APPRAISERS AND MORTGAGE FRAUD

Background: Domenick Neglia has performed field reviews of over 100 appraisals for the U. S. Department of Justice, as part of their mortgage fraud investigations. These reviews were for residential properties throughout the New York Metropolitan area, as well as upstate New York.

THE APPRAISER AS UNWILLING PARTICIPANT 20 minutes

- The appraiser is unaware that there is mortgage fraud being perpetrated, and is only being paid for services rendered; valuations may be well supported.

- For various reasons, the appraiser is convinced to render inflated values, based on the "needs" or persuasive abilities of the client. The appraiser may still be unaware of the fraud.

- The appraiser chooses to look the other way at clues that there may be fraud, and merely completes appraisals, "pushing" values somewhat. He may not think that he is being manipulated.

- The incentive to satisfy the client's "needs" (i.e., higher values) is for the promise of more work, or higher fees, or both. There may be the rationalization that in an upward market, values will be higher soon anyway.

- An appraisal company uses the name and signature of fee appraisers who work (or worked) for that company, but a different appraiser (ir non-appraiser) actually did the appraisal.

THE APPRAISER AS A PARTICIPANT 20 minutes

- The appraiser is part of the fraud scheme; motivation is for higher appraisal fees or "bonus" fees.

- The appraiser willingly inflates values; there are many ways to do this (discussed below).

- The appraiser actually completes bogus reports with falsified information, such as incorrectly reporting GLA, overlooking defects or unfinished work in the house, not reporting external obsolescence, etc.

- The appraiser inflates values by ignoring appropriate comparable sales, and using other sales (many times from outside the neighborhood) that support higher values.

- The appraiser fails to report prior sales of the subject or comparables, or does not accurately analyze those prior sales, misleading the user of the report.

AUDIENCE PARTICIPATION:

What are the ways that an unscrupulous (& experienced) appraiser can inflate values?

1. Use comps that are non arm's length transactions - e.g., multiple sales, flip sales, etc.
2. Use comps from a different neighborhood.
3. Use comps of larger houses or houses in better condition than the subject, and minimize adjustments (or don't apply adjustments).
4. Down play adjustments for design, location, GLA, etc. (or not adjust...).
5. Don't report actual physical differences between the subject and comps in the report.
6. Don't analyze, or under - adjust for market conditions.
7. Exaggerate GLA of the subject.
8. Ignore physical deficiencies in the subject, e.g., deferred maintenance, physical depreciation, functional obsolescence, external obsolescence, unfinished renovations. (Use example from mortgage fraud seminar - house with only front and side walls - interior was gutted, and no rear wall.)