Open House: New law hopes to curb appraisal inflation

by Jim_Woodard

The growing problem of appraisers inflating their home evaluations to meet a target value, under pressure from a lender or Realtor, is being addressed in new and proposed state laws.

One state, California, recently enacted such legislation (SB 223) and it has been signed into law by the governor. The law explicitly forbids persons involved in a real estate transaction from pressuring an appraiser to hit a certain target value.

The bill calls for punishment of violators with license suspension or revocation and with potential civil action. The new law may serve as a model for other states now considering such legislation.

"I expect this bill to act as both a deterrent and a mechanism for punishing those who violate its provision," said state Sen. Michael Machado who introduced the bill.

The new law is strongly supported by several industry groups and consumer advocacy organizations, including the Appraisal Institute, the American Society of Appraisers, the California Mortgage Bankers Association, and others.

"I have been involved in efforts to curtail predatory and abusive real estate lending practices for nearly a decade," Machado said. "During that time, I have heard numerous claims about the insidious practice of appraisal inflation. More recently, inflated appraisals have been identified as a contributing factor to the subprime mortgage meltdown."

Abel Morales, an appraiser member of the American Society of Appraisers, had this to say about the new legislation: "The new law is a good first step. It recognizes that appraisers are often pressured from a variety of interested parties in a real estate deal and they need to have some form of protection from that. The system is so flawed that many appraisers risk being blacklisted, not paid for their work, or not being hired again if their appraisals are lower than the desired number."

One key reason for fixing the problem is that the appraiser is the only objective third party involved in most real estate transactions. He can perform an important role in protecting the home buyer and financial institution by giving an accurate, unbiased appraisal of a property's value without pressure from other parties.

Home buyers also have a role to play in this scenario. They should check the credentials of everyone involved in the transaction and request that their assigned appraiser be state licensed and accredited.

Q: Are many self-directed IRA holders investing their funds in real estate?

A: Yes. The real estate market may be generally in a slump, but at least one niche is notably active and flourishing - activity by self-directed IRA holders who are using their available funds to invest in real estate.

About a thousand self-directed IRA holders were recently surveyed by Guidant Financial Group. The survey revealed that about 65 percent of respondents were considering property as an investment for their retirement savings.

Nearly 60 percent of those respondents expressed a preference for rental income property, while 36 percent chose foreclosures and pre-foreclosures. About 28 percent chose raw land as their investment choice.

"These numbers provide valuable insight into the minds of investors," said David Nilssen, president of Guidant. "It demonstrates that, although the real estate market is experiencing a downturn, many still continue to view real estate as a secure and viable means to growing their nest egg."

Other investment preferences noted by the survey respondents are business acquisitions, hard money lending, vacation property, foreign property investments, and others.

Q: Are foreclosures still on the rise?

A: The number of foreclosures in September actually decreased from the previous month, according to the U.S. Foreclosure Market Report issued by RealtyTrac, a real estate research firm. The report shows a total of 223,538 foreclosure filings during September, down 8 percent from the previous month. However, it was up 99 percent compared with September of last year.

The national foreclosure rate for the month was one foreclosure filing for every 557 households. The state reporting the highest foreclosure rate was Nevada, with one foreclosure filing for every 185 households. This was the ninth month in a row that Nevada tops that infamous list.

The state recording the second highest foreclosure rate was Florida. California came in third.

Q: What's being done to help mortgage-troubled homeowners?

A: A coalition of mortgage service companies, counselors and trade organizations have banded together to provide much needed help to hard-pressed homeowners. The formation of the group was announced by Treasury Secretary Henry Paulson.

"Eleven of the largest mortgage servicers representing 60 percent of all the mortgages in America, along with several of the leading mortgage counselors, investors and large trade organizations have come together and formed a partnership to help more Americans keep their homes," Paulson said. The initiative is known as "Hope Now."

The primary goal of the new coalition is to contact troubled borrowers before they become so delinquent in their payments that foreclosure is almost unavoidable. It will provide at-risk borrowers the information and resources available to the marketplace that will allow them to keep their home by restructuring the terms of their mortgage or pursuing other options available to them.

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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