

Assessing Mortgage Fraud

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Picture a quaint home on a quiet street in a rather affluent neighborhood. It sold six months ago for \$250,000, a reasonable price for the market in this Northern Colorado suburban community at the time. However, the new owner doesn't make any mortgage payments and the property ends up in foreclosure. When the lender sends an agent to inspect the property, it is discovered that the entire back of the house has been exposed to the elements for many months, obviously before the property was sold. The mortgage company now holds title to a home in severe disrepair and has given away a quarter of a million dollars against this toxic asset, which is worth a fraction of that amount.

Foreclosure on a property is often the intended consequence, and final step, in the criminal's mortgage fraud plan.

This scenario is a classic case of mortgage fraud, a rapidly growing form of white-collar crime in the United States. Since 2003, the number of pending investigations of mortgage fraud has increased fivefold and contributed significantly to the country's current economic crisis (FBI 2008, 2009).

This form of real estate fraud robs mortgage companies of billions of dollars, forcing them to take possession of properties through foreclosure in a feeble attempt to recover their losses. Foreclosure on a property is often the intended consequence, and final step, in the criminal's mortgage fraud plan. To add insult to injury, if the government backed the bad loan (e.g., Federal Housing Administration [FHA] loans), then the misrepresented asset was insured by taxpayers, who became the first of many victims.

Surprisingly, even small isolated incidents of mortgage fraud can adversely affect the mass appraisal process. Suspicious real estate transactions can be one of the first indicators of mortgage fraud. If these sales are not identified and removed from the comparable sales database in the assessment jurisdiction, their presence can result in misleading increases or decreases in property valuations on a broad scale.

Fraud, Foreclosures, and Disclosures

The smallest state in the union is the hottest place to be, that is, in terms of mortgage fraud. Rhode Island topped the 2008 list of the top ten mortgage fraud states, beating out states like Florida, Michigan, and California (see figure 1). A significant amount of mortgage fraud results in foreclosure. Therefore, it is not surprising that in 2008, six of the top ten mortgage fraud states (Florida, Illinois, Georgia, Michigan, California and Colorado) were also on the list of the top ten foreclosure states (see figure 2).

In 2003, there were 436 FBI mortgage fraud investigations (FBI 2007). As of April 30, 2009, there were more than 2,400 pending investigations, more than half of them for losses in excess of \$1 million. The estimated annual loss due to mortgage fraud is \$4 to \$6 billion. The Federal Bureau of Investigation (FBI) has 65 task forces and work groups dedicated to mortgage fraud investigations. These investigations resulted in 574 indictments and 354 convictions in 2008 (FBI 2009).

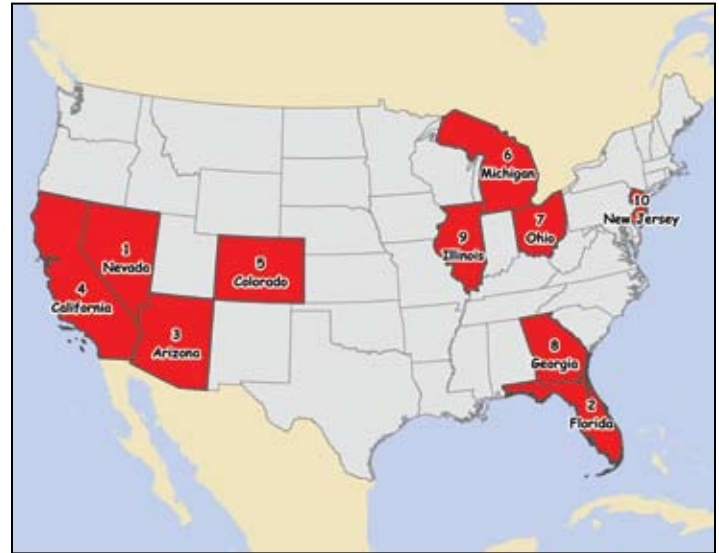
How is potential mortgage fraud reported to the FBI? Any individual can submit a crime tip to the FBI. Tips come from disgruntled ex-employees, ex-spouses with an ax to grind, neighbors, and the victims themselves. The FBI's greatest source of fraud tips is Suspicious Activity Reports (SARs) provided by financial institutions. The SARs supply law enforcement agencies with a paper trail to investigate illegal activities,

Figure 1. Top ten mortgage fraud states in 2008



Source: James Butts, Donahue 2009.

Figure 2. Top ten foreclosure states in 2008



Source: RealtyTrac 2009.

including mortgage fraud. In fiscal year 2008, the FBI received 63,173 SARs and in fiscal year 2009 has already received almost 41,000, through April 30, 2009 (FBI 2009).

