



The Institutional Risk Analyst

published by Institutional Risk Analytics, a unit of Lord, Whalen LLC
 Copyright 2011 - All Rights Reserved. No Republication Without Permission.

[IRA](#) [IRABankRatings](#) [Professional](#)
[Home](#) [Shopping Cart](#) [IRA Bank](#)
[Monitor](#)

More: Select an option,

Reports: Select a report,

News, Views and Analysis

MF Global: Where's the Cash? David Woolley on the Risk of Defective Commercial Land Titles

February 14, 2012

Like this article, 0

6

Comment more on this article on

our [Facebook](#) page.

In this issue of *The Institutional Risk Analyst*, we feature a comment by **David E. Woolley** of Harbinger Analytics Group regarding the risks lurking in the world of commercial real estate due to flaws in land title surveys and underwriting. Sound familiar? This is yet another result of shoddy underwriting and trusteeship by the largest US banks and law firms in creating commercial loans and the securitization of same.

Readers of The IRA will recall Woolley's August 2011 comment, "[David Woolley on the MERS land title chain fiasco](#)", wherein he stated:

"What none of the experts are analyzing (in specific terms) is the destructive effect that the MERS system will have on 400 years of recorded property rights in the United States. Most articles mention lost chain of title but stop short of explaining what this means, or how these problems will affect homeowners with or without mortgages in the MERS system. These problems deal with determining (1) property boundaries (senior and junior property rights) and (2) proof of ownership in order to obtain title insurance and financing. Because MERS is utilized for transferring title and these transfers are not publically recorded (thereby imparting constructive notice), MERS does not comply with race (first in time) or (constructive or actual) notice statutes and therefore, senior/junior property rights cannot be determined when a discrepancy arises in property boundary lines."

But before we get to David's fine article, we need to slip into our **Dennis Miller** persona for a couple of minutes to vent on MF Global. Last week **Ben Proffess** of the *New York Times* reported that "[MF Global Trustee Sees \\$1.6 Billion Customer Shortfall](#)."

Where is the lost customer money? At JP Morgan Chase and other banks, or course. See, "[How JP Morgan and George Soros Ended Up with MF Global Customer Money](#)", www.clearingandsettlement.com

So why is it that the Large Media have such trouble reporting this story? The fact seems to be that the political powers that be in Washington are protecting JPM CEO **Jaime Dimon** from a possible career ending kind of stumble with respect to MF Global. By stuffing the commodity customers of the broker dealer via an equity bankruptcy resolution supervised dutifully by SIPIC, JPM and Soros apparently get to benefit at the expense of the commodity customers of MF Global. This situation stinks to high heaven and everyone on the Street we've spoken to about the matter knows it. As the article above notes:

"Rather than being treated as a bankruptcy of a commodities brokerage firm under sub-chapter IV of the Chapter 7 bankruptcy law, MF Global was treated as an equities firm (sub-chapter III) for the purposes of its bankruptcy, and this is why the MF Global

The Institutional Risk Analyst



The IRA Newsletter is also available



via [RSS](#)

You can also read the newsletter from your mobile phone at our [MOBILE DEVICE](#) link.

NOTIFICATION LISTSERVE: To receive weekly tickler emails send an email to listsrv@list.institutionalriskanalytics.com. Leave the subject blank and enter "subscribe iraanalyst" into the body of the message. You will receive an email confirming you have joined the tickler list server.

IRA Library Service Articles: Subscription Required

[Facebook "Jumps the Shark" Interview with Michael Whalen](#), February 6, 2012

[John Mousseau: Munis Cruise Through a Scorching January](#), January 31, 2012

[Can Pent Up Supply Overcome Systemic Inaction?](#), January 16, 2012

[Why the Fed Needs to Talk More About Housing](#), January 10, 2012

A complete archive of past IRA articles available in our [Catalog](#).

customer money in so-called segregated accounts "disappeared".

