



# Valuation Review

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## TECHNOLOGY SPOTLIGHT

### AVM standards focus of organizations

*Groups are seeking common ground as debate continues*

Efforts to establish standards for AVMs shifted into high gear recently when the Mortgage Bankers Association (MBA) unveiled its proposal, followed closely by a response from the Real Estate Information Professionals Association's Collateral Assessment Technology Committee (CATC).

As *Valuation Review's* Sept. 11 cover story indicated, the groups don't always agree on all aspects of AVM standardization.

**Mark Linné**, managing director of Rocky Mountain Valuation Specialists and one of the founding members of the Joint Industry Task Force (JITF) on AVMs, spoke to *Valuation Review* about how the three groups might

come together to establish standards that satisfy AVM vendors, lenders and other stakeholders.

Linné also discussed the overlap between MBA's goals and the focus of the JITF.

"I think the Joint Industry Task Force ultimately will support the efforts of the MBA. The task force is made up of a number of different stakeholders," Linné said. "We have GSEs, lenders, a limited number of AVM vendors, appraisers and some government AVM people. So we have a lot of people that are involved in the effort. In any organization, you want to be sure you speak for all

■ See STANDARDS on Page 3

## FOCUS REPORT

### Mortgage fraud: How to stay legal

*Conferences, seminars focus on growing problem in industry*

The problem of appraisal overvaluation and mortgage fraud continue to grab headlines nationwide — proof that the situation is reaching epidemic proportions.

Mortgage fraud has been the subject of an October Research Corp. radio program and took center stage recently at the AppraisalPort User Conference in Chicago, where a panel discussed the situation during a session titled "Staying True to Each Other."

The panelists included **Tom Munizzo**, president of the National Association of Independent Fee Appraisers and senior forensic review appraiser with IndyMac Bank; and **David Jackson**, a reporter with the

"It is important to recognize that sales which have multiple transactions on the same day or in a very short period of time are most likely fraudulently flipped transactions."

— Tom Munizzo, president of NAIFA

*Chicago Tribune.*

**Kathy Coon**, SRA, chief appraiser and

■ See FRAUD on Page 4

## UPFRONT

■ TransUnion marries local-market expertise with AVMs **Page 6**

■ Parties can't bury the hatchet over appraisal in Tennessee **Page 7**

■ Zaiio Corp. pushes for national growth under new CEO **Page 8**

■ Michigan lawmakers taking aim at appraiser pressure **Page 10**

■ Warning flags attract attention of appraisal industry **Page 12**

## ONDECK

■ Housing markets across the country are changing. How is this impacting appraisers? *Valuation Review* will look at three housing markets. Find out what valuation professionals have to say about appraising in a declining market.

■ One of the more challenging types of work is appraising manufactured housing. *Valuation Review* will examine this type of work as part of its continuing diversification series.

**FRAUD** — continued from Page 1

director of appraiser quality control at FNC, served as moderator for the session.

“Appraisers are under the impression that they can’t commit mortgage fraud unless they are involved in one of these schemes,” Coon told attendees. “That is untrue. An appraiser can be convicted of mortgage fraud for falsifying a value.”

**See the forest through the trees**

Coon said it is imperative for appraisers to recognize the growing problem of mortgage fraud, its seriousness and their role in combating the crime.

Munizzo told appraisers to always prepare reports in a way that if a reviewer has any questions, they can easily find the answers in the document.

“Switch hats and pretend you are the reviewer,” he said. “Proofread and review your reports before they are submitted to the client.”

In today’s environment that is ripe with the potential for fraud, just looking at the front of a home isn’t enough. On a driveby, appraisers need to be observant, including taking pictures of the back of the subject property.

“You have to take the time and watch for all the potential pitfalls,” Munizzo added. “There have been cases where the front of the home has been revamped with a false front and the back is a shambles with a rotting deck. You have to do your due diligence.”

Munizzo also noted that appraisers should insist on seeing the sales contract whenever possible.

“By doing this, you can spot warning signs that can help to identify a potential straw buyer,” he said. “You also will see any concessions that may inflate the sales price.”

Taking interior pictures, while often

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difficult, can aid the cause. Munizzo said it never hurts to ask.

Munizzo also recommends including prior sales histories and listings for at least the last three years.

“It is important to recognize that sales which have multiple transactions on the same day or in a very short period of time are most likely fraudulently flipped transactions,” he pointed out.

**Tell the story**

When it comes to neighborhood descriptions, Munizzo told appraisers to paint a vivid picture and avoid canned language that doesn’t describe the area.

Whether preparing or reviewing a report, appraisers should never overlook the obvious.

“Pictures aren’t going to lie,” Munizzo said. “Don’t misrepresent the conditions and make sure to list any obvious repairs that are needed. Do not overlook any functional or external obsolescence.”

Technology can’t be overlooked as a key instrument in the fight against fraud.