Local regulatory agencies and the FBI typically investigate mortgage fraud. Local assessing offices do not have the resources, training, or budgets to perform these investigations; however, they are obligated to identify transactions that appear to follow typical mortgage fraud schemes or are otherwise suspicious, and disqualify them from their sales database. Some of the case studies that the Boulder County (Colorado) Assessor's Office examined and that we discuss in this article were discovered during thorough sales confirmations. We have changed the names of the parties involved and omitted specific property information to protect the identity of the potential criminals.

What Is Mortgage Fraud and What Does It Look Like?

There are a wide variety of mortgage fraud scenarios and a diverse set of players involved in these schemes. Some participants may not even be aware that they are involved in an illegal activity. We describe three types of fraud (shotgunning, short sale fraud, and illegal flipping schemes), the parties who committed the crimes, and their victims, along with some of the instruments of fraud that have been uncovered in Boulder County, Colorado.

Shotgunning

One type of fraud that may not even involve the sale of a property is known as *shotgunning*. Shotgunning occurs when multiple loans are obtained on the same property within a very short time frame. The purpose of acquiring multiple loans concurrently is to conceal other liens that are already held against the individual property. Several simultaneous borrowing actions, such as multiple refinances, can result in a total loan amount much greater than the actual value of the property. This situation leaves the first lien holders exposed to substantial losses. Junior lien holders are at even greater risk because their ability to collect is superseded by the primary lien holder's rights. In the event of a foreclosure, there are rarely sufficient funds remaining from the sale of the home for the junior lien holder to recover the loss.

An extreme form of shotgunning recently occurred in Boulder County. The case is currently being investigated by the FBI. Let's call it the *Story of Bonnie and Clyde*.

Bonnie and Clyde owned a nice home in the mountains of western Boulder County, appraised at \$500,000. Bonnie and Clyde also owned a title company and used their company to complete multiple loan transactions on their property. Under Colorado law, a title company is required to record a deed of trust (evidence of lien) within days

of its issue/signing. Recordation of the deed of trust enables the lien to become public record. However, as the owners of the title company, Bonnie and Clyde ignored the law and failed to record their personal loan documents in a timely manner.

Bonnie and Clyde took out six separate loans on their home over three years, beginning in early 2004. The loan amounts were about \$400,000 each. Most of the loans were provided by large, well-known lenders including JPMorgan Chase & Co., Washington Mutual, Inc., Lehman Brothers Holdings, Inc., and Wells Fargo. These lenders were unaware of the existence of other liens on the property because Bonnie and Clyde took months, sometimes years, to record the loan documents. The quickest turnaround from signing to recording was nine months. The longest was more than three and a half years (see figure 3). This resulted in \$2.4 million in loans on a house that was worth less than a quarter of that amount. This property is currently in foreclosure, and most likely all but the first lender will lose the entire dollar amount they lent to Bonnie and Clyde.

Short Sale Fraud

A second example of fraud is short sale fraud. It is one type of mortgage fraud that requires the participation of *straw buyers*. Straw buyers are individuals who consent to their names and personal details being used by specific people to



obtain mortgage loans with no intention of ever inhabiting these homes. Some straw buyers are misled and do not realize that they are participating in fraud. Other straw buyers are fully knowledgeable. Regardless of their level of complicity, all straw buyers may be subject to criminal prosecution in Colorado and other states.

The following is an example of a short sale fraud scenario:

1. Perpetrator recruits a straw buyer to purchase a property.
2. Perpetrator has the straw buyer secure a mortgage for 100 percent of the property's value.
3. Perpetrator gets the straw buyer to refinance the home and obtain \$30,000 for "repairs."
4. Perpetrator pockets the \$30,000; no repairs are actually made.
5. No payments are made, so the mortgage goes into default.
6. The straw buyer tells his lender that the home will foreclose and recommends Perpetrator as a potential buyer in a short sale.
7. Perpetrator approaches the lender prior to foreclosure and offers to pay less than the home would otherwise be worth in a competitive foreclosure sale.

8. The lender agrees to the short sale to minimize the loss, unaware that the situation was deliberately created.

9. Perpetrator sells the property at actual value for a profit or has the property value artificially inflated to conduct an illegal property flip (see next section).

10. Perpetrator pockets the profit and repeats the process (FBI 2008).

Short sale fraud is extremely difficult to identify at the assessor's level. However, if an office finds multiple short sales involving the same party, all related sales should be investigated.

Illegal Flipping Scheme

A third example of mortgage fraud is illegal flipping. Mortgage fraud schemes vary in complexity, targeted victims, and the number of thieves involved. Whereas the majority of mortgage companies require fee appraisals prior to granting loan approval, skilled mortgage fraud thieves often rely upon corrupt, unscrupulous appraisers to manipulate a property's appraised value. Typically, these appraisers falsely inflate the stated value of the home in exchange for a fee and the promise of future business. Other unethical appraisers assist in orchestrating the scheme in exchange for a portion of the profits. According to a March 16, 2009, article in *USA Today*, an estimated 22 percent of mortgage fraud investiga-

tions last year came from false appraisals (Zibel 2009).

