



CELEBRATING  
55 YEARS

# nerej

## **Mortgage loan fraud: Keep competence and ethics high**

May 10, 2012 - Appraisal & Consulting

First I want to thank the three Premier Sponsors of the Massachusetts Chapter of the Appraisal Institute - Integra Realty Resources, CBRE/New England and Joseph J. Blake & Associates. The contributions of these appraisal firms help sustain our educational program and our program events. Their contributions reflect their own firm's commitment to our institution and its goals.

Responding to a new study indicating that mortgage fraud in the United States increased 20% from the third quarter of 2010 to the third quarter of 2011, the Appraisal Institute encouraged lenders and consumers to work with valuation professionals who hold competence and ethics in the highest regard.

The Appraisal Institute reacted to the Financial Crimes Enforcement Network's March 2012 Mortgage Loan Fraud Update, which found that depository institutions submitted 19,934 Suspicious Activity Reports in the third quarter of 2011 pertaining specifically to mortgage loan fraud, a 20% increase over the previous year. The total number of all SARs (including loan workouts, debt elimination attempts and other activity) filed in the third quarter of 2011 increased 14% from the previous year to 200,871.

"These ongoing reports of fraud in the housing industry reinforce the need for consumers and real estate professionals to rely on individuals with not only the right experience, but the reputation and ethics to help guide them through today's uncertain marketplace," said Appraisal Institute president Sara Stephens, MAI.

FinCen noted that California and Florida had the most mortgage loan fraud, followed by New York and Illinois. Among the fraudulent activities that FinCen cited was a suspicious activity report related to a false home inspection indicating allegedly defective drywall made in China; another report accused several parties of colluding in a lease-to-buy foreclosure bailout scam, including a recently licensed home inspector, a drywall contractor and a buyer and seller. FinCen made no mention of appraisers in their report. FinCen is a bureau of the U.S. Department of the Treasury. Its mission is to enhance the integrity of financial systems by facilitating the detection and deterrence of financial crime.

Fannie Mae reported in its March 2012 Mortgage Fraud Monthly Statistics Update that in 12% of the cases, a specific material fact about the property and/or the comparable sales was misrepresented.

The Appraisal Institute's own research, based on an analysis of data found in the Appraisal Subcommittee National Appraiser Registry, reported on U.S. appraiser disciplinary actions from the year 2000 through year-end 2011. Individual states initiate disciplinary actions and report them to the Appraisal Subcommittee. The Appraisal Subcommittee of the Federal Financial Institutions Examination Council, created by Congress in 1989, oversees the real estate appraisal process as it relates to federally related transactions.

For the most recent five-year period (2007-2011), there were 1,766 disciplinary actions. There were 2.6 times more disciplinary actions in 2007-2011 than there were in 2002-2006. For 2011, the overall number of disciplinary actions decreased 6.8 percent from the prior year. In 2000-2011, 7.9 times more nonmember appraisers than Appraisal Institute members received a disciplinary action.

Barrie Gaman is the 2012 president of the Mass. Chapter of Appraisal Institute and vice president at Bank America, Waltham, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540