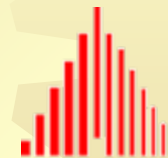


# Combating Mortgage/Appraisal Fraud

Mortgage Bankers Association  
National Fraud Issues Conference

Bill Garber  
Director of Government Affairs



**Appraisal  
Institute®**

*Professionals Providing  
Real Estate Solutions*

# Size & Scope of the Problem

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- ✿ Mortgage fraud losses over \$1 billion/year (FBI)
- ✿ Suspicious Activity Reports 1400 percent since 1997 (FinCEN)
- ✿ Property & Value equate to 26 percent of misrepresentations in 05-06 (Fannie Mae)
- ✿ Fraudulent appraisals represent a percentage of total fraud reported
  - ✿ MARI 2006 report – 20 percent

# Biggest Problem Facing Appraisers

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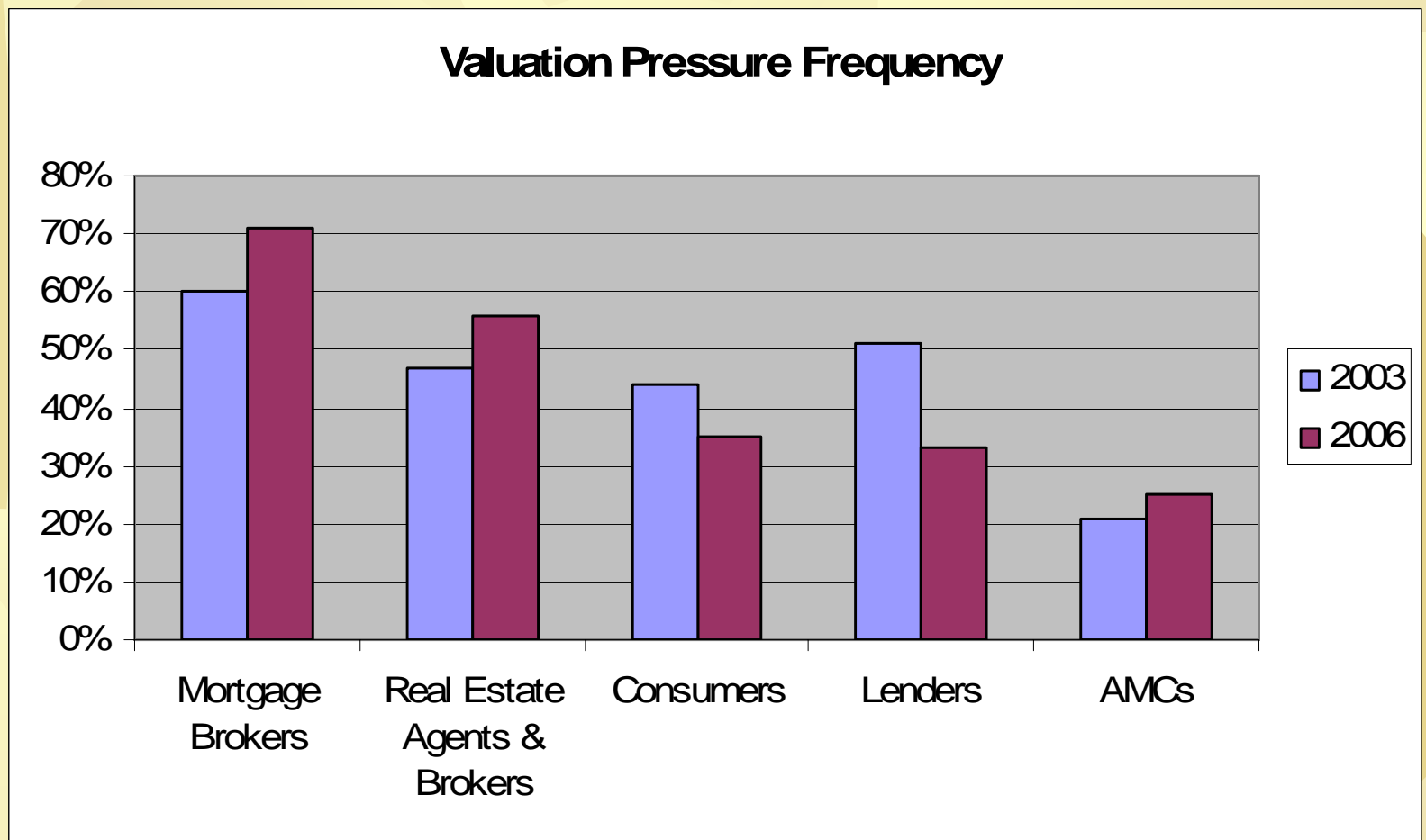
# Inappropriate Pressure