The effort by former New Jersey governor and MF Global CEO **Jon Corzine** to save his firm by stealing customer funds seems to warrant further discussion, yet instead we have silence. Here's a question: When is Corzine going to be indicted for securities fraud and other high crimes and misdemeanors? The answer seemingly is that the Obama Justice Department is afraid to go there. Thus the fraud at MF Global continues and Washington does nothing to inconvenience the banksters as customer funds are expropriated.

But please, to our friends in the Big Media, could we stop saying that we don't know the location of the missing \$1.6 billion of client funds from MF Global? The money is safe and sound at JPM and other counterparties. As with Goldman Sachs et al and American International Group, the banks have been bailed out at the cost of somebody else. And the various agencies of the federal government are complicit in the fraud.

To read more about the MF Global fraud and how the large banks have subverted the bankruptcy courts, click link below to go to Zero Hedge:

<http://www.zerohedge.com/contributed/mf-global-wheres-cash-part-ii>

Alert To Problems Of Grossly Inaccurate Documents Used In The Land Title Underwriting For Commercial Real Estate Financing

David E. Woolley
Harbinger Analytics Group

January 31, 2012

I. Introduction:

The Commercial Mortgage Backed Securities ("CMBS") market is bracing for record levels of defaults on commercial loans in 2012. According to Trepp, LLC, in October, 2011, troubled commercial real-estate loans accounted for more than 65% of failed banks' \$617 million in problem loans.

o What if there was a way out of these commercial loans so that owners, lenders and CMBS holders could recover 100% of their loan values rather than the 40% to 60% of purchase price that these commercial properties are currently worth in the marketplace?

o What if the way to recover 100% of a commercial property's purchase price was through the property's title insurance policy?

Harbinger Analytics Group has discovered a widespread problem of inaccurate (and fraudulent) documents used in the land title underwriting for commercial real estate financing. This fraud is accomplished through inaccurate and incomplete filings of statutorily required records (commercial land title surveys detailing physical boundaries, encumbrances, encroachments, etc.) on commercial properties in California, many other western states and possibly throughout most of the United States.

Because title insurers performing land surveys in-house and independent land surveyors (often hired by lenders, title insurers and/or national land survey brokerages claiming ownership of completed work product) have committed actual and/or constructive fraud by knowingly failing to conduct accurate boundary surveys and/or failing to file the statutorily required documentation in public records, owners, lenders or CMBS holders of these commercial properties may be able to recover 100% of their purchase price from their title insurers based on contract rescission claims.

Owners, lenders and CMBS holders may also be eligible for "put backs" of these afflicted properties if the loans were insured by the FDIC (for example, assets acquired, packaged and resold through bank closures or TALF via the PPIP program). Harbinger Analytics informed the FDIC (by detailed reports) about potential problems in the commercial real estate loans in July 2009. Harbinger Analytics also informed one of the



**GOT A MOBILE DEVICE?
TRY THIS.**

IRABankRatings.com/mobile

Quick grades and maps to nearby bank branches for people on the go.



Public Service
Announcements

FDIC Foreclosure Prevention Tool Kit

"The FDIC -- along with fellow regulators and the banking industry -- continues the urgent search for workable solutions to our nation's serious subprime mortgage and foreclosure problems."

FDIC Failed Banks List

The official page listing banks that have failed.

IRA is not endorsed by any agency or program featured in this section. We display these links solely in the public interest because good citizenship matters. We will post additional material here as we find it. If you believe your government or non-profit program merits being added to this list please contact us.

IRA Tweets

- IRA Analyst "MF Global: Where's the Cash? David Wooley on the Risk of Defective Commercial Land Titles" Feb 14, 2012 <http://t.co/zWjTiU8L> 2 days ago
- Santiago on HuffPo "Banking 2012: Maneuvering to Survive the Desert Landscape of Zero Interest Rates" Feb 6, 2012 <http://t.co/31mDcwEE> 10 days ago
- IRA Analyst Newsletter "Facebook "Jumps the Shark", an Interview with Michael Whalen", February 6, 2012 <http://t.co/zWjTiU8L> 10 days ago
- IRA Analyst Newsletter "John Mouseau: Munis Cruise Through a Scorching January", January 31, 2012 <http://t.co/zWjTiU8L> 16 days ago
- Failed Bank Forensics "First

four primary title insurer's executives and general counsel (by detailed reports) of the failures, fraud and exposure to liability in their underwriting way back in early 2007.

o Why wouldn't a title insurer be concerned about underwriting poor quality ALTA land title surveys?

