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State cracks down on real estate fraud

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MUNSTER, Ind. -- With mortgage fraud cases appearing across the state, Indiana's attorney general is mounting a vigorous prosecution of real estate brokers and salespeople.

The crackdown by Attorney General Steve Carter follows a year in which his office brought disciplinary complaints against 170 appraisers. Currently, there are about 640 active investigations of real estate brokers and salespeople under way, Carter's office said.

"I would consider it a No. 1 priority in our state," said Tim Reed, chairman of the Indiana Real Estate Commission. "Anything dealing with those type of cases."

Since the attorney general's office opened its "homeowner protection unit" in July 2005, investigations and complaints against real estate professionals have soared.

A trial run of that unit was authorized by the Indiana Homeowner Protection Act, passed by the Indiana General Assembly in 2004 in response to predatory lending in the state. Both houses have passed bills this year to make the unit permanent.

"We hope that more people will recognize that there is a place to turn for help if they believe they have been the victim of, or suspect, questionable business practices," Carter said.

In 2004, the attorney general's office brought 17 complaints against real estate professionals to licensing boards. Last year, it lodged complaints against 188.

Since the homeowner protection unit began its work, 211 appraisers have faced discipline, according to the attorney general's office.

Consumer complaints are the basis of most of the attorney general's investigations and the number of such complaints has also soared since 2005, with 605 coming into the attorney general's office in 2006 alone.

The second phase of the attorney general's crackdown comes as mortgage fraud investigations of so-called "sub-prime" lenders are heating up nationally.

Real estate professionals say the emphasis is now shifting to real estate brokers and salespeople, who must be licensed to do business in Indiana. Those people can facilitate mortgage fraud through a variety of schemes, Reed said.

Many cases under investigation are land contract or so-called "rent-to-own" schemes.

Reed said people are often enticed into them when they are at risk of losing a home to foreclosure or facing bankruptcy.

Licensing boards can take action ranging from requiring the real estate professional to attend classes to revoking his or her license. Criminal cases can be referred to prosecutors.

A preliminary review of case outcomes by the Indiana Real Estate Commission shows 88 direct actions against a real estate professional's license in the past two years. Those actions ranged from probation to revocation of the license.

Indiana has long had among the highest home foreclosure rates in the nation, and still

ranks in the top 10 nationally, according to RealtyTrac, an online marketplace for home foreclosures.

Reed said the mortgage fraud problems arose from big changes in home lending practices in the last decade. He said no down payment, interest-only and other loan products have increased the risk and consequences of fraud.

"If you could fog a mirror, you could get a mortgage," he said.