

## **Scams Proliferate in Slow Market**

**By Richard Stanley**

We Californians are trendsetters in many ways--not all of them good. For example, California is the leading state for real estate scams. A slow market, such as we have now, is fertile ground for scammers. Here are some common schemes:

### **Wanna rent a house?**

Slow markets bring vacant houses--and con artists. A typical scam involved a house on Franklin Avenue in Los Feliz that sat vacant after a foreclosure. A sharp con artist found out about the vacancy and advertised the house for lease. He gained access to the property by using the lender-owner's lockbox and began to show the house to prospective renters. He was neatly-dressed and seemed very professional. One renter decided to rent the house. He gave a cash deposit and the first month's rent to the "agent" and moved into the house. Only later did he learn that the lender knew nothing about his "lease"--and that he was being evicted. His money? Gone, of course.

Similarly, a vacant house was put up for sale recently on Hollyvista Avenue in the Franklin Hills. Unbeknown to the listing agent, the house was also advertised for lease on Craig's List--and for a very low price: \$800 per month. The ad advised prospective renters not to call the phone number on the real estate sign, but rather, to email inquiries. When contacted, the "owner" said he could not show the house right now, but if cash were wired to an account, "keys will be waiting". The prospective tenant is still waiting.

### **Launderland Escrow**

A while back, sellers in Hancock Park sold a substantial house. The day escrow was scheduled to close, no word of the closing arrived from the escrow office on Wilshire Boulevard. No funds arrived in the seller's account, either. The sellers decided to visit the escrow office, only to find it vacant--cleaned out. The title to their house had, indeed, been transferred to the buyer--the sellers no longer owned the house, but their money was gone with the escrow officer, who, they later determined, left the country. They were cleaned out--and had little recourse.

Another cleaning job that involves escrow companies is a scam whereby "dirty" money, often the entire sale price or a larger-than-usual deposit amount, from nefarious sources is deposited into the escrow account of a pending real estate sale. After the large deposit is in the escrow account, the buyer cancels the deal and the deposit is refunded by the escrow company--who has unwittingly "laundered" the dirty money.

The most notorious scam of recent years involved a pair of high-flying Westside agents, Joe Babajian and Kyle Grasso. They and nine others, faced Federal indictments for bilking the Royal Bank of Canada, Bank of America and Lehman Brothers out of \$50 million dollars on loans of \$142 million. Here's how the scheme worked: Several of the group would buy houses at market value and require the sellers and their agents to hide the purchase prices from public records and the Multiple Listing Service used by realtors. Inflated purchase agreements were drafted using "straw" buyers. The phony purchase prices were inflated hundreds of thousands, even millions of dollars more than the actual purchase prices. A "dirty" escrow company and a "dirty" appraiser aided in getting new loans for the straw buyers. The loans often far exceeded the true purchase prices. Finally, the dirty escrow officer distributed the excess money among the scam perpetrators. Many of the deals resulted in foreclosed properties that were taken back by the victim lenders. The participants also gained commissions and other inflated fees along the way.

The appraiser was convicted of her charges, sentenced to three years in prison and ordered to pay part of \$46 million in restitution. Other sentences for those convicted ranged as high as 14 years. Grasso received a sentence of a year and a day plus restitution of part of \$13 million he conspired to steal because U.S. District Judge Dean D. Pregerson found him to be "fundamentally a decent person" despite his criminal behavior. Babajian was the sole indictee acquitted in the scheme. He was recently hired by Rodeo Realty. No Department of Real Estate action is known at this time.

### **How to protect yourself**

Work with a known, reputable company and its agents. Generally, there is little chance that a major real estate company's escrow office will run away with anyone's money. If there is a problem, a major company will have errors and omissions insurance. If there is fraud, large companies have deep pockets.

Never deal with people over the internet, especially if you suspect the email is from an overseas source and/or the grammar and spelling seem odd.

Never give your tax returns to strangers, such as to prospective landlords.

If you are involved in a "short pay", be sure the demands (the documents which state payoff amounts) are certified copies. It's too easy to inflate some amounts.

***Richard Stanley is a veteran local realtor who may be reached at [rstanley@coldwellbanker.com](mailto:rstanley@coldwellbanker.com).***

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