

Open House: Survey says pressure's climbing on home appraisers

by Jim Woodard

A key problem in today's home mortgage industry is created by unethical appraisers working under pressure to "hit specified numbers" in their appraisals.

This often results in inflated property values that are, in many cases, much higher than realistic market values. This can ultimately cause major problems for home buyers who could be paying on a mortgage that's larger than their property's true value. That's a common scenario that leads to foreclosures.

It can also be a serious problem for banks and mortgage companies. The last thing they want is to deal with foreclosures.

The pressure on appraisers usually comes from real estate brokers who are desperately trying to arrange financing for a home purchase, or a mortgage broker or lender who is trying to close a new mortgage transaction. In some cases, the pressure comes from individual home buyers or sellers.

About 90 percent of real estate appraisers are experiencing pressure to come up with certain specified values, according to a recent research survey of 1,200 appraisers. That number is up sharply from the same type of survey conducted in 2003, when 55 percent of appraisers felt pressured to reach predetermined values.

The American Society of Appraisers believes that this pressure is a real problem for appraisers. The group is committed to supporting legislation to reform fraudulent practices in the mortgage lending industry. They are actively supporting legislation to combat predatory lending and mortgage fraud.

"I'm not surprised that so many appraisers surveyed still feel pressured to hit a particular number to close a deal," said Mike Evans, with the appraisers group. "There is currently little regulation or incentive that stops this type of behavior from taking place."

The society supports the consumer's right to receive a loan based on an accurate appraisal, a society spokesman noted. "It's in the home buyer's best interest to receive an accurate appraisal to ensure that they are not overpaying for their loan."

As the only independent, objective third party in a real estate transaction, the appraiser can perform an important role in protecting the home buyer and financial institution. Home buyers should insist that appraisers come up with true market values - not an inflated figure to make the deal go through.

"Home buyers should take an active role in scrutinizing the practices of everyone involved in their home purchase," Evan said. "If they feel that agents are overly aggressive in wanting the deal to go through, or if the price of the house they want to buy isn't comparable with other similar homes in the neighborhood, they should be wary."

Incidentally, the Federal Deposit Insurance Corp. has taken the lead in informing banks of their concerns that some appraisers are not following their Uniform Standards of Professional Appraisal Practice for federally related transactions. Special areas of concern include appraisals for commercial real estate and residential tract developments.

Many small home-building firms will probably go out of business during the current home sales slump. Others will merge over the next couple of years to create a smaller number of larger firms, according to several analysts.

"We believe there will be a feeding frenzy," said a report from Michael Kahn and Associates, a consulting firm. "Once the market begins to stabilize, we fully expect Wall Street to begin to pressure the national builders to achieve growth. It's pretty hard to do that organically. The big builders are likely to buy up smaller companies."

The housing industry has already gone through a major consolidation, the consulting firm noted. "During the last 15 years, we find more than 150 mergers and acquisitions have taken place among the top builders.

"This year it seems the merger and acquisition process has slowed down with the slump in the housing market. The question really is, if the market recovers this summer, will the acquisitions start again?"

Even without further consolidation, the biggest home-builders have a firm grip on the U.S. housing market. The 10 largest builders have seen their market share grow from less than 6 percent in the early 1990s to about 23 percent this year, according to figures from the National Association of Home Builders.

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Nationally, home values are declining slightly for the first time in years. Overall, values have declined about one-half of 1 percent over the past year, as measured by the Zindex home value indicator that measures the value of all homes in an area, not just those that recently sold.

Of course, home values fluctuate widely from region to region, even in local markets. According to a report in Business 2.0 magazine, the six metro areas that are most likely to see appreciable home value increases over the next five years are Panama City, Fla. (72 percent projected gain over five years); Vero Beach, Fla. (63 percent); Bridgeport, Conn. (63 percent); Lakeland, Fla. (59 percent); McAllen, Texas (57 percent); and San Luis Obispo, Calif. (40 percent).

Reasons for the projected gains: Panama City will build a new airport next year that will open the area to new vacationers and residents. Vero Beach has a rising demand for housing along with moderate property taxes and very nice weather - factors that always drive growth.

Bridgeport is in Fairfield County, an area of staggering home prices, but this city offers somewhat lower prices, making it increasingly appealing to New York City commuters. Lakeland is in an active growth area, only 30 minutes from Tampa via Interstate 4, but prices are much lower than in Tampa.

McAllen is experiencing a Hispanic baby boom and rising incomes. These factors are driving demand for bigger homes. San Luis Obispo currently offers a good inventory of homes at lower prices than other mid-California markets. And it's in the center of a rapidly developing wine industry.

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