

Collateral rules put counties at risk

By ED TIMMS and KEVIN KRAUSE, Staff Writers

For a building worth a million bucks in bail bonds, it doesn't look like much.

L.G. Cornish Jr.'s Haltom City office is a converted house with vinyl siding and wrought iron burglar bars, built the same year Harry Truman ordered up the H-bomb. It abuts a busy freeway and is shadowed by towering billboards.

Cornish also uses the 1,220-square-foot office as collateral for his bail bonds. He told the local bail bond board that a private appraiser valued it at \$115,000. A few months later, when he protested the value that his local appraisal district wanted to set for tax purposes, his agent claimed it was worth only \$40,502.

State law requires the bail bond board to accept Cornish's private appraisal. The law also allows Cornish to write bail bonds worth 10 times that value - up to \$1.15 million.

The Dallas Morning News has found that bail bondsmen across Texas take advantage of that same law, writing millions in bail bonds while pledging real estate collateral worth a small fraction of that amount. Some hire private appraisers whose property values are dramatically higher than tax values that they contest.

Counties may collect only nickels or dimes on the dollar when they try to sell the properties pledged as collateral if bail bondsmen can't pay for bonds that go bad, or if they go out of business. And that means financially strapped counties could lose many millions in revenue.

The Texas Occupations Code allows bail bondsmen in large counties to write bonds worth five to 10 times the value of real estate placed in trust with a bail bond board, depending on how long they've been in business and whether their license was ever suspended or revoked. Another option allows bondsmen to use insurance companies that back their bonds.

"The county has taken bath, after bath, after bath," said Don Davis, a longtime assistant district attorney in Dallas County who monitored bail bondsmen. "If you don't have a 1-to-1 ratio, that's when the temptation is to start taking liberties with your liquidity and try to make as much money as you can before you pull out."

In just three counties - Dallas, Tarrant and Collin - bail bondsmen appear to have pledged more than 200 properties - enough to secure more than \$114 million in bail bonds.

Over the years, bondsmen who relied on real estate as collateral have walked away from millions in bond forfeitures owed to Texas counties.

"We have tried to sell some properties and have not been able to get bids on them at all," said David Hudson, legal adviser for the Tarrant County Bail Bond Board and an assistant district attorney.

Among *The News'* findings:

Many bail bond properties are in depressed neighborhoods interspersed with boarded-up houses and empty lots littered with debris - all unfriendly turf to new construction and redevelopment.

Private appraisal values for properties pledged to bail bond boards in the three counties were almost \$3.9 million higher than the appraisal district values. State law allows bail bondsmen to use either a private appraisal or their county's most recent certified tax roll to establish the collateral value.

Bondsmen's private appraisers sometimes justified recent estimates of a property's value with "comparable properties" sold before the subprime mortgage crisis, fueled in part by inflated appraisals, sent real estate prices plummeting in 2008 and 2009.

Some "comps" were not only in different neighborhoods but also in different cities.

Three appraisers who have done work for Tarrant County bondsmen have been disciplined by a state regulatory board for questionable practices, including inflating property values, for other clients.

While large counties are required to establish bail bond boards, oversight in smaller counties typically falls to sheriffs who have less authority.

Real estate experts say it's not uncommon for appraisal district values and private appraisals to be 10 percent to 20 percent apart. Appraisal districts typically use broader criteria when estimating values, while taking into consideration individual characteristics of properties. But state law requires their appraisals to reflect market value.

A private appraisal that's 50 percent higher, experts say, should be a red flag. *The News'* analysis found that almost three of every four private appraisals for bail bondsmen in Dallas, Tarrant and Collin counties were at least that. Some vacant lots that hadn't changed hands for decades were eight to 10 times the appraisal district values.

Cornish, the Tarrant County bail bondsman, makes no apologies for using a much higher private appraisal instead of the appraisal district's numbers.

"Either way is legal," he said.

And he defended using one value for the bail bond board while claiming his property was worth much less before an appraisal district review board.

"So if I were able to lower my taxes, I think I've made a good deal, and I don't think anybody should criticize me for it," Cornish said.

A significant gap

Cornish's office at 5041 Airport Freeway in Haltom City is one of at least 60 Tarrant County properties appraised at double the Tarrant Appraisal District estimates or even higher.

Still, he has protested the appraisal district's much lower values three times in recent years.

"Nothing has changed since last year except the economy is worse," his tax agent told the Tarrant Appraisal District's appraisal review board in 2009. "It's a 59-year-old office building that's in poor condition."

The agent asked that the property be valued at \$51,942, factoring in the sales of four comparable properties. The review board agreed to value it at \$60,600.

