

License To Steal

By Brian Weaver

You'd think that a 40 million dollar forgery case would grab a headline or two. But you'd be wrong.

Mike Brown, Director of the Appraisal Division for the Illinois Department of Financial and Professional Regulation (IDFPR), has revealed that (*currently*) his office is aware of over \$40 million worth of forged appraisals...and the number is climbing.

Forged appraisals?

According to Mr. Brown and his investigator, Don Potter, between 20% and 30% of all complaints coming into the department have a forged appraisal document at the center.

One of the first calls I made outside Illinois when researching this topic was to Greg Harding of California. I asked if he was familiar with the phenomena of appraiser identity theft. He proceeded to tell me that he was more than familiar with the problem. So familiar in fact, that he was recently telephoned to make "corrections" to an appraisal that he allegedly completed. When he informed the caller that not only hadn't he prepared a real estate appraisal in years, he was the Chief of Licensing and Enforcement for California's Office of Real Estate Appraisers (*OREA*)...the caller hung up.

He was still trying to get a copy of that report when last we spoke.

When I contacted Board Investigator Jack McComb of the Texas Appraiser Licensing and Certification Board (*TALCB*) regarding the topic, he told me about a husband and wife team of commercial/industrial appraisers who were victims of the fraud.

The husband and wife were contacted by phone to "correct" a *residential* report that bore their names and licenses. Although neither had *ever* prepared a residential report, one of the appraisers was able to learn the location of the closing that was to take place shortly after their "report" was corrected. This time, the Mortgage Fraud Unit of the FBI (*Texas*) was there along with the Secret Service to make arrests at the scheduled closing.

But not every episode ends this well. As Jack McComb so colorfully added... "the odds of catching an appraisal forger are slim to none...and Slim's been seen ridin' outta town."

There are three scenarios of appraiser identity theft and forgery currently taking place.

First, there is the appraiser-trainee who is fed up with splitting fees with their sponsor/mentor and has decided to forge their mentor's name and affix their mentor's license number to reports without their mentor's knowledge or permission. The trainee establishes a separate e-mail account, new fax and phone numbers and a bank account

where fees can be deposited. Checks are written to company names that may only contain initials.

Second, there are appraisers who go *phishing* for license numbers.

The term *phishing* refers to the current internet ploy by computer hackers to scour cyberspace for usable personal data that can be exploited. Another term would be *social engineering*.

In the case of appraisers who *phish*, they'll use whatever license number they can find. They won't necessarily use the license number of anyone they know. They may go trolling on any number of websites where appraisers and appraisal firms display their licenses like dinner menus. They'll choose a suitably licensed victim and begin grinding out reports for unscrupulous clients for a fee.

The third and most disturbing trend involves persons who never were licensed appraisers, yet find this to be their crime of choice. Like those who go phishing, they come up with almost random victims and prepare bogus reports for hefty fees.

What about the signature?

Some are skilled at lifting signatures from PDFs (*Portable Document Files*), or from any number of specialty appraisal software packages. Maybe they have a hardcopy of a report that was completed by an appraiser in the past. Maybe they traced a signature at a course the appraiser attended. The reality is, most don't even *try* to match the signature.

When you think about it, who among your clients, is so familiar with your signature that they can spot a phony?

With so many thousands of appraisal documents being fed through the system every day, who has the time or the skills necessary to compare signatures?

Bob Scrivens, member of the State Board of Real Estate Appraisers in New Jersey, has been following the phenomenon for some time. He indicated that a New Jersey lender was holding *seventy* forged appraisals and wanted to know what New Jersey regulators planned to do about it. Regulators responded by asking what "*due diligence*" steps the lender had taken to prevent the forgeries in the first place. The lender told them that they had over a thousand mortgages to sell and only *five* days in which to complete any "*due diligence*".

Therein lies the problem.

Complicating matters is the appraiser who gets called in by their state regulator over appraisal improprieties and then insists that the reports are not his/hers. They hold that they are a victim of appraiser identity theft...that they aren't responsible for the poor

quality work...that someone else is. But in fact, after a long and arduous investigation, they're found to be lying about their identity being stolen.

Regulators and/or board members were contacted from New York, New Jersey, Oregon, Arizona, California, Florida, and of course, Illinois. Most were aware of the problem but not the scale. New York's Supervisor of Licensing Examinations, William Stavola, seemed to think that maybe 15% of their cases involved appraiser identity theft and forgery.

No state has made an accurate survey of the scope of the problem. Most just have a gut feeling that the problem is getting out of control.

An e-mail from Ben Henson of the ASC, indicated that Illinois' level of complaints involving appraiser identity theft was "*dramatically higher than we have observed in any other state*".

Magda Jackson from Liability Insurance Administrators, one of the largest real estate E&O providers, said that they will be issuing an alert in a future newsletter for their insured's.

A Breeding Ground – U.S. Mortgage Market

The opportunity for forgery lies in the numbers and the inherent speed of the system.