Prior to the financial crisis of 2008, title insurance companies realized an average of 5% in loss/loss adjustments (compared to 70-85% in most other casualty insurance coverage). Title insurers were able to outsource and reduce costs without realizing a loss/loss adjustment change. Presumably today, the title insurers have seen a spike in payable claims due to loss of priority (subordination), but they have not felt the effects of the flawed commercial loans to date.

In context, we were offering to demonstrate fraud within the records maintained by one of the four main title insurer's offices. These same records were relied upon for the underwriting of title insurance policies. I believed, at the time we contacted this title insurer's executives and general counsel in 2007, that this title insurer was unwittingly a victim of land surveying fraud.

Later, it was discovered that this title insurer was inserting themselves into land surveying contracts by performing land title surveys in house and/or through their own network of subcontractors and then claiming the survey work product as their own via copyright protection. For example, First American also created eAppraiseIT that was subsequently sued by the FDIC in *FDIC v. Corelogic Valuation Services, LLC*. Although several causes of action were subsequently dismissed from this complaint, appraisal services are much more subjective than land surveying. After being warned about these fraudulent activities, this major title insurer apparently never changed their business model and/or demanded statutorily required records of survey in California.

II. Title Insurance, Insurers and Land Surveyors:

Title insurance is a form of indemnity insurance predominantly found in the United States that insures against financial loss from defects in title to real property and from the invalidity or unenforceability of mortgage liens. There are basically only four (4) U.S. national families of title insurers which underwrite approximately 92% of the title insurance market. Most states are dominated by a group of two or three title insurers, sometimes including a regional title insurer.

Land surveyors and land title insurers play a crucial role in buying and selling commercial properties. Most mortgage lenders require an American Land Title Association ("ALTA") land title survey for properties to evaluate and define the property's boundaries, site improvements, easements and encroachments as a condition of obtaining title insurance (required for mortgage financing by lenders). The insurance policies generated by title companies are called ALTA Owner's and Loan Policies. An ALTA policy insures against off-record defects. The ALTA policy also provides "covered risk" for "unmarketable title" and "fraud". The title insurer and lender each understand a title defect will tie up a property for years and can cost hundreds of thousands of dollars to remedy, therefore, they require that a property is surveyed as a matter of due diligence prior to funding. This need for title information is further evidenced by an inherently frugal lender's willingness to spend \$5,000 - \$50,000 per land title survey.

Prior to conducting an actual survey, the land surveyor receives a "preliminary title report" from the title insurer describing what that title insurance company is willing to insure. The land surveyor takes the preliminary title report's property description and compares it to the actual condition of the property on-site. The surveyor researches public records looking for previously discovered defects or discrepancies in title. The land title surveyor is tasked with identifying and documenting these material defects in title as a part of the surveyor's due diligence.

Because land title surveyors are often hired directly by title insurers, lenders, attorneys or national land surveying brokerages, various parties may claim ownership of the surveyors' work product. Foolishly, outside parties will occasionally insert themselves

Guaranty Bank and Trust
Company of Jacksonville" January
27, 2012 <http://t.co/JxCmu26t> 20
days ago

