

Bloated home prices:

Complaints against Illinois appraisers on the rise

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Appraisers are taking the heat in Illinois and nationwide for what some see as a bloating in real estate valuations. A rising number of complaints against residential appraisers by Illinois consumers and financial institutions has spurred state regulators to ask for greater authority to crack down on abuses.

The charges include over-inflated appraisals, underestimates and criminal fraud, according to Daniel E. Bluthardt, director of the Illinois Division of Professional Regulation. To meet the surge, Bluthardt is increasing the number of investigators from two to four and adding a chief to supervise inquiries into real estate related problems, he said. He also is asking the Legislature for the power to stop suspect appraisers from practicing until a hearing can be held.

"What we don't have currently...is a summary suspension authority, which would allow us to immediately suspend a license pending a hearing, usually in 10 to 30 days," Bluthardt said.

Under the current system, "there is a tremendous amount of due process that goes into the discipline system," he said. "These folks hire lawyers who know the system and it will delay the end result. They can go on for a couple years."

About 90 complaint cases are under investigation and another 30 are approaching the stage of regulatory prosecution in which the state imposes penalties, which could include administrative supervision, reprimands, fines, probation and suspension or revocation of their license to do business for up to five years, he said. Cases that might involve criminal activity are turned over to the local county state's attorney, he said.

The nature of complaints is changing, Bluthardt said.

"We have almost exactly the same number of pending complaints," he said. "However, the current complaints are of a more serious nature than the complaints that were pending in prior years."

"What we have seen is a trend lately to outright fraud," he said. "Some is being conducted by people who are not licensed, but are using the names and license numbers of legitimate appraisers."

Five or six of these criminal cases are under investigation by the state, he said. When information of criminal fraud is developed, it is turned over to the local state's attorney. Federal authorities, such as the FBI, might also be involved, he said.

The Secret Service arrested a Wilmette licensed appraiser and a Highland Park man in May for a scheme that involved the inflated appraisal of a decrepit house, which had been legitimately appraised at \$105,000. The inflated appraisal was for \$257,800 and stated that rehab work had been done, which had not, according to Russell C. Collett, assistant special agent in charge of the Secret Service's Chicago office. The plan allegedly was to involve default on a mortgage for the higher amount by an unnamed accomplice who was to make a few payments and then disappear, according to authorities.

2005 fraud cost \$1 billion

Losses from mortgage fraud last year exceeded \$1 billion, according to the FBI. Most of the complaints the state receives are of the non-criminal variety and come from a range of grievants, according to T.J. McCarthy, chairman of the Illinois Real Estate Appraisal Licensing Board, which processes the information.

"In 2005, as of Aug. 1, the agency had 150 complaints on appraisers; the total for that year was 268 complaints," he said. "That is based on an appraiser population of somewhere between 6,500 and 7,000. As of [Aug. 1] we have 190 complaints, an increase of not quite 30 percent, yet still quite significant," McCarthy said.

These complaints include those under investigation and in prosecution, plus others that were dismissed or already disciplined, he said.

By comparison, he said, in 2005 there were 528 complaints filed with the state for all of the state's 78,000 real estate brokers, he said.

The complaints come from sources including the Fannie Mae and Freddie Mac agencies, which discover bad appraisals in the mortgages they purchase; the Federal Housing Administration, and banks and national review companies, which will review a small percentage of loans in a package of loans being purchased by one bank from another, he said.

Anonymous complaints are received and investigated, he said. "And appraisers themselves will turn in other appraisers," after they review a home's file and find an inflated estimate, he said.

Homeowners complain

"Homeowners often file complaints," McCarthy said. "But when they complain, they say their property was undervalued. They couldn't get their home-equity

loan and they are mad at the appraiser because it cost them \$300. So, they are turning them into the state."

Some Illinois homeowners do complain that an original estimate gave them an inflated picture of their home's value.

"There are those homeowners who do find out, three years later, when another appraiser comes out, that the house isn't worth what the original appraiser said it was," McCarthy said. "Now they are upside down on their mortgage and they may owe more than their house is worth."

A property owner is entitled by the federal Fair Lending Act to receive a complete copy of their appraisal, not just the estimate. Many lenders and banks forward the appraisal reports, as a matter of course, to a mortgage loan applicant.

An overvalued appraisal is spotted not by the original value but on the "structural correctness" of the report, McCarthy said. The appraisal is based on the size and condition of the home, in addition to recent sales of comparable properties in the area and the market activity in the area.

"In other words, if someone is going to make a report \$100,000 more than it should be, you will figure out how they did it by the appraisal," McCarthy said. "First off, perhaps these aren't the correct square footages of the comparables from the county assessor. He made them smaller to push up the value. Or maybe these sales aren't even in the same subdivision."

