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Housing appraisals: Broken no more?

By **JIM BUCHTA**, Star Tribune

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New rules aimed at protecting home buyers against fraudulent appraisals are being hailed by some as long overdue, but others fear that they will make it tougher to buy or sell a home.

The proposal emerged this week from an agreement between Fannie Mae and Freddie Mac and New York Attorney General Andrew Cuomo, who had been investigating the appraisal practices of the two companies and offered to end the investigation in exchange for the rules.

The rules, scheduled to take effect in January 2009, include two key points:

- Lenders no longer will be allowed to use in-house staff for initial appraisals.
- Lenders will be prohibited from using appraisal management companies that they own or control.

The two government-sponsored organizations fund almost 80 percent of all home mortgage originations in the United States.

That means the changes will affect the entire industry.

"It's huge," said Kris Wilson, senior loan officer for Fairway Independent Mortgage in the Twin Cities. "It would remove the problem [that] appraisers complain about, which is undue pressure from brokers to produce the 'right' value."

Many appraisers say that they are constant pressured by brokers, lenders and loan officers to hit a certain price. Critics of the industry say that inflated appraisals helped create the bubble that led to the current decline in home values.

At issue is whether homeowners and lenders really receive "independent" evaluations of home values from appraisers who say that unless they satisfy the lender, they risk being blacklisted. The relationship between appraisers and lenders is even more complicated because some large mortgage companies such as Countrywide and Washington Mutual have in-house appraisal departments.

OCC watches banks

Already, federally regulated banks are subject to oversight by the Office of the

Comptroller of the Currency (OCC), which restricts them from hand-picking appraisers and requires periodic reviews of appraisals. The new rules could help level the playing field between banks and brokers and others who are not subject to that scrutiny, Wilson said.

In Minnesota, the Department of Commerce licenses appraisers, but it does not regulate the performance of individual appraisers. The agency, which came under scrutiny in 2004 by federal regulators, recently beefed up its investigations department by hiring former appraisers and establishing a real estate appraiser advisory board charged with making recommendations to the commissioner on licensing, standards and educational requirements.

Realtor praises the rules

Robin Peterson, president of Coldwell Banker Burnet in Edina, praised the rules because of the provisions to create more separation between lenders and appraisers.

The new rules also include a more stringent appraisal review process to weed out potentially fraudulent appraisals that have helped drive the foreclosure rate to record levels.

Critics of the agreement say that the rules will hurt appraisal companies that rely on relationships with lenders -- and will make it even more difficult to get financing.

Ronny Loew of Twin Cities-based Cornerstone Mortgage said the new rules will encourage appraisers who have no relationship to the lender to take a more conservative approach to home values at a time when borrowers are being squeezed by increasingly strict underwriting guidelines.

"One more nail"

"Even fewer people will get financing if this goes into effect," he said. "Some may see this as a good thing, but the lack of available credit is what is driving consumers to the brink. This is one more nail in the housing coffin."

The National Association of Mortgage Brokers slammed the agreement, saying that the agreements "amount to de facto regulatory action" without due process.

Alan Hummel, chief appraiser for Forsythe Appraisals in the Twin Cities and a former president of the Appraisal Institute, doubts that the rules will have a big impact on the overall housing market, but he said they will touch almost everyone in the appraisal business.

"It's unfortunate"

"We understand the need for this type of agreement," he said. "But it's unfortunate in

some ways that they've cast the largest net to solve this problem -- they've reined in everyone."

Already, Freddie Mac requires appraisers to disclose whether they have been pressured or compensated, but the new rules are intended for further prevention.

Doug Duvall, Freddie Mac director of public relations, said the new rules will mean an overhaul of the industry.

"We do recognize that it will require changes in industry practices and in some business models," he said. "But in the end we think it will enhance the integrity and independence of the appraisal process and help the overall housing finance systems as a whole."

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