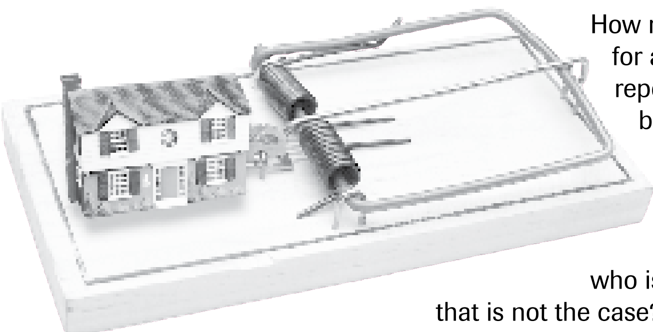
CLAIM ALERT

Avoiding Appraisal Fraud: Appraising Your Client

Mortgage fraud and real estate fraud articles have become regular features in news headlines. There are blogs and stories galore about the latest fraud schemes and those implicated. Often, it would be noted that a real estate appraiser somehow contributed to the fraudulent enterprise and was forced to pay a high price for his involvement. It cannot be denied that some real estate appraisers are willing participants in fraudulent activity. From our claims experience we find that many appraisers are unwittingly drawn into fraudulent schemes by not noticing red flags and by putting their trust in the wrong people.

It is very easy to get dragged into a fraudulent scheme. Therefore, it is important to remember not to allow yourself to be talked into doing something if you feel uneasy about it, no matter how nice or desperate the person seems. If you feel uncomfortable about a situation or an assignment, there is probably good reason. Trust your own instincts.



How many times have you received a call from a client asking for a "special favor"? The client usually needs the appraisal report ASAP; another appraiser accepted the assignment then backed out at the last minute. By the time they call you they are desperate for the appraisal report and offer to pay extra to "rush" the appraisal!

In some cases this sort of call might come from a client who is truly in a bind and just needs your help. But what if that is not the case? How can you be sure that they are not trying to hide something? Maybe they are counting on you not uncovering a problem with this property in this "rushed" appraisal report.

Have you ever received a call asking you to appraise a property located 4 hours away? The client states that they have no appraiser contact in that area. The report is already late and the loan is about to close; they really need your help and will pay you extra, especially considering the current gas price!

Is it possible that this client was unable to find a qualified appraiser any closer than 4 hours away from the property to be appraised? After you finish patting yourself on the back for being the best appraiser in the state, you have to wonder if there is something going on in this area that local appraisers are fully aware of but that you won't know about. The fact that the report is also a "rush" does not give you time to consult with any local appraisers or real estate agents who might disclose the hidden problem.

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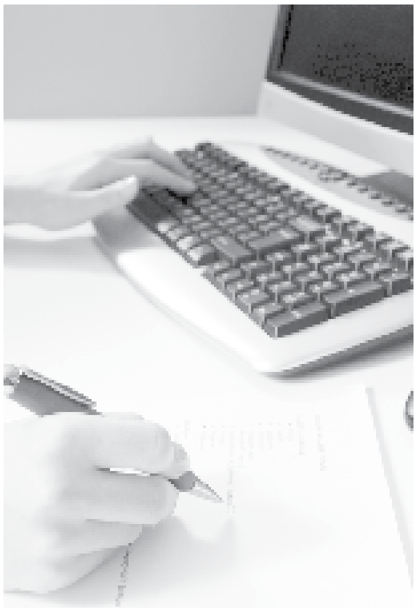
Many appraisers have fallen for this sort of ploy. They want to be seen as helpful. They think they have to go out of their way to keep the client happy or to maybe get some new business. It is not until later that the appraisers realize they were duped into walking right into the middle of a fraud scheme. And if that was not bad enough, they also have to explain why they got an "extra" fee for this appraisal. Was it really for the "rush" assignment or to help defray the cost of gas or was it because you gave the client just what they needed to make the fraud successful?