A band of villains executing an illegal flipping scheme may pull off a scenario as follows:

1. Buyer 1 purchases a property for \$20,000.
2. Buyer 1 has the property fraudulently appraised at \$80,000.
3. Buyer 1 sells the property for \$80,000 to Buyer 2 (giving Buyer 1 a \$60,000 profit). Buyer 2 obtains a 100 percent loan on the property, with no intention of making the payments. Buyer 2 is likely working in collaboration with Buyer 1 for a share of the profit.
4. The home falls into foreclosure.
5. The bank is left with an \$80,000 mortgage on a \$20,000 home for a loss of \$60,000 (FBI 2008).

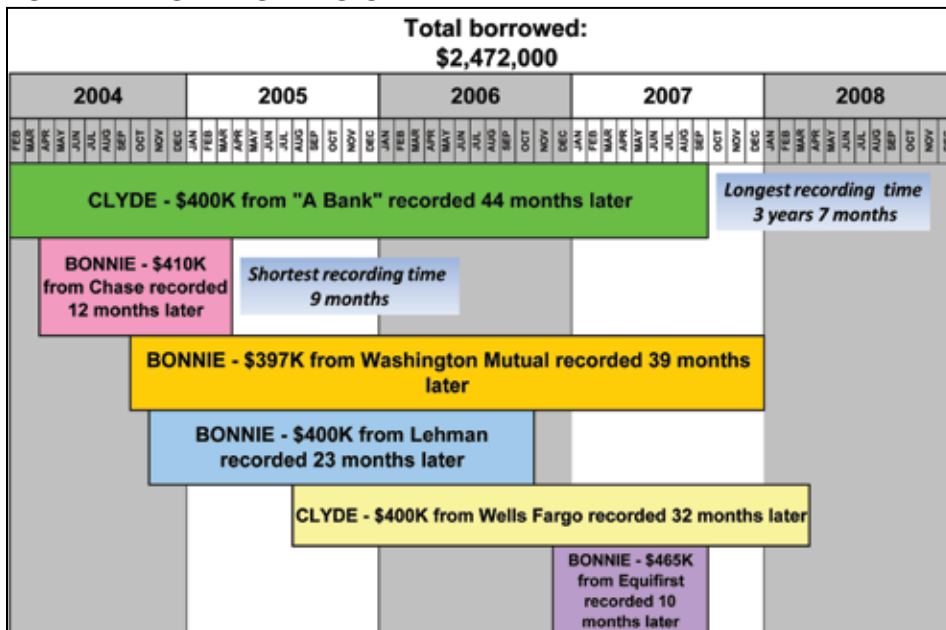
Jumbo and Super-Jumbo Mortgages

A jumbo mortgage is any residential real estate loan exceeding the government-established loan limits. As of 2006 and 2007, Fannie Mae and Freddie Mac loan limits were set at \$417,000 for single-unit properties in the continental United States. Any loan exceeding \$417,000 is deemed a jumbo mortgage. If the loan amount exceeds \$650,000, it is classified as a super-jumbo mortgage. As of February 13, 2008, and through December 31, 2008, conforming limits on super-jumbo mortgages were increased to \$729,750 to stimulate the housing market in high-cost areas.

It is important to understand that larger loan amounts represent an increased risk to the lender. Essentially, it is the principle of not putting all your eggs in one basket. Therefore, additional lending requirements must be met upon loan approval. This reassures the lender that it will be able to recover the investment if the borrower defaults on the loan.

Traditionally, lending institutions may try to avoid granting jumbo loans in conjunction with a high loan-to-value ratio. These loans are often viewed as having too high a risk, and they require a minimum down payment of 20 percent.

Figure 3. Shotgunning mortgage scam timeline



However, when lending standards were loosened, many of these high-risk loans were allowed. Any property that sold with a jumbo loan and with 90–100 percent of the purchase price financed is a transaction worth scrutiny. It may be just fine or it may be a setup for the lender.

State Investigations and Other Funny Business

A Perfect Storm and Ninjas

In September 2008, a local FBI agent was invited into the Boulder County Assessor's Office to educate the entire staff about mortgage fraud. According to the agent, several factors contributed to an atmosphere primed for a *perfect storm* of mortgage fraud in Colorado. First, until January 2008, Colorado was one of only three states that did not require licensure for mortgage brokers (Alaska and Wyoming were the other two). This provided an equal employment opportunity for anyone in the state to become a mortgage broker, including individuals with previous criminal convictions. Effective January 1, 2008, all Colorado brokers must be licensed by the state. Second, the real estate market in Colorado had experienced steady growth for a number of years, and many lenders assumed that values would continue to climb. Third, lending practices had been loosened and creative methods of lending were rewarded with higher broker commissions and incentive bonuses. Seller-assisted down payments were common and a record number of adjustable rate mortgage loans were made.