- Failed Bank Forensics "Patriot Bank Minnesota" 19810 HEADWATERS BOULEVARD FOREST LAKE, MN, 55025 January 27, 2012 <http://t.co/GVAPng0h> 20 days ago
- Failed Bank Forensics "Tennessee Commerce Bank" 381 MALLORY STATION ROAD FRANKLIN, TN, 37067 January 27, 2012 <http://t.co/KfpOlt8H> 20 days ago
- Failed Bank Forensics "BankEast" 607 MARKET STREET KNOXVILLE, TN, 37902 January 27, 2012 <http://t.co/q1Ke3Sww> 20 days ago
- IRA Analyst Newsletter "Fred Feldkamp: Agenda Items for Lame Duck Congress to Fix the US Economy" January 23, 2012 <http://t.co/zWjTiU8L> 23 days ago
- Failed Bank Forensics "Central Florida State Bank" January 20, 2012 <http://t.co/v3EmgSI5> 26 days ago

[follow IRA on Twitter](#)



into the land surveyor's contract to realize additional fees through mark-up costs. Some title insurers even insert themselves into the land surveying contract and/or offer land title surveying services by way of their employees or vendor subcontractors. They further insert themselves by specifying the format of the information displayed and claiming a copyright to the information. The contracting parties realize larger profits by selecting lowest bidding surveyors (who then cut corners by failing to properly research properties and failing to complete statutory filings). In comparison, it is very unlikely the contracting parties select their professionals, such as counsel, by the same low bid process.

In California and in many western states, if the land title surveyor finds any material discrepancies between the property description supplied by the title insurer and the actual condition or location of the land and, if no Record of Survey has been previously filed to document these discrepancies, the surveyor must submit a proper Record of Survey within 90 days, to the County Surveyor's Office (subject to third party review and approval) pursuant to California Business & Professions Code §§ 8762, 8766, et seq. Once reviewed for procedures, statutory compliance and accepted by the County, this document becomes available to the general public.

Despite these explicit requirements, surveyors are not performing the required ALTA land title surveys, pursuant to adopted written standards, are not conducting thorough due diligence (i.e. proper research, evidence collection/evaluation in relation to the insured deed), are not filing Records of Survey and are not providing accurate boundary and chain of title information to title insurance underwriters. These repeated statutory violations go beyond mere negligence and constitute constructive fraud and/or actual fraud. The breach of statutory laws constitutes negligence per se and negligence (violation of a standard of care) is then presumed. Therefore, title insurance policies are based upon fraudulent and/or (at least) negligently prepared survey documents.

This isn't the last of the bad news - additional claims may exist from third parties when a boundary line is common between adjacent owners.

III. Claims Against Title Insurers and Land Surveyors:

- o What if the ALTA land title survey is fraudulent?
- o Who is liable? The title insurance company? The land title surveyor?

There is an opportunity for owners, lenders and CMBS holders to recoup losses incurred by decreased property values by filing contract rescission claims based on unmarketable title, fraud, constructive fraud and/or negligence and/or negligence per se against the property's title insurer and land surveyor. Although a representation of opinion is ordinarily not actionable, misrepresentations of opinion are actionable where the defendant holds himself out to be specially qualified. The surveyor's work is often viewed as an expression of professional opinion and may be considered as representations of fact. It only takes one false representation of a material fact [encroachment] to create a case for fraud.

"Unmarketable title" is defined in Section 1(k) of the ALTA Owner's Policy and Section 1(m) of the ALTA Loan Policy as:

"title affected by an alleged or apparent matter that would permit a prospective purchaser or lessee of the title or lender on the title to be released from the obligation to purchase, lease, or lend if there is a contractual condition requiring delivery of marketable title."

Conversely, "marketable title" is defined as:

"such a title free from reasonable doubt, and such that a reasonably prudent person, with full knowledge of the facts and their legal bearings, willing and anxious to perform his contract, would, in the exercise of that prudence which business men ordinarily bring to bear upon such transactions, be willing to accept and ought to accept. Title must be so far free from defects as to enable the holder, not only to retain the land, but

possess it in peace, and, if he wishes to sell it, to be reasonably sure that no flaw or doubt will arise to disturb its market value."