No one ever has enough time to get their work done and if someone comes along offering to help you out, the normal response might be to accept the offer. It might sound cynical, but people rarely do someone else's work for no reason. A few good hearted souls might be truly charitable. Most of the time if someone claims to have done your work for you – there was something in it for them!

Every appraiser knows that information provided by third parties should be verified. This is especially true when the third party tells you: "there is no need to check this out!" Maybe it is a real estate agent who gives you a list of comps and promises that these are "good" sales. Maybe it is someone who gives you a nicely organized packet of all the leases and rent rolls for the property you are appraising. Maybe all of the information provided is true and accurate and someone was just good enough to do your work for you. Most often that is not the case.

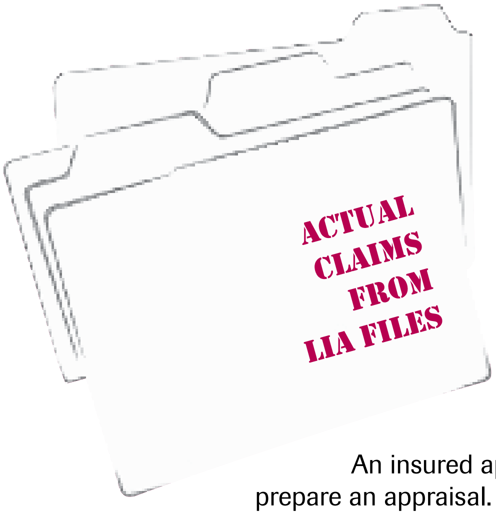
Typically this Good Samaritan has provided you with false information, hoping you are too overworked, or maybe a little bit lazy. They make it look authentic. It is presented to you in an organized and neat fashion that makes it look reliable. As it turns out the information you were provided was false. You rely on that information to prepare your appraisal report, which becomes the centerpiece of the fraud scheme.

Whenever someone claims to have done your work for you, you need to double and even triple check that information before it can be deemed reliable.

Many of our insured appraisers are stunned to find out that the guy who spoke well, the guy who seemed so nice, the guy who they trusted... was really a con man. The truth is that con men are good at what they do. They have to be good salesmen to get people to go along with the scam.

In Summary, remember:

- Always check prior sales and current and prior listings.
- Verify comps given to you by others-especially if you are told that you don't need to do so.
- If your research shows numerous sales of similar properties in the neighborhood involving the same parties, you may be dealing with a flip scheme.
- If your research shows that the buyer and seller names given to you by the client do not match the buyer and seller names found in public records, you may be dealing with a flip scheme.
- Don't accept assignments outside your geographic area of expertise.
- Be most professional when working with friends.
- Most of all, be careful who you trust.



TELL TALE CLAIMS...

Owner Gives Appraiser Cooked Books, Appraiser Gets Burned

An insured appraiser was retained by the owner of an apartment complex (client) to prepare an appraisal. The client stated that he was unsure if he wanted to refinance his loan or perhaps sell the property. Either way, he wanted some idea of what it was worth. The client was also going through some marital problems and asked that the insured call him only on the cell phone and never at home.

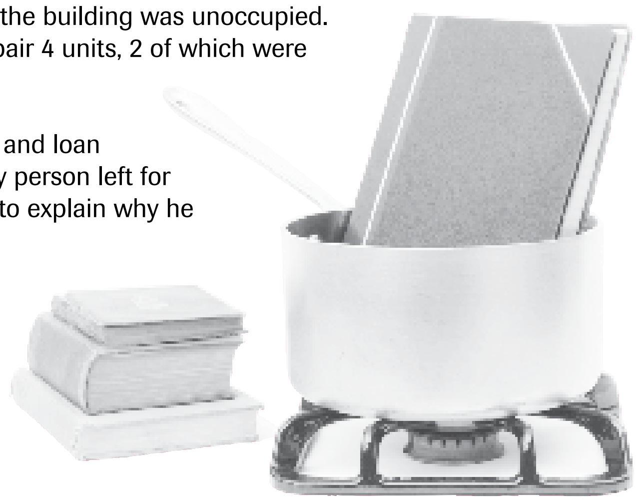
The insured quoted a fee of $5,000 for the assignment. The client offered to pay him $4,000 in cash, up front. He stated that he did not want to write too many checks because of the ongoing marital issues.