One example of a new loan program is a "No Doc" loan, referred to as a "NINJA" loan in FBI jargon. The term refers to the qualifications, or rather the lack of qualifications, of the loan applicant—one who has "No Income, No Job or Assets." These borrowers are permitted to qualify for such a loan based solely on their credit score. Their loans typically have higher interest rates than conventional mortgages, and this has meant higher commissions for those who broker the loan.

Potentially fraudulent transactions may be brought to an assessor's attention by the FBI or a regulatory agency,

or they may be uncovered while the assessor is performing thorough sales confirmations. In Colorado, it is not the assessor's responsibility to identify, investigate, or prosecute potential mortgage fraud. However, sales confirmations may uncover atypical transactions that appear to be consistent with other mortgage fraud scenarios. At the very least, these transactions should be identified and disqualified from the sales database.

The Colorado Division of Real Estate had uncovered a \$45-million mortgage fraud scheme involving 105 home sales in 2006.

Rocky Mountain News Investigation

In October 2008, a headline in the *Rocky Mountain News* proclaimed, "Colorado mortgage fraud probe uncovers kickbacks." The Colorado Division of Real Estate had uncovered a \$45-million mortgage fraud scheme involving 105 home sales in 2006. These inflated home sales included \$8 million in kickbacks to buyers and brokers, followed by 88 foreclosures throughout the greater Denver metro area. A kickback is a sum of money paid illegally; typically, it appears to be going to someone else but ends up in the hands of the borrower or broker.

Although the Colorado Division of Real Estate licenses mortgage brokers, real estate agents, and appraisers, it does not have the authority to press criminal charges. Thus the case was turned over to the FBI for criminal investigation and further prosecution. In the meantime, the division imposed sanctions against the 18 individuals who were identified in this extensive scam. As a result, the culprits were subjected to the following reprimands:

- One surrendered his/her license.
- Licenses were revoked for three, who were fined \$10,000–\$50,000 each.

- Eight had license revocation pending and were fined \$10,000–\$50,000 each.
- Two have 30-day suspensions pending and received \$750–\$5,000 fines.
- Four received mandatory course work, public censure, and fines of \$250–\$750.
- Two received public censure and \$500 fines.

Case Study 1: State Investigation in Prairie Village

The Colorado Division of Real Estate investigation determined that five properties in the city of Longmont were involved. Ironically, all five transactions were in the same subdivision, known as Prairie Village, on the same city block. All these transactions followed the same pattern.

Step 1. In September 2005, a couple purchased a home for \$300,500 with a loan amount of \$295,000. They financed the home using an 80/20 loan; that is, a first and a second mortgage were taken out simultaneously. The first mortgage was for 80 percent of the home's value; the second mortgage covered the remaining 20 percent. This arrangement enables a homeowner to borrow approximately 100 percent of the home's value, avoid paying a down payment, and avoid paying for property mortgage insurance (PMI). In an 80/20 loan, the same financial institution typically holds both mortgages.

Step 2. In October 2005, a couple transferred the home to a business using a quitclaim deed. However, the business did not purchase the home. The ownership was in the business's name, but the business did not pay off the couple's lien. Therefore, the home still had a lien against it for \$295,000.

Step 3. Shortly after ownership was transferred, the business took out an additional loan for \$33,000. That changed the total lien amount on the property to \$328,000. The business pocketed the \$33,000 loan. No improvements were made to the property.

Step 4. In April 2006, the business sold the home to a third party for \$405,800. The third party purchased the home

using 100 percent financing (the loan amount was 100 percent of the home's selling price). The business received \$77,800 from the sale (\$405,800 sale price - \$328,000 loan amount). The total profit pocketed by the business was \$110,800 (\$33,000 loan + \$77,800 sale profit).

Step 5. The third party did not make payments on the loan, and the home was foreclosed upon in May 2008. The bank resold the home after the foreclosure for \$251,000. The bank's estimated loss was \$154,800 plus expenses (\$405,800 loan amount - \$251,000 sale).

Case Study 2: Pending FBI Prosecution in Northeast Longmont Suburb

During an FBI investigation, the investigating agent may contact an assessor's office for assistance with information. The Boulder County Assessor's Office was able to assist with information on a property in a new subdivision in northeast Longmont. The following is the information about the home's sales history from public records and the realtors' multiple listing service (MLS):

1. This property was listed for \$649,000 and was sold in June 2005 for \$620,000.
2. Buyer 1 sold the property to Buyer 2 for \$810,000 without listing the home with a realtor. This sale occurred *one day* after Buyer 1 purchased the home. No additional improvements were made to the home the one day that Buyer 1 owned it.
3. The house was foreclosed upon in June 2007.
4. The bank listed the home for \$545,500 and sold it for \$500,000 three months later.

The FBI investigation revealed the following:

- Buyer 1 was a straw buyer who was paid \$5,000 by a third party to purchase the home for one day. Buyer 1 took out a jumbo loan of 100 percent financing to purchase the home (the loan amount was \$620,000).
- As part of the agreement, Buyer 1 sold the home to Buyer 2 the next day. Buyer 2 was also a straw buyer and was paid

\$10,000 by the third party to purchase the home. The super-jumbo mortgage was \$800,000 on the \$810,000 purchase.

