

## Appraisal Fraud

What you don't know *CAN* hurt  
you!



# Appraisal Fraud – What is it?



- Value is deliberately overstated through “padding” of legitimate market data
- Material information is deliberately omitted or altered
- A valid appraisal is altered, possibly by use of a graphic editing tool
- A fictitious appraisal is created using another appraiser’s name, license number, and signature
- An apprentice appraiser falsely represents a report as valid without possessing the proper credentials
- **“Incompetence of such magnitude that it cannot be anything other than fraud”** *Gerald Lawson*

# What's wrong with this picture?



# How About now?



# What is Not Fraud?

- Error
- Inexperience
- Bad judgment
- Minor variance in value results
- Difference from automated valuation tools

- Heavy reliance on “expertise” of the appraiser
- General ignorance of the appraisal process
- Little or no validation of facts
- Appraiser ID theft or digital alteration/fabrication difficult or impossible to detect
- Lending in varied markets resulting in low familiarity by underwriters
- Limited information in non-disclosure states

- Heavy reliance on “expertise” of the appraiser
  - Recognize the appraiser works for **You**
- General ignorance of the appraisal process
  - Understand the appraisal process – get training
- Little or no validation of facts
  - Employ the proper utilization of automated validation and risk tools
- Appraiser ID theft or digital alteration/fabrication difficult or impossible to detect
  - Perform an appraiser authentication process
  - Train operations and underwriting to read the **entire** appraisal
- Lending in varied markets resulting in low familiarity by underwriters
  - Get plugged in to public records – know where to validate the data
  - Utilize validation tools or even Google
- Limited information in non-disclosure states
  - See next slide

# Mitigating the Risks - Non-Disclosure States

- Study your company's market penetration
- Identify where your greatest concentration of business is and secure an MLS subscription in those markets *(depending on market they can range from \$1,000 to \$20,000 per year)*
- For markets where you don't subscribe, ask the appraisers to provide their copies of MLS listings used on the appraisal

**Reducing LTV may be sufficient to mitigate risk on a poor quality appraisal, however it is NOT sufficient to mitigate actual appraisal fraud!**