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## ✿ National Appraisal Survey

- ✿ 90 percent of appraisers report pressure to inflate appraisals from mortgage brokers, lenders, realty agents (up from 55 percent in 2003)
- ✿ 75 percent of appraisers reported “negative ramifications” if they did not cooperate, alter their appraisal, and provide a higher valuation
  - ✿ 68 percent said they lost a client
  - ✿ 45 percent said they did not get paid
- ✿ From October Research Corporation

# Inappropriate Pressure – NAS



# Other Factors & Concerns

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- ✿ Inappropriate Pressure
  - ✿ Lack of firewalls w/in institutions
  - ✿ Exclusionary lists
- ✿ Title XI, FIRREA is Broken
  - ✿ Lack of enforcement
  - ✿ Lack of resources
  - ✿ Emphasis on minimum credentials
- ✿ Disparate Regulation of Clients
  - ✿ Inappropriate pressure
  - ✿ Brokers & Loan Originators
- ✿ Professionalism -- Unaffiliated Appraisers

# Legislative Proposals

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- ✿ Congressional (109<sup>th</sup> Congress)

- ✿ H.R. 1295 – Responsible Lending Act

- ✿ S. 2280 – STOP FRAUD Act

- ✿ Legislation in the works for the 110<sup>th</sup> Congress

- ✿ Appraiser Regulatory Reform

- ✿ Prohibit appraiser coercion, bribery, collusion

- ✿ Expand enforcement by appraiser regulators

- ✿ Provide resources to enforcement bodies

- ✿ Promote professionalism of appraisers

- ✿ Other issues

- ✿ Criminalize mortgage fraud, Identity theft

- ✿ Consumer education

# State Legislative Proposals

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- ✿ Appraiser independence statutes
  - ✿ Numerous states considering legislation
  - ✿ Prohibit setting preconditions
  - ✿ Penalties for violators
- ✿ Mandatory Licensing
  - ✿ Not all appraisers are licensed by appraisal boards and performing work under USPAP
  - ✿ Enforcement problems
- ✿ Appraisal Board Funding
  - ✿ Dedicated funding
  - ✿ AI-ASA-ASFMRA-AARO Initiative

# Solutions

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- ✿ Congress: Enact Appraisal Reform!
- ✿ Feds: Enforce Existing Guidelines!
- ✿ States:
  - ✿ Enforce Existing Requirements
  - ✿ Establish them where they don't exist
  - ✿ Expand education
    - ✿ More guidance needed at state level
    - ✿ Non-bank mortgage lenders/Mortgage brokers
    - ✿ A project for Conference of State Bank Supervisors?
- ✿ Streamline fraud reporting by appraisers

# Solutions

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- ✿ Hire competent appraisers!!
  - ✿ Designated appraisers vs. Licensed appraisers
  - ✿ Non-designated sanctioned six times as often
- ✿ Educate financial institutions about appraisal process
  - ✿ Preferred value expectations
  - ✿ USPAP requirements for appraisers
  - ✿ Use of engagement letters
- ✿ Best Practices Statement

# Contact

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