A title insurance policy promises that, if the state of the title is other than as represented on the face of the policy, and if the insured suffers loss as a result of the difference, the insurer will reimburse the insured for that loss and any related legal expenses, up to the face amount of the policy. From the information supplied by the surveyor, the title insurance company writes the actual title insurance policy including any defects found by the surveyor and specifically excludes those defects from title insurance coverage unless a specific endorsement is written.

A. Title Insurer:

An inaccurate ALTA land title survey gives rise to an unmarketable title claim by an owner, lender or CMBS holder against the title insurer for the value of the property at the time it was insured. A property may be deemed unmarketable if material flaws in an ALTA land title survey are discovered. In fact, no "adverse claimant" need be present for an owner or lender to raise an unmarketable title or fraud claim under their title insurance policy. The possibility of a "cloud" on title is enough to trigger title insurance coverage through the title insurer.

If owners, lenders and CMBS holders of commercial properties (with these fraudulent survey documents) have title insurance with specific endorsements covering unmarketable title, fraud and negligence claims, these groups may be entitled to damages including contract rescission for the full balance of loan amounts (plus attorney's fees and costs) against their title insurer based on unmarketable title, fraud, constructive fraud (requiring less intent), negligent misrepresentation and negligence theories. Title insurance companies may be liable for a failure to defend if they deny title insurance coverage.

B. Surveyors:

Surveyors providing inaccurate surveys and/or failing to file records of survey are in violation of various California statutes including California Business & Professions Code §8762 et. seq., California Business & Professions Code § 17200, et seq. Surveyors may also be liable to owners, lenders and CMBS holders based on the theory of negligence per se for violation of California Code of Regulations, Title 16, Division 5, § 419 (e) (C) (2) and California Business & Professions Code §§ 8762, et seq. Most western states have statutes similar to those cited for California. Nevada (whose commercial real estate has been particularly hard hit), recently enacted A.B.284, which states fraudulent documents used in a financial transaction are a Category C Felony. Nevada land surveyors should quickly order a recent edition of Incarceration 101 or Behind Bars now, before they are sold out to recently indicted California title officers. These owners (and possibly adjacent owners), lenders and CMBS holders may also have claims of fraud, constructive fraud, negligent misrepresentation and negligence against the licensed land surveyor (who typically carries a large errors and omissions policy ranging from \$1-5 million).

Questions? Comments? info@institutionalriskanalytics.com

About IRA Products and Services

[IRA for Banking and Finance Professionals](#) - We offer enterprise grade analytics and privileged process support for risk surveillance, compliance testing and investment research via subscription products such as the **Professional IRA Bank Monitor**. IRA also offers custom analytics services, hosted component tools, and bulk data feeds to clients for use in their internal systems. **For more details, please call our Torrance, California office at (310)676-3300.**

[IRA for Business](#) - Corporate risk management is an ever vigilant concern as the economy continues to evolve. We offer corporate CFO's and Treasurers online tools to monitor the health of their banking relationships whether they be credit facility providers, depository relationship banks, or investment counterparties. It doesn't

whether you deal with only with TBTF's or local community banks, we cover them. Contact [Diana Waters](#) at our Torrance, California office for more details and to arrange a demo for your team.

IRA for Consumers - IRA believes that "ordinary people" matter. We provide consumers the same analysis horsepower to render banks transparent via an easy to buy online reports website at IRABankRatings.com system.

The Institutional Risk Analyst is published by Lord, Whalen LLC (LW) and may not be reproduced, disseminated, or distributed, in part or in whole, by any means, outside of the recipient's organization without express written authorization from LW. It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. This material does not constitute a solicitation for the purchase or sale of any securities or investments. The opinions expressed herein are based on publicly available information and are considered reliable. However, LW makes NO WARRANTIES OR REPRESENTATIONS OF ANY SORT with respect to this report. Any person using this material does so solely at their own risk and LW and/or its employees shall be under no liability whatsoever in any respect thereof.

A Professional Services Organization
Copyright 2012 - Lord, Whalen LLC - All Rights Reserved
371 Van Ness Way, Suite 110 Torrance, California 90501 310.676.3300 info@institutionalriskanalytics.com