- The third party was the mastermind who orchestrated the entire scheme. He was not named on any of the deeds or loans. He pocketed \$165,000 (Buyer 2's \$800,000 loan minus Buyer 1's \$620,000 loan minus the kickbacks paid to Buyer 1 and Buyer 2).
- The overseas bank that granted the high-risk, super-jumbo mortgage with a 98.7 percent loan-to-value ratio lost \$300,000 plus expenses (Buyer 2's \$800,000 loan minus the \$500,000 resale after foreclosure).

Case Study 3: Suspicious Activity near the Golf Course

The following is a case study summarizing one of three transactions within a new golf course community. All three homes were new construction and sold by the developer.

- A custom home was listed for \$1,103,500 and sold for \$1,250,000 in September 2006 (approximately \$150,000 greater than the listing price).
- The sold information on the MLS noted that \$312,500 in "other considerations" was included in the sale price.
- Sales confirmations of two similar properties in the subdivision also had noted "other considerations" in excess of \$180,000.
- A lien search on this home revealed a total loan amount of \$1,125,000 (90 percent loan-to-value ratio, super-jumbo mortgage).
- The home was foreclosed upon in December 2008. In April 2009, the home was listed for \$599,000.

Repeated phone calls to the developer finally revealed that the \$312,500 in "other considerations" was actually a check written to an unrelated third party upon closing of the sale for "future marketing." According to the developer, this was written into the sales contract; however, the developer was uncertain whether the mortgage company had realized this. After receiving multiple phone calls about investigations into these

transactions, the developer decided to discontinue participation in these types of contracts.

Crunching the Numbers and Mapping the Mess: Impact of Suspicious Sales on Mass Appraisal

Dueling Data Sets

Suspect sales were identified and removed from the Boulder County Assessor's Office sales data set based on the unusual details and history of the transactions. Nevertheless, we were still curious. Had these 15 sales remained in the sales data set, would their inclusion have adversely and significantly affected the mass appraisal results for approximately 26,000 residential properties in the Longmont area? We decided to find out.

The sales data set used by the Longmont area appraisal team in regression analysis for the 2009 reappraisal consisted of all qualified sales that occurred during a 2-year sales study period in the city of Longmont. To test the impact of the corrupted sales, we created a parallel data set of these same *good* sales, plus the 15 *suspicious* (dirty) sales, as follows:

- Clean sales data set = 8,714 sales
- Dirty sales data set = 8,714 clean sales + 15 dirty sales = 8,729 sales.

Regression analysis was completed on both data sets by using SPSS software. The resulting significant coefficients for each data set were used to predict the estimated sales price (ESP) for every improved residential property in Longmont as of June 30, 2008.

Dirty Regression, Dirty Prediction

The parallel analyses produced two tables containing the calculated ESP for each property in the population. One table contained the ESP based on analysis using the clean sales data set, and the other contained the ESP determined by using the sales data set with the additional 15 dirty sales.

In order to further examine the differences between the two sets of values, the clean predicted value was subtracted from the dirty predicted value for each

property and the remainder placed in a third table. If the dirty value was larger than the clean value for a property, the difference was a positive number. Conversely, if the dirty value was smaller than the clean value, the difference was a negative number. For example, one property's ESP derived from the dirty data set was \$604,738. For the same property, the ESP produced with the clean data set was \$591,704. The difference between the two values was +\$13,034.

$$\begin{aligned} (\text{dirty value}) - (\text{clean value}) \\ = \text{difference in value} \\ \$604,738 - \$591,704 = \$13,034 \end{aligned}$$

In this example, the difference is a positive amount because the dirty value is greater than the clean value. In this case the effect of the dirty sale on this property was to falsely increase its value.

The net effect on the ESP for the entire population when dirty sales were included in the sales data set was a total value increase of \$2.3 million. That seemed insignificant when the total ESP of the population was more than \$7 billion. On the other hand, further evaluation of the results led to some important insights:

- Approximately 40 percent of the properties (approximately 10,000) *increased in value*, for a gross total increase in value of \$7.8 million.
- Conversely, 60 percent (about 16,000 properties) *decreased in value*, for a gross total decrease of \$5.5 million.
- By summing the absolute values of these dollar amounts, the absolute change in value was a significant \$13.3 million.

Of the 26,000 properties, only 42 properties had the same value in both predictions. It was disturbing to discover that *all other property values were either artificially increased or decreased*. In Colorado, this outcome is in direct conflict with the county assessor's constitutional mandate to determine property value in a fair and equitable manner. The fact that 15 suspicious sales in the data set could affect the value outcome of almost the entire population was unexpected. As perplexing as this was, we were resolved to determine why these dirty sales would inflate the values of some properties

while deflating others. To research this finding further, we put the results on the map, using ESRI ArcGIS software, and analyzed the data from a geospatial perspective. The dirty prediction, clean prediction, and value difference tables for the population were joined to the GIS layer by parcel number, the key field in both tabular and spatial data.

