

Gaining Stature: Antifraud Campaign Enhances Professional Image

Summary

Unscrupulous business practices in Baltimore were causing financial hardship and giving legitimate real estate agents a bad name. Spearheaded by the Greater Baltimore Board of REALTORS®, a broad-based coalition of government and private sector organizations financed a public education campaign on the right way to buy a home and avoid scams. Today, the struggle continues, but homebuyers are better informed and more confident now that the REALTORS® are on their side.

Background

In a series of articles in 1999, *The Baltimore Sun* revealed widespread fraudulent real estate practices in the City of Baltimore targeting African American women. In a typical transaction, an investor would purchase a property at market value, usually \$10,000–\$15,000, then collude with an unscrupulous appraiser to inflate the property's value many times over. An unsuspecting and uninformed buyer would then be steered to a mortgage broker who was also in league with the investor. The contract price might be as high as \$50,000–\$80,000.

The buyer usually had a low income and a poor credit history, so it was not unusual for her income to be overstated and debts downplayed in the mortgage application. Often, a second mortgage went unrecorded. The housing loan was then processed through an unsuspecting out-of-state bank, which had no knowledge of the Baltimore real estate market and would consider the transaction to be legitimate. Unaware that these houses often needed costly repairs, many buyers fell behind in their payments soon after closing.

The problem was pervasive. Fully 10 percent of the 7,640 FHA-insured mortgages issued in the city in 1996 and 1997 were in default by October 1998, many as a result of fraudulent transactions. Maryland's Department of Assessment and Taxation reported that between January 1, 1996, and July 1, 1999, 3,500 homes were bought and then resold within six months at double (or higher) the original purchase price.

These practices essentially guaranteed that the targeted minority purchaser would be forced into foreclosure and bankruptcy, and therefore stigmatized with a bad credit



report for years to come. Afterwards, the victims tended to mistrust all real estate professionals, including the legitimate ones.

Baltimore's targeted neighborhoods were being devastated. Typically, they had been on the brink of decline, with many foreclosed or abandoned properties that could be purchased for relatively little cash. Following a real estate scam, the neighborhood was left with additional foreclosed and abandoned properties, further depressing property values. In 2000, the State Department of Assessment and Taxation reduced assessments by more than 23 percent for over 3,700 properties in East Baltimore. The average assessed value of a home in a targeted neighborhood fell from \$46,973 to \$35,950.

What the Association Did

Through their participation in the Southeast Community Organization, members of the Greater Baltimore Board of REALTORS® (GBBR) learned that community activists intended to propose new legislation and mandatory disclosure laws that they felt would help to curb the fraudulent practices. The activists made it clear they held a low opinion of the real estate, lending, and appraising industries. Informed of the activists' plans, the GBBR Issues Mobilization Committee grew concerned that the proposed measures would needlessly burden legitimate real estate transactions without reducing the fraud. The Committee recommended that GBBR organize a broad-based task force to find an alternative solution, and the Board agreed.

Every housing organization with which the GBBR had ever had dealings—positive or negative—was invited to send representatives to the task force's first meeting. Many members of GBBR's own Issues Mobilization and Legislative Committees also attended. Ultimately, 45 powerful individuals joined the coalition: members of the homeownership counseling industry, REALTORS®, lenders, appraisers, elected officials from the City of Baltimore and the Maryland House of Delegates, members of the predominantly African American Real Estate Brokers of Baltimore, representatives of the NAACP and of the Southeast Community Organization, and others. A consensus emerged that the most effective approach was to educate prospective buyers in the right way to buy a home. The coalition launched a comprehensive public awareness campaign.

GBBR took responsibility for writing grant applications, and coalition members contributed generously:

- Fannie Mae Foundation, Freddie Mac, and HUD, \$50,000 each
- The National Association of REALTORS®, \$25,000
- Baltimore County and City of Baltimore governments, \$15,000 each In-kind contributions of bus and billboard advertising space, radio and TV time, and GBBR staff time, nearly \$70,000.