The FFIEC (*Federal Financial Institutions Examination Council*) through HMDA (*Home Mortgage Disclosure Act*) revealed that since the year 2000 nearly 120 million loans were made. This represents an increase in volume of 118% between 2000 and 2003. In 2002 and 2003 (*the last year of available data*), over 75% of the mortgages currently held were written in those two years.

That's 5.7 trillion dollars in loans.

If only 10% of the loan amounts in 2002 and 2003 resulted in forgery and ID theft it would dwarf the 425 billion dollars lost in the top ten corporate bankruptcies since 1988.

According to the regulators I contacted, forgeries began to emerge noticeably around the year 2000.

Collateral Damage – Hidden Cost

In Illinois, appraiser ZY has spent the last sixteen years appraising commercial/industrial property. Until recently, he wasn't aware that some twenty or more residential reports bearing his name and license number have been making their way through the system. He was made aware by accident. Despite Mike Brown's intervention on his behalf, several lenders have placed him on an exception list of those whose appraisal work will no longer be accepted.

While his being black-balled doesn't affect him as significantly as it would if he relied upon residential work, nonetheless his employer, who employs residential appraisers, still has to answer for the allegations.

I asked appraiser CT about her own difficulties with a stolen license number. She told a similar tale of accidental discovery by way of a distant colleague/reviewer who happened upon a stunningly bad report bearing CT's name. The reviewer, several states away, recognized CT's name from having lived in Illinois, but found the report far below CT's level of competence. The reviewer made a call to CT and that's when the discovery was made.

CT, like ZY has been put on Exception Lists by certain large lenders. This time, the damage to CT is financial and maybe irretrievably so.

Lenders admit that they have neither the time nor the resources to sort out which appraisers are victims of fraud or if the substandard product truly belongs to them. In almost all cases the victimized appraisers end up being black-balled.

The ID thieves merely move onto another license.

Where'd The Money Go?

Let's say you find your license number and something that passes for your signature on a number of reports. You notify your state regulator. You notify the lenders. You call a lawyer, the FBI, the Secret Service, and maybe even Interpol. So, you're done, right?

Ask yourself this question:

Where did the money go?

Where are the fees for the twenty or thirty reports that you allegedly completed?

They're not in your bank account, so the undeclared income isn't your responsibility, right?

The IRS may not see it that way. In the end, you may not only be on the hook for bogus reports, but for undeclared income that you don't even know about.

The appraisers I've interviewed about their victimization were quite candid about the details. But when I raised the issue of undeclared income, most hadn't given it much thought. Their response came across as an "I dun no" shoulder shrug.

If someone is calculating enough to steal your identity and forge your name to an appraisal document...then it shouldn't be a quantum leap to believe them to be forging your name to checks and money orders.

Lenders Getting Savvy?

Recently, GreenPoint Mortgage has begun issuing e-mails to appraisers to verify whether a certain property was appraised by them or not. The e-mails list the address of the subject, the mortgage broker who ordered it, the date of value and the appraised value. The e-mail asks that the appraiser contact GreenPoint if the information provided is incorrect.

But few lenders are taking any precautions. Most lenders dismiss the crime as “isolated” or “minimal”. Some in the Quality Control departments were stunned that such a thing was even occurring. Most are just crossing their fingers and hoping that it doesn’t result in mortgage buy-backs.

You’re Asking For It

Because no one truly knows the extent of the phenomena, advice about how to protect one’s appraisal identity seems trite at best. Law enforcement officials, E&O providers, and state regulators all seem to offer similar advice that boils down to:

“Be careful out there.”

Which is about as helpful as telling a child not to run with scissors.

The best one can do is reduce the opportunity for identity theft. The following fall under the category of common sense and nothing more:

- Remove your license number from your business card (*if legally permissible*).
- Remove your license number from your stationery (*if legally permissible*).
- Remove your license number(s) from your website and e-mail stamp (*if legally permissible*). This includes removing the actual image of your license.
- Remove your license number from websites that advertise your services (*if legally permissible*).
- Stop sharing your software signature codes with everyone in the office.
- Stop taping signature codes on the wall next to the computer at the office.
- Try using something a little more complex than “appraiser” for a password.
- Eliminate your E&O declaration page from your website.
- Be more circumspect about who has access to your license.

In conclusion, the speed and volume by which lending decisions are made has provided a breeding ground for appraiser identity theft and forgery. Nobody is running around forging for eminent domain or divorce cases. These are crimes of opportunity and the players are well aware of risks versus rewards.

Too many in the lending industry...and it *is* an industry, find it easier to blame appraisers for this growing problem. But preaching temperance from a barstool helps no one.

Appraisers need to be far more circumspect in their hiring and information security. Lenders need tighter controls on quality. State regulators need greater resources to protect the public.

Brian Weaver has been a practicing appraiser for over 25 years and worked as an investigator for the Office of Banks and Real Estate in Illinois. The Illinois Coalition of Appraisal Professionals commissioned this study and resulting article. www.icapweb.org

© ILLINOIS COALITION OF APPRAISAL PROFESSIONALS