In 2010, Cornish hired private appraiser Dorothy Lantrip to value the property. The \$115,000 appraisal that was submitted to the bail bond board described Cornish's office as "average, well-built and well-maintained."

A few months later, he protested the appraisal district's initial tax notice value of \$60,600.

During a three-minute review board hearing, another tax agent working for Cornish described the structure simply as a "very old office building" and cited three comparable sales to support his requested value of \$40,502. The tax agent indicated that he and appraisal district officials had a few differences over the data but he agreed to "go ahead and go" with the district's revised value of \$52,500.

This year, Cornish initially complained about the \$52,500 value but later withdrew his protest.

Real estate experts said they were not aware of anything in state statutes that specifically prohibits the practice of presenting different values for the same property to different government agencies.

Lantrip told *The News* it wouldn't have made a difference even if she had known that Cornish's tax agents had claimed his office property was worth much less than her appraisal.

She said that her appraisal is supported by the comparable sales she used and other research.

Lantrip's "comps" included a house now converted into a restaurant in Cedar Hill, more than 30 miles from Cornish's office and in a different county. Her appraisal alternately refers to it as being in Fort Worth, then in Cedar Hill.

Lantrip's appraisal was completed in March 2010. The Cedar Hill property was sold in August 2006, long before the nationwide real estate bubble burst and the mortgage industry was racked by scandal. Among the other sales comps Lantrip used, another sold in 2006, one in 2007 and a fourth in 2010.

"I do not consider any of the scandals and all that stuff in doing an appraisal," Lantrip told *The News*. "I use the comparable sales that I have. I use the latest ones." She said private appraisals are more accurate than appraisal district values.

When appraising commercial properties, Lantrip said, appraisers are allowed to go a little farther out for comps "because there's not that many like properties for sale."

At *The News'* request, Tarrant Appraisal District officials reviewed some of the private appraisals submitted to the bail bond board, including one for Cornish's property.

Jeff Law, the Tarrant Appraisal District's chief appraiser and executive director, said his staff found that the private appraisers had relied on comparable sales that were 3, 4 and 5 years old, "and that is not typical." They also found reliance on comps that were "very widespread, in fact all throughout Tarrant County" rather than in the neighborhood or the market area of the subject property.

"When you're looking at properties such as these vacant lots and small, office-type buildings, it stands to reason that you should be able to find comparable properties within a comparable time frame, rather than having to go that far back - and even go outside the county," Law said.

'A lack of competence'

Just two appraisers are responsible for the vast majority of appraisals on file with the Tarrant County Bail Bond Board.

Lantrip produced 89 of 110 private appraisals, and Willie Jean Lupo handled 11 more. All but a handful of their appraisals were at least double appraisal district values.

Both women have been disciplined by the Texas Appraiser Licensing and Certification Board, but apparently not for their work for bail bondsmen.

The appraiser licensing board began investigating Lantrip after the Federal National Mortgage Association, Fannie Mae, complained about her appraisal of a home in Azle.

Lantrip's appraisal described the property as being in "a prestigious area of new, large homes with fairway golf course to the back of property," a statement, investigators concluded, that "appears to be misleading."

The property "has a view of the driving range and the course maintenance buildings. (It is at the far end of the driving range, meaning it is a long way, but on the receiving end of golf balls)," an investigator wrote.

Lantrip was criticized for "not researching the subject's history, the pending sale contract, recent sales in the neighborhood ... and quantifying location and size differences."

Her appraisal, an investigator wrote, "exhibits a lack of competence to deal with complex issues, creating a series of errors."

She was fined \$1,000 and ordered to undergo additional training in 2003.

Lantrip said that she didn't think the discipline was fair but that there was no way she could win "because you've got that board down there all against you - and they're going to do what they want to do."

She said investigators didn't think she had used the right comparable sales. "So I asked the investigator what comparables he would have chose for it ... and he said, 'I don't know. I'm just glad I wasn't asked to do the appraisal.' So what does that tell you?"

Her license expired in late November. She said she hasn't renewed it.

"I've been doing this for over 20 years, and I feel like one or two questions during that time is not a big deal," she said.

Inflated values

Lupo surrendered her license in February 2010 while under investigation by the appraisal review board.

Investigators concluded that she was responsible for numerous violations involving appraisals that apparently were researched by a trainee but signed by her.

Investigators concluded that at least five appraisals were inflated and that "another report contains so many significant errors it can't be considered credible regardless of whether it's inflated."

The view for a property that fronted "12 or more lanes of service road and Interstate highway," was described in one place as "residential," in another as a "busy street."

"Ms. Lupo either took part in these appraisals, in which case she inflated values, or she turned a blind eye toward her trainee and allowed him to run rampant," investigators wrote.

