

Issue 32 – BECOME SERIOUS ABOUT DUE DILIGENCE AND REDUCE YOUR LIABILITY

The SAMCO Bulletin Board



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BECOME SERIOUS ABOUT DUE DILIGENCE AND REDUCE YOUR LIABILITY

USPAP Standards Rule 1-5 (below) is very specific and for a good reason. The research required can keep the appraiser from unknowingly becoming involved with fraud or an illegal scheme.

626 Standards Rule 1-5 (Page U-20)

627 *When the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:*

629 *(a) analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal; and*

631 *(b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.*

Also, HUD and the GSE's (Fannie Mae and Freddie Mac) require appraisers to research a one-year listing history on the subject property, **AND** research a one-year sales history of the comparable sales. The listing history of the subject property is to alert the client/GSE of a possible 'hidden' cash back ruse. The comparable sales history is to help the appraiser be sure that they are not using 'flipped' (the illegal kind) sale comparables, distorting the true picture.

Here are some great questions to keep in mind when preparing your report:

- Do you verify the current owner of records name through public records?
- If the subject is currently listed for sale, do you research and document in your report ALL prior listings and price changes?
- Do you complete a three-year subject sales history through public records, or do you just ask the owner?
- Do you review the entire sales contract, or just a few pages?
- The sales contract is almost always emailed to you, how do you know that you have all of the pages?
- Do you check the subject's zoning through public records/local government, or just place 'residential' on the form?

Admittedly, there is a limit to a reasonable search, but documenting what you did do, either in your work file or in the body of the report goes a long way proving due diligence.

How do you know that you have the complete contract? You don't, but you can verbally review the details of the purchase during the inspection scheduling or during the inspection itself (noting in your work file or narrative addenda). Additionally, the contract provided to you should be attached to the appraisal for the client to read also.

Red flags for fraud can be an unsigned or incomplete sales contract, large or unusual allowances specified in the contract, or significant increases in listing price with no explanation. Does the seller's name on the contract match the current owner of record? Does the purchaser's name on the contract match the borrower's name on the loan documents? Sometimes these discrepancies can easily be explained, but sometimes they are indicators of mortgage fraud. Appraisers cannot be blind to this as they will be held liable by the judicial system and by state licensing agencies.

Just remember, verification of data is a very important part of developing the appraisal. Just as important is the disclosure of the verification process within the body of that report.

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*ATTENTION MULTIPLE APPRAISER COMPANIES: Please forward the supplied information to each appraiser within the company.