The City of Baltimore, which was heavily involved in the effort, suggested an advertising agency with which they had a prior relationship. GBBR discussed the scams with the agency and provided demographic information on targeted buyers, and the agency designed advertisements and decided where to put them to maximize their effect.

The ads directed prospective homebuyers to the homeownership counseling hotline run by the Maryland Center for Community Development (MCCD), a statewide nonprofit organization that promotes fair housing and community development and trains local groups to provide housing counseling. The hotline in turn referred callers to free housing counseling already offered by various groups, including the Greater Baltimore Urban League, Housing Charities Inc., Harford County Housing Agency, Eastside Community Development Corp., Liberty Randallstown Coalition Inc., The Development Corp., GEMS (Govans Economic Management Senate, Inc.), and the Family Service Association. In addition to individual counseling, these groups ran free homebuying workshops that lasted several hours, in which a real estate professional, homebuying counselor, and lender presented an overview of a buyer's rights and responsibilities in the real estate transaction. The hotline, counselors, and workshops all encouraged homebuyers to use licensed buyer agents to represent them in the purchase transaction.

Called "Know Real Estate Fraud When You Hear It," the campaign consisted of 30 billboards, 80 bus exterior and 300 bus interior advertisements, and television and radio spots. Five of the billboard ads and all of the bus interiors were in-kind donations, and in-kind contributions from radio and television stations essentially made GBBR's purchases of airtime a two-for-one deal. "Radio and TV stations want to do community outreach anyway," says Carolyn Cook, GBBR's deputy executive vice president, "so it's not too difficult to leverage more time if you can convince them that it's for a worthy cause." In fact, one local radio station donated studio time for the production of radio ads, and the city cable channel donated studio time for the TV ads.

The targets of the radio and television campaign were African American women aged 25-49 in the Baltimore metropolitan area, the demographic group hit hardest by fraudulent real estate practices. Likewise, billboard and bus advertising was aimed, to the greatest extent possible, at those neighborhoods in the city where these practices had been occurring. The radio spots reached 62.7 percent of the target audience an average of 11.7 times during a three-week run, and the TV spots reached 97.4 percent of target audience an average of 10.3 times during a two-week run.

In all, the campaign spent:

- \$21,000 on advertising agency fees
- \$17,000 on design and production of billboards and bus ads
- \$66,000 on billboards and bus space

- \$8,500 on radio and TV ad production
- \$29,000 on radio time
- \$26,000 on TV time.

Another \$25,000 went to a subsequent media buy. Some grant money still remains in the account, so GBBR can continue to afford to print and distribute a brochure to community and religious organizations in Baltimore, in cooperation with the City's Homeownership Institute, the Greater Baltimore Community Housing Resource Board, and MCCD. The brochure alerts readers to real estate scams and encourages them to attend a homebuying workshop.

Outcomes

The success of the campaign headed off community demands for new legislation. MCCD reported that calls increased from 35 in January to 60 in February 2001, by which time about one-third of callers were asking how to buy a home without getting scammed. Meanwhile, the Maryland Attorney General's office, HUD, the FBI, the U.S. Department of Justice, and a host of other federal and state agencies undertook vigorous enforcement and prosecution efforts and obtained several convictions. More than 50 people have either pleaded or been found guilty in these cases, receiving prison terms of up to nearly three years.

Still, the struggle against predators goes on. When the public education campaign began, scam artists shifted targets from first-time homebuyers in the City of Baltimore to out-of-town investors with no knowledge of the Baltimore real estate market. More recently, it was discovered that a lending company was deliberately failing to post customers' payments on time in order to charge late fees and eventually foreclose mortgages. Through its participation in the Baltimore City Flipping Task Force, whose members exchange information on the latest scams, the GBBR introduced borrowers whose credit had been damaged to sympathetic lenders who helped them disengage from the predator.

Perhaps most importantly, though, the effort has rehabilitated the image of REALTORS® in the eyes of those angry at real estate abuses, and has given GBBR lasting political stature within the City of Baltimore. "It helped us bridge the gaps we'd had in the past with other groups," says Cook. "We may still sometimes have differences of opinion, but they look at us as an organization that's trying to solve problems."

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