Appraisers are prohibited from signing or endorsing an appraisal that they did not "substantially" produce.

Lupo said the appraisals were done by a trainee at a time when the real estate market was very active and "all of us had more work than we knew what to do with."

"But I shouldn't have signed ... without checking it myself," she said. "And I was busy, busy, busy...."

Lupo said that the problems cited by the review board were not bad enough to take away her license and that she could have just paid a fine and gotten continuing education, "what a dozen other appraisers did."

"But I was already past 70," she said. "And I just didn't feel like working." She retired.

In addition to property currently pledged as collateral for bail bondsman clients, Lupo appraised property that had been pledged by bail bondsmen who went out of business many years ago and still owe Tarrant County money.

Those include two vacant commercial lots that the county unsuccessfully has tried to unload since 2006. She valued one at \$63,000 - more than twenty times the current appraisal district value of \$2,657 - and another at \$65,000, substantially more than the appraisal district's value of \$4,504.

A third appraiser, who estimated the value for a single property on the Tarrant County Bail Bond Board rolls at double the appraisal district's estimate, was suspended for 18 months in May 2010 for an appraisal that "vastly overstated" the value of a house - "inflated primarily as the result of comparison to inappropriate sales."

Keeping the vagrants out

One of Dallas County's largest bail bond companies also has claimed vastly different values for the same properties.

Delta Bail bonds submitted a \$525,000 appraisal to the Dallas County Bail Bond Board in 2006 for a property at 4140 Bateman Ave.

An appraiser found the building in good shape, with "finished office space on ground level and second level as well as warehouse/shop area. Second level consists of two restrooms, conference/recreational room and private office," the appraisal said.

But Charles Monroe, Delta's owner, gave a very different description of the building about seven months later when he protested the appraisal district value of \$533,660.

Monroe told an appraisal review board that it was only a one-story building - and that the area leased out to an auto body shop was about half the square footage that the appraisal district had listed for the whole building.

The second floor stored air-conditioning equipment and couldn't be used, Monroe said. It was even boarded up to keep vagrants from sleeping there, he said.

"What it is and how it's used are two radically different things," said Mark Monroe, his nephew and Delta's general manager, when *The News* asked about the apparent discrepancy. "It's up there but it's unused."

And while the private appraisal submitted to the bail bond board stated that the building was leased for \$2,300 a month, Charles Monroe told the appraisal review board that the property was leased for \$1,300.

The review board lowered the appraisal district value of the property to \$233,130. Delta appealed that amount and got it lowered again in arbitration to \$203,000. The bail bond board's value remains at \$525,000.

"We make two different arguments about the value depending on the situation," Monroe said. "I don't think there's anything inappropriate about that."

A home's owner may argue for one value before the appraisal district, he said, but would never sell the home unless the price was much higher.

Ken Nolan, chief appraiser and executive director of the Dallas Central Appraisal District, suggested that it may be less than ethical "if you get collateral based on the value of your property and you are turning in an inflated appraisal, and you know you're doing it."

The Bateman property is one of six properties that Delta has pledged as collateral with values set by private appraisals completed in 2006, according to bail bond board records and interviews with Dallas County Sheriff's Department officials.

State law says counties must require bondsmen using private appraisals to submit current ones when their licenses are renewed at least every three years. For Delta, that hasn't happened.

When Delta was up for license renewal in 2009, "we asked if we could use the old appraisal and they [county officials] seemed agreeable" and the bail bond board had no objections, Monroe said.

That concession was made, he said, because a technology overhaul that wreaked havoc with county bail bond records also created financial problems for Delta.

Dallas County officials said they began requiring current appraisals earlier this year for bail bondsmen whose licenses are up for renewal.

"The board was not aware, and neither was I, that there was a time frame regarding an appraisal," said Scott Jones, the Sheriff's Department investigator who monitors bail bondsmen.

Jones said Delta will either have to get new private appraisals or use appraisal district values when the company comes up for license renewal in about six months.

Monroe said his company probably will not use private appraisals in the future because in the current market, the difference between a private appraisal and an appraisal district value isn't that much.

A stricter regulatory environment after the subprime mortgage meltdown may be bringing private appraisals more in line with appraisal district values, said Nolan, the Dallas Central Appraisal District's chief appraiser.

"Appraisers are scared to death to try to inflate anything, because they will get their license yanked," he said

Delta is one of two bail bond companies in Dallas County that currently use private appraisals for collateral, according to sheriff's officials.

In 2009, Immediate Bail Bonds turned in a three-page letter, including the cover, as the appraisal for three of its properties - all vacant commercial lots. That \$633,000 private appraisal is significantly higher than the appraisal district value of \$345,890.