A vast majority of the residential properties were affected by only a small dollar amount, less than \$500. For about 18 percent of the population (4,665 properties), the value was increased or decreased by \$500 or more when the dirty sales were part of the equation. We examined this 18 percent of the population to find patterns and clues from the bird's-eye view provided by the GIS software.

Traffic Factors

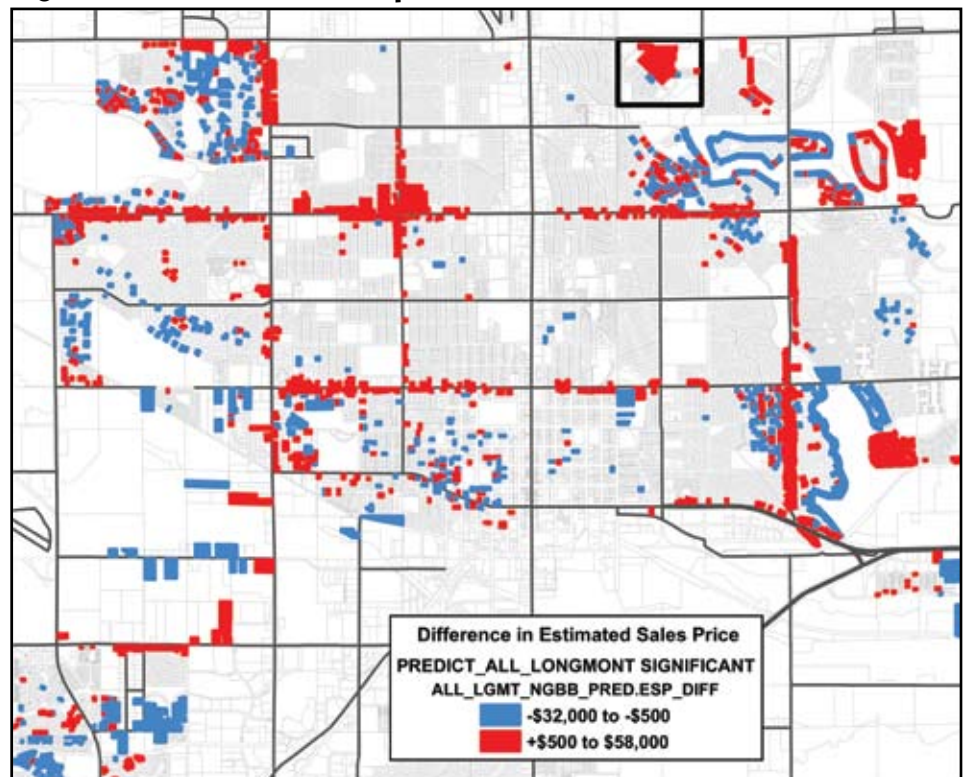
ESRI ArcMap software was used to view and display the parcels and their attributes. Parcels for properties with falsely inflated values were highlighted in red; properties with falsely lowered values were highlighted in blue. This simple color differentiation showed, from a geographic perspective, where values had

increased or decreased. The map illustrated a grid-like pattern of red (overvalued) parcels, located along major roads throughout the city (figure 4).

The Longmont appraisal team recognized that nearby heavy traffic affected property value. Using field-collected data and GIS mapping, team members identified properties along streets with high volumes of traffic. They assigned a rating between 1 and 5 to each of these properties in the CAMA database. The numeric ranking represented a combination of two characteristics: the proximity of the property to a busy street or road and the metered traffic volume at that location. The traffic factor was one of many attributes included in the regression analysis.

Most of the overvalued properties (red in figure 4) located along major arterials had been assigned the same traffic factor in CAMA as the five fraudulent sales in Prairie Village. The Prairie Village properties backed a busy, noisy highway with high traffic volume. In figure 5 all properties highlighted in yellow share the same traffic as the Prairie Village properties with heavy traffic. The inset in Figure 5 is a close-up view of the Prairie

Figure 4. Traffic factors map



Village properties with this same traffic factor also in yellow, and the dirty sales are identified with black cross-hatching

Regression analysis showed that the traffic factor was a significant coefficient affecting the prediction of ESP or value. However, the five fraudulent sales along the highway influenced the impact of this traffic factor in a way that was contrary to what was expected.

When these fraudulent, above-market sales were included in the modeling process, they actually reduced the negative impact of the traffic factor on property values. They had abnormally high (and, we now know, fraudulently motivated) market values according to their sales history, despite proximity to a busy highway. They were sold at inflated prices as part of the mortgage fraud scheme.

