➡ From Page 83

were systematically used to deceive bank examiners and to make speculative or even fraudulent real estate loans look secure." He cited examples:

• Investigations into the insolvencies of 33 California S&Ls revealed that appraiser misconduct was directly involved in thousands of defaulted real estate loans and investments that will cost the Federal Savings and Loan Insurance Corporation (FSLIC) $3.5 bn.

• The General Accounting Office has confirmed that appraisal problems have "plagued" the Federal Government's extensive mortgage loan guarantee programs. In just one year (1986), the Department of Housing and Urban Development (HUD) sustained a $629m loss, thanks in part to crooked appraisers.

• At hearings into insider bank fraud, Mr Barnard's subcommittee was told that all the cases that were prosecuted in one district of Illinois involved fraudulent appraisals. A U.S. Attorney declared: "At seven recently failed S&Ls, senior officers, working with corrupt appraisers, have falsely inflated the value of securities for loans to finance projects in which the officers had an interest, or could receive kickbacks or commissions. This is a pattern of fraud seen throughout the country in failed institutions."

INDUSTRY experts have provided extensive evidence of corruption. Cecil Rhodes is President of NIA, an organisation that specialises in lender and mortgage insurer risk management issues which has completed indepth field audits of 20,000 mortgage defaults.

He says: "We found ourselves working in an industry with an amazingly large element of organised criminality."

In one case, "a group in Southern California used a simple equity financing scheme involving over 300 properties to bilk various lenders and investors out of a mind boggling $41m in just four years. This scam was driven by deliberately inflated appraisals.

"Similar scams have been perpetrated on HUD, the Veterans Association, S&Ls, banks – everyone in the business. Stories like these, where large sums are taken by small, well organised groups, continue to unfold without relief in sight.

"Observers conclude that mortgage fraud is here to stay, because in all cases it is recognised by its beneficiaries –

FACT: In 40 States, real estate appraisers – unlike barbers and beauticians – are not examined, licensed or supervised.

British banks at risk

FOREIGN BANKS, including some of the British multinationals, may be exposed to the crooked dealings in US real estate.

The stockholders of those banks won't know it, however, because a great deal of the fraudulently valued property is disguised in what is called securitisation – mortgage-backed securities which are commercially tradeable instruments.

Samuel Zell, a shrewd Chicago-based dealer who is actively buying properties in the depressed Houston market – he prides himself on his "gravedancer" nickname – has defined securitisation thus:

"Securitisation converts mortgages into a commodity that blurs the risk to the investor. Wheras government bonds and government agency bonds trade at a risk differential, the risk is clearly delineated and an efficient market follows.

"In real estate mortgages, the amount and quality of information either precludes investigation or requires effort that is unlikely to be undertaken.

"The proliferation of securitisation transactions represent a further move toward the replacement of real estate expertise with the common denominator, a Masters of Business Administration."*

The Office of the Comptroller of the Currency (OCC) has confirmed that "Several multinational banks [are] engaged in the mortgage-backed securities business, [but] we do not maintain aggregate statistics on this activity and cannot provide an exact number."

The Congressional Committee on Government Operations has criticised the OCC for not looking closer at dealings in these securities. As a result, "loan participations and mortgage-backed securities based on fraudulent appraisals have adversely affected many financial institutions around the country."

Financial institutions willingly bought these securities because they were associated with famous names like Bank of America or Wells Fargo, which acted as trustee/escrow agents for them.

The value of many of the securities, however, were inflated above their market worth by the simple expedient of fraudulent appraisals. In one case, 21 S&Ls nearly lost $95m by investing in securities which were backed by expensive single family homes, apartments and townhouse condos in Southern California and Texas. The appraisal values of the properties were found to be 2½ times the purchase price.

The S&Ls were saved by Bank of America, which assumed liability. If the Bank had not done so, six of the thrifts would have suffered losses in excess of their net worth.

* Samuel Zell, "Modern Sardine Management", *Real Estate Issues*, Spring 1986, p.3.