During a recent Mortgage Radio presentation titled “Detecting and Combating Mortgage Fraud,” Dr. **Mark Fleming**, chief economist for CoreLogic, said it is important for industry professionals to know who they are working with.

“It is important to manage and understand who you are working with in terms of your third parties, your brokers,

your appraisers, your title agents and understanding the use of the data in analytics internally as well as externally through products and tools that are out there to manage these third parties and these insiders in the process,” Fleming said.

**In the right places**

Fleming also noted in the last five to seven years — with the advent of more robust databases and Internet technology — these tools are being placed in a front-end position, almost in a pre-funding location, where the tools are screening the loans effectively to identify fraud risk.

“This is sort of where the mortgage industry is moving,” he said. “You put these tools up front, they score and detect potential problems and that leads these loans that are risky loans into higher levels of due diligence buckets where your policy and your people get involved and begin to investigate these things.”

Appraisers also can be well-served by getting in the habit of completing the cost approach even if it isn’t required for the assignment.

“This will also help to keep your skills sharp,” Munizzo added.

Taking shortcuts and making adjustments, however minor, can land even the best appraiser in hot water. It is a situation that can be avoided.

“If you make a few minor adjustments,

## FRAUD — continued from Page 4

separately they may seem small. By the time the reviewer gets through, they all added up and can land you on an exclusionary list," Munizzo noted.

Some other situations to avoid:

- Never take a picture of the wrong house;
- Never change the value of a comparable sale;
- Don't overlook previous sales or listings;
- Don't back into the contract price;
- Don't use varying comps; and
- Never appraise a house you own by hiding ownership.

When appraising vacant land in developments, Munizzo said valuation professionals must be on the watch for multiple transactions and multi-tiered markets. It is still necessary to analyze comparable sales in this situation.

"Appraisers should look for signs and evidence of infrastructure development and construction activity in the market," he said.

### The nature of the crime

Jackson, a Pulitzer Prize-winning journalist with the *Tribune* who has reported extensively on mortgage fraud issues in Illinois, painted a picture of just how easy it is to perpetrate the crimes.

"If I were an appraiser, I'd be thinking that I have to do twice as much work now," he said. "That is the reality."

The reality is mortgage fraud is one of the fastest growing crimes in the country.

"Technology's ability to facilitate identity theft has made it easier to perpetrate mortgage fraud," Jackson said. "The FBI has identified mortgage fraud as one of its priority target enforcements."

At the *Tribune*, Jackson was able to document a number of fraud cases where

appraisers had their names and license numbers stolen and used in fraudulent transactions.

One woman has seen her business crumble as a result of identity theft.

"The banks just can't tell which is the real appraiser," Jackson said. "They won't take a chance and use her and, as a

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— *Dave Jackson, Chicago Tribune reporter*

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result, her business is suffering."

Jackson pointed out that it is up to the real estate industry to act as guardians against the myriad schemes that can be perpetrated against it. That may mean opening up and talking about unpleasant issues.

"I've talked to FBI agents and mafia lieutenants and I've found that one of the toughest things is to get real estate professionals to talk on the record about what is going on in their industry," he said. "I would urge everyone to talk about it and be open. You have to be willing to report suspicious activity."

### No easy task

It also is important not to expect results overnight. A single case of mortgage fraud can take a year just to investigate.

"It has become so easy to pull off," Jackson added. "In Chicago, it has become the crime of choice for street gangs."

Hanging over appraisers' heads is the possibility of landing on an exclusionary

list if they step out-of-bounds. Munizzo said it is a very real possibility and IndyMac has its own appraiser oversight board.

"The board looks at each case and considers the appraisal and the review," he said. "If you get on an exclusionary list, it is for a pretty good reason. IndyMac isn't going around just putting people on these lists."

Appraisers aren't the only professionals who can land on the wrong side of the law.

Munizzo pointed out IndyMac also has an exclusionary list for brokers. None of the lists are made public.

"This is how the bank weeds out brokers and potential clients," he said. "We don't want to do business with them."

### The AVM card — no dice

If you think the use of AVMs could impact mortgage fraud statistics one way or another, think again.

Munizzo said AVM use still is reserved for the loans with the lowest risk.

"I think, in the grand scheme of things, AVMs are only being used in bulk portfolios, as a tool and when the loan-to-value is 50 percent or lower," he said. "I don't think AVMs are ever going to replace appraisers."

As the panel noted, it can be far easier to rob a bank with a sharp pencil than a gun. The bank robber who hands a teller a note demanding money and walks off with \$300 grabs far more attention than the perpetrators of mortgage fraud, who net tens of thousands of dollars with one scam.

"The tide is changing," Coon said. "They are starting to notice now."

*Feedback? Contact David Hutton at [dhutton@valuationreview.com](mailto:dhutton@valuationreview.com). ■*