When these five dirty sales were included in the sales data set and regression analysis, they generated a false premium, rather than a negative impact, on all other residential properties with the same high-traffic factor. As a result, the values of all similar properties in the area were artificially elevated.

Golf Courses and Niwot

Golf courses were another property characteristic that revealed a noticeable market trend. Two of the case studies involved golf course neighborhoods. In both cases, more sales tied to potential mortgage fraud occurred with interior lots than with properties bordering the greens. These dirty sales raised the perceived market value of the interior lots and decreased the premium for homes on the golf course. In figure 6 all properties highlighted in yellow have the “on the golf course” premiums.

Many of the most significant swings in value occurred 6 miles away in the small town of Niwot. Many of the Longmont homes involved in suspicious activity or mortgage fraud shared a similar quality of construction, design, lot size, and finish as homes in Niwot. As a result, these homes in a separate community would have been affected despite their geographic distance (figure 7).

Navigating the Waters

Become Educated

Ignorance isn't bliss when it comes to mortgage fraud. Mortgage fraud exists in every state in the country. Assessors

cannot prevent it, but we can become educated so that we recognize it when it occurs in our backyards.

Understanding short sale fraud, illegal flips, kickbacks, and other atypical transactions is the first step in identifying mortgage fraud. Educate yourself and your staff so you can identify the types of fraud, determine the parties involved, and look for clues in recorded documents. This will help prevent some of the corrupt transactions from polluting the sales databases and affecting the valuations.

Invite the FBI and other regulatory agencies into the office. These agencies may have prepared presentations and be willing to teach the staff as part of their public outreach and education programs. To find a local FBI office, go to www.fbi.gov and click Your Local FBI Office in the top right-hand corner. Building a rapport with these agencies will benefit their offices and yours.

Know the Warning Signs in Your Area

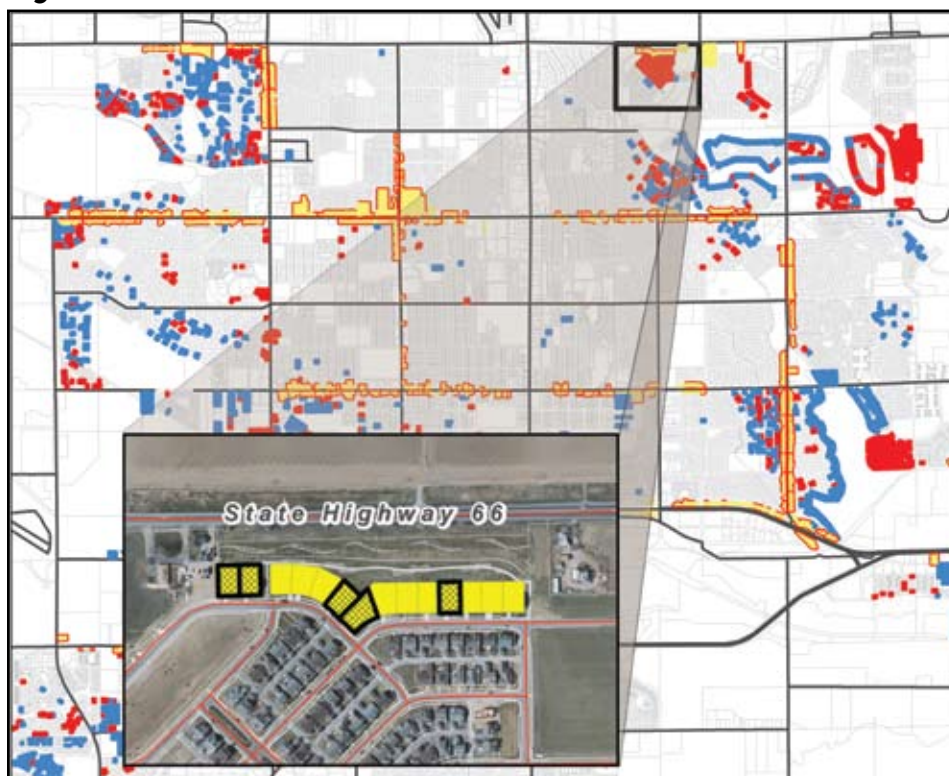
We evaluated the suspicious activity in Boulder County and identified similar themes in property and neighborhood characteristics. All the properties were in new developments or subdivisions with custom homes. This allowed for a greater range of property values, thereby making it easier to hide inflated appraisals. The absence of a previously established level of value, typically found in older, more mature neighborhoods, was also a contributor.

All the transactions utilized high-risk lending practices. The financing terms included atypically high loan-to-value mortgages, even on jumbo or super-jumbo loans. Many of the properties had multiple sales or deed transfers over a relatively short time period. These signs may not mean anything in and of themselves. However, if sales involve the same parties repeatedly or there are multiple warning signs, then they should be evaluated further to determine whether they are legitimate fair market transactions and truly reflect the present market.