Influx of new appraisers

There are between 150 and 200 new appraiser trainees looking for work in Illinois each month, McCarthy said.

"There is a tremendous flow of people coming into the industry in our entry-level rank, which is called the 'associate,' " he said.

These trainees can make appraisals, but must get them co-signed and reviewed by a fully certified appraiser. There are 3,085 certified residential appraisers in the state and 2,412 associates, according to state figures. Another 1,158 are certified for commercial real estate work.

Some of the complaints that come before the state board involved appraisals that were done by an apprentice and then signed off on by a certified appraiser, with little or no review, he said.

"They say, 'I've got a couple clients, would you be willing to sign my reports for, like, \$50 a report?' " McCarthy said. "It's legal, but unfortunately it defeats the whole purpose of having trainees."

A large number of people who take the test for an apprentice license don't pass the test the first time. In January of 2006, 172 people took the test, and only 33 percent passed. In February, only 24 percent passed.

The test is based on minimum standards set up by the federal government. The U.S. Congress found that faulty and fraudulent appraisals were part of the problems that led to the savings and loan collapses of the 1980s. Since then, they have set up standards for states to follow. These require licensed appraisers for financial transactions that involve federally regulated financial institutions, such as insured banks, thrifts and credit unions.

Beginning Jan. 1, 2007, the states must insure that all certified general appraisers who do commercial properties have a four-year bachelor's degree, and that certified residential appraisers must have at least a two-year degree, McCarthy said.

"This will cause the industry to shrink, which is OK, because fees will come up," he said.

Call for more education

The Appraisal Institute, a national professional organization of more than 21,000 appraisers, has called for more education and peer review of people in the industry.

"We have a big problem in Illinois," said Ron De Vries, a past board member of the Appraisal Institute. "The problem is that we have a fairly low level of education and experience requirements for someone to become state certified." For residential appraisers to receive the institute's SRA designation, they must have more than 200 hours of training as compared with about 75 for state certification. Also they must comply with a set of professional and ethical standards. Their performance is subject to review and discipline by their associates, he said.

Fed requirements will help

The new federal educational requirements will help, but "peer review and self discipline are also required," he said.

"We have found that the vast majority of complaints or problems out there are associated with the lowest licensing level that the state offers," De Vries said.

Bluthardt, the state director of regulation, said, "Continuing education is not the problem, actual experience in the field is the major problem in most appraisal mistakes. That is why we went to the associate rank . . . to require 24 months of experience before the appraiser can be left alone to do work."

Some of the new appraisers are being pressured by lenders who are demanding an estimate of a particular level, De Vries said.

"They get a call one day, and the lender says if you don't raise the value on this appraisal I'm never going to give you another assignment," he said. "So that person is under pressure to do that, and it obviously is dead wrong."

In other cases, they might get a call from a lender saying, "I want you to do an appraisal, and the property value has to be at least \$200,000. Will you do it?" De Vries said.

"An appraisal is an opinion," said De Vries, vice president of Appraisal Research Counselors, in Chicago. "It's an opinion that is supposed to be backed up by your professional interpretation of what is going on in the market. There can be differences of opinion. But at the end of the day, you are signing your name to a document that says you believe that that is the value of the property."

Can request SRA designation

A person seeking a mortgage will get a property appraisal ordered by the lender. The borrower cannot request that the lender use a particular person or company, he said. But they can request that the appraiser have the Institute's SRA designation, he added.

The president of the Illinois Association of Mortgage Brokers said that any attempt by a lender to influence an appraiser's product should be reported to the state regulatory officials or the mortgage lenders association.

An appraiser feeling such pressure should decline the work, said Darren Weisberg, association president. "And if it were an egregious example, I would recommend they call our association to report them to us, and we would be happy to turn them over to the IDFPR [Illinois Department of Financial and Professional Regulation], or I would recommend the appraiser turn them over to the IDFPR."

System Works Well

Weisberg said he has worked with several appraisers during about a dozen years as a mortgage broker and "I think the appraisal system works very well. . . . It's an integral part of the process because . . . the valuation of the collateral" is the cornerstone of all lending."

The lenders association represents about 900 mortgage companies statewide that have about 10,000 agents, he said.

Where to go for more information

The Illinois Association of Mortgage Bankers, is at 350 W. 22nd St., Lombard. Call (630) 916-7720.

Homeowners can obtain a complaint form from the Department of Professional Regulation's Web site at www.idfpr.com.

The Illinois attorney general's consumer protection department also handles loan-related inquiries on its Web site at www.ag.state.il.-us/consumers.