Other private appraisals on file with the bail bond board typically are much longer - often 30 pages or more - with detailed information on comparable properties.

The News requested copies of an "accompanying narrative" with more detailed information that was referred to in the letter, but sheriff's officials said they had provided all that was on file.

'About to fall down'

Delta also had a very high opinion of its McKinney office when it pledged the property as collateral to the Collin County Bail Bond Board in 2007.

Delta submitted a \$195,000 private appraisal, which county officials said they can't find, that is still the bail bond board value for the 2,016-square-foot structure.

That's despite claiming a much lower value that same year when protesting the appraisal district value. Al Monroe, who manages some of Delta's real estate, unsuccessfully protested the appraisal district's value of \$98,920. He wrote that property values "are going down in this area, not up."

In 2008, Al Monroe claimed that the property was worth only \$28,000 and had "no parking for any type business."

And in 2009, he told the appraisal district that "the building is about to fall down" and "cannot stop leaks." He estimated the value at \$40,000.

Monroe was successful in getting the appraisal district to come down on its values in 2008 and 2009. And currently, the property is valued at \$80,686 by the appraisal district.

Mark Monroe defended the bail bond board value. He said that a lot of money has been spent to repair the roof and that the property is in a good location.

"It's not falling apart," he said.

And why did Delta give very different numbers to the bail bond board and the appraisal district?

"It's about managing your dollar," he said.

Bo Daffin, chief appraiser for the Collin Central Appraisal District, said that in protests, owners sometimes will claim a value that "we would say is low-balling." The much lower values submitted with Delta's protests, he said, may have been a negotiating tactic.

But Daffin was dubious of the private appraisal's estimate.

"That would be somewhat shocking to me, that we're almost \$120,000 wrong on a 2,000-square-foot building," he said.

Try, try and fail again

Efforts to tighten the reins on the use of real estate as collateral repeatedly have been thwarted by court decisions and opinions issued by the Texas attorney general.

In 1999, for example, Marjorie Walstad, the owner of Immediate Bail Bonds, challenged an attempt by the Dallas County Bail Bond Board to use its own appraisals of two properties she had pledged as collateral.

The board exceeded its authority when it "valued the properties at an amount between the appraised value Walstad submitted and the value set by the independent appraisals," appeals court judges ruled in 1999.

Bail bondsmen say they run reputable businesses, provide a valuable service and help reduce jail populations.

They and their supporters have succeeded in getting favorable laws passed, while also thwarting legislation that would have increased oversight - such as lowering collateral-to-bonds ratios or allowing bail bond boards to reappraise pledged properties.

Hudson, the Tarrant County assistant district attorney, said he would like to see the value of real estate collateral set by "some kind of neutral authority" rather than by private appraisers hired by bail bondsmen.

"But the bail bondsmen are very influential in writing these laws," he said. "The bondsmen are the ones who are giving [contributions] to the politicians. So they get what they want to a certain degree."

The counties have some influence, too, Hudson said, "but we're basically a counterweight."

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AT A GLANCE

What Texas law says about bail bondsmen and collateral

Bail bondsmen are regulated by parts of the Texas Occupations Code and the Texas Code of Criminal Procedure. Here are some of the rules:

Counties with populations greater than 110,000 are required to form bail bond boards.

Bail bondsmen in those counties place real estate in trust with their bail bond boards as collateral for the bonds they write.

The amount of bonds one of them can write ranges from five to 10 times the value of his collateral, depending on how long he has been in business and whether his license has been suspended or revoked in the past.

Bail bond boards accept either a private appraisal or an appraisal district value to establish how much a piece of property is worth. The bail bondsman gets to choose which value is used.

Bail bond boards must require that bondsmen submit current appraisals for their properties when renewing their licenses.

A bail bondsman's license is renewed every two to three years, depending on how long he has been in business and whether any disciplinary action has been taken against him.

Counties with fewer than 110,000 residents can choose to form a bail bond board. Otherwise, much more limited oversight duties are the local sheriff's responsibility.

Methodology

The Dallas Morning News used open records requests to obtain data on real estate pledged as bail bond collateral in Dallas, Collin and Tarrant counties. Dallas County data reflected what was pledged as of August. Collin and Tarrant county data reflected what was pledged as of September.

Bail bond collateral property values were compared with appraisal district values that are used for tax purposes and, by law, are supposed to reflect market values.

The News also analyzed more than 40 of the bondsmen's private appraisals, submitted several to real estate experts for review, and inspected dozens of properties on site. The News also obtained appraisal district protest records and disciplinary files from the Texas Appraiser Licensing and Certification Board through open records requests.