Put on Your Teaching Cap

When information on local properties involved in mortgage fraud is released or published, phone calls from the public

Figure 5. Fraudulent sales with traffic factors



to the assessor's office soon follow. Assessment staff should have appropriate information ready to discuss with concerned citizens. Be certain that staff and coworkers are well informed and prepared so that they can address and ease the concerns of taxpayers. The general public will appreciate the assurance that the assessor's office is aware of cases in the jurisdiction and is taking reasonable measures to ensure

that corrupt sales are not affecting the valuations on their properties.

Federal Crackdown on Mortgage Fraud

The Federal Government is the primary entity responsible for the investigation and prosecution of mortgage fraud cases. Following a wave of major scandals, then-President Bush created the Corporate

Fraud Task Force in July 2002. Task force members include the Assistant Attorneys General for the Justice Department Civil and Tax Divisions, the Director of the FBI, seven U.S. Attorneys Offices, the Secretaries of the Departments of Treasury and Labor, and the heads of the Securities and Exchange Commission, Commodity Futures Trading Commission, Federal Energy Regulatory Commission, Federal Communications Commission, United States Postal Inspection Service, and the Department of Housing and Urban Development Office of Federal Housing Enterprise Oversight, and others.

In January 2009, six new agencies were added to the task force: the Federal Housing Finance Agency, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve, the Department of Housing and Urban Development, and the Special Inspector General for the Troubled Asset Relief Program. Former Deputy Attorney General Larry D. Thompson explained the goal of the President's Corporate Fraud Task Force as follows:

As we establish with ever increasing certainty the prospect that corporate criminals will lose both their fortunes and their liberty, we will have gone a long way to restoring the integrity of the market and the confidence of the nation (U.S. Department of Justice n.d.).

The FBI has named mortgage fraud as its highest priority, second only to counterterrorism. On May 18, 2009, Congress gave final approval to a mortgage fraud bill that creates an independent commission to investigate the cause of the U.S. economic meltdown. It will also provide federal prosecutors with more staff and legal clout to crack down on financial fraud. The bill authorized \$165 million for each of the next two years to investigate fraud. The additional funding will allow the FBI to hire 190 special agents as well as 200 other professionals, nearly doubling its mortgage and financial fraud program (Reuters 2009).

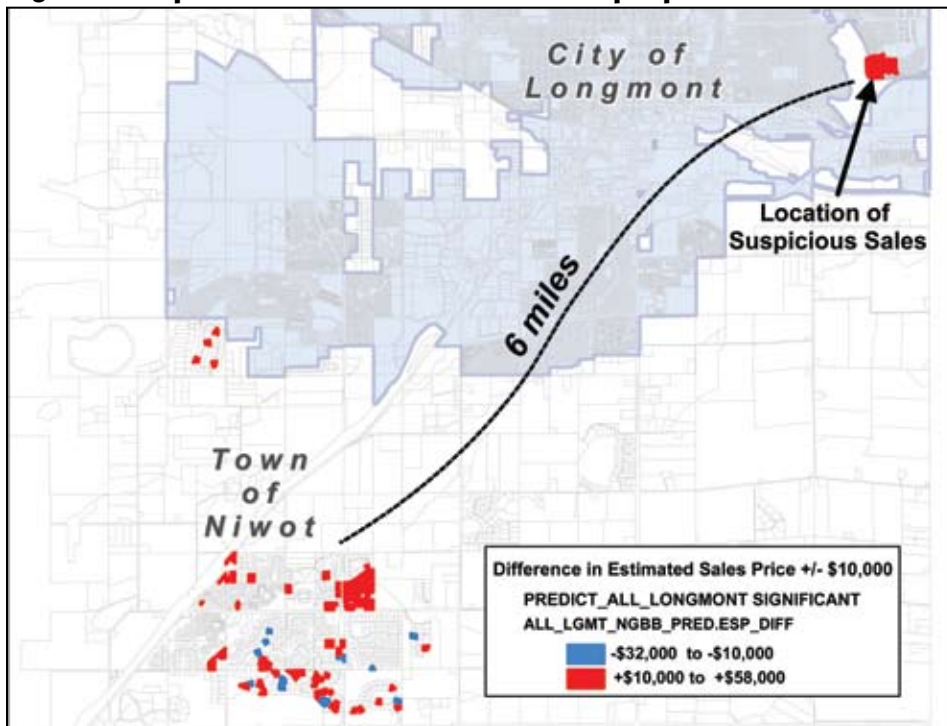
An Ounce of Prevention

As assessment professionals, we cannot prevent mortgage fraud from approaching our own backyards. However, we can and must prevent it from creeping

Figure 6. Golf course premium factors map



Figure 7. Impact from a distance on similar properties



into our assessments, contaminating our valuations, and eroding the public's trust in assessing officers. Armed with the knowledge and skill set to recognize possible mortgage fraud, and the will to put forth the extra effort when examining property sales, we can help reduce the impact of this criminal activity on property valuation and the economy.

Acknowledgment

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