The client had done the insured appraiser's groundwork by preparing a binder that set out all of the tenants' information by unit. It listed when they leased the premises, the lease term, who was still under lease and who was month to month, as well as detailed information regarding current rents and rental histories. The client told the insured that there had been some minor plumbing problems in the building, which were repaired, but he did not want to further disrupt the tenants as they already had to deal with the workmen coming in and out of their apartments to fix the plumbing problems. The insured viewed 2 units with the client who told him that they were representative of all the units in the building.

The insured prepared the appraisal report. He did not verify any of the information provided to him by the client, never spoke to any of the tenants or looked at any of the other units. He estimated value to be almost $4 million.

Unbeknown to the insured, the client sent the report to a lender who relied upon the report to underwrite a refinance loan of over $2 million on the property. The client defaulted on the loan. When the lender took possession of the property they discovered that numerous units sustained damage, including smoke or water damage, as a result of a fire that occurred prior to the insured's appraisal of the property. Also, approximately 70% of the building was unoccupied. The client used some of the insurance proceeds to repair 4 units, 2 of which were shown to the insured as representative units.

The client took the remainder of the insurance money and loan proceeds and skipped out on his obligations. The only person left for the lender to sue was the insured appraiser, who had to explain why he was paid in cash for completing the assignment.



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Appraiser Caught on the Flip Side

A mortgage broker introduced an insured appraiser to a real estate investor. The broker told the insured that the investor had made millions of dollars by purchasing, refurbishing and then selling properties at a profit. The investor was now allegedly taking less profit and was assisting people that might never have been able to afford it before into houses. The investor made a favorable impression on the insured when they met and the insured thought it would be great for his business to work with him.

The investor had just bought a property a few weeks before for $40,000. He told the insured that the documents were not available as public records yet, but provided the appraiser with copies of everything in his possession related to this purchase. He advised that his team of workmen would install new and high quality carpeting, flooring and appliances. They would also repaint and do what was necessary to make this place "really nice". The investor was selling the property for $80,000; he stated that he needed an appraisal estimating the value of the property close to that amount but if the insured could not get to that number, he would reduce the purchase price. The buyer was a single mother, who needed a nice place for her and her kids to live. The investor even gave the appraiser a whole list of recent sales in the neighborhood for amounts between $70,000 and $90,000. He requested that the appraiser not make the appraisal "subject to completion" as this would cause the loan underwriter to delay the closing of the loan. His workmen would be done with the house quickly and the mother and her kids needed to move in right away so he did not want any delays.

The appraiser thought the investor was a good guy. He saw the workmen and they were making the house look nice. By the time the investor paid the closing costs, his workers, plus paid for all the new appliances and materials, he would not make much of a profit on the deal. The appraiser agreed to prepare the appraisal report "as is" and utilized the comparable sales his client provided him with.

The investor had told the buyer he would sell her the house for $50,000. After the loan closed, she realized her loan amount was $64,000 and the sale price was $80,000. She could not afford to make the mortgage payments and she defaulted on the loan. The majority of the work that the workmen were doing on the day of the appraiser's inspection was never finished and the appliances were removed from the premises. The only 'improvements' the workmen made were to apply a cheap coat of paint and some new floor coverings. The lender foreclosed on the outstanding loan amount and took back the property. They discovered that the investor had purchased the property a few months before for $20,000. The documents the investor had provided to the appraiser were all false. The quality of the improvements was poor; the paint was peeling and the vinyl floor was buckling throughout the house. The lender had a BPO that said the property would sell for about $25,000, which was about $40,000 less than the loan amount.

The borrower had no money. After months of searching, the lender finally found the investor and he allegedly had no money and was involved in an FBI investigation. The lender sued the mortgage broker (who had no E&O insurance) and the appraiser, who became the target of the lawsuit. Although he clearly made some mistakes, his biggest mistake was trusting the wrong person.