. Contact Alan Pursley, MAI, SRA, SGA, Appraisal Source, Inc., 7080 Camp Bowie Blvd., Fort Worth, TX 76116, alan.pursley@asidfw.com, 817-763-8000, 817-763-8017 (fax).