

Undue pressure takes its toll on honest real estate appraisers

by Emmet Pierce

Tired of being pressured to raise appraised home values to help real estate loans win approval, longtime appraiser Sara Schwarzentraub is steering her business away from work with mortgage brokers.

Although they're supposed to remain aloof from the sales and lending process, appraisers are struggling to keep their independence in the slowing housing market, she said.

"I have seen the highs and the lows of markets," she explained. "There is always pressure, but when the market is soft like it is now, the pressure becomes almost unbearable.

"People are trying to refinance and there may not be equity there," she said. "That doesn't stop people from trying to put the screws to you: 'We need this value or we can't afford to do the (appraisal) work.'"

In the mid-1990s, she began taking her La Mesa, Calif., company in a new direction.

"We have a better class of clientele, including estate attorneys and family law attorneys," Schwarzentraub said. "We do work for foundations that take charitable donations. We do relocation work for companies who are moving employees to other jobs. That is honestly a lot more satisfying. We are left to do our work the way we are supposed to do it."

Ted Faravelli Jr., executive director of the California Association of Real Estate Appraisers, said it's common for appraisers to feel like their arms are being twisted. "I think there is a pressure, particularly when there are fewer dollars chasing fewer deals," he said.

Ed Smith Jr., government affairs chairman for the California Association of Mortgage Brokers, said his group supports efforts to shield appraisers from improper influence. A minority of brokers engage in such practices, he stressed. "I wouldn't say it's a big, prevalent thing."

Mortgage brokers, who work on commission, might stand to benefit from inflated appraisals, but banks don't, said Gary Wong, Union Bank of California's regional manager and senior vice president for residential lending in San Diego. "The bank wants to capture a good investment."

Paul Leonard, director of the California office of the Center for Responsible Lending, said appraisal inflation during the recent housing boom was "a significant contributor to some of the current loan problems," including the meltdown of the subprime lending market and a recent spike in foreclosures. Appraisers have gotten the message that "unless they meet that price they won't get future business," he said.

Credit has tightened as lenders have scrambled to make up for the loose underwriting that caused many subprime loans around the country to fail. According to David Berenbaum, executive vice president, National Community Reinvestment Coalition, efforts to convince appraisers to raise home values "is an active part of the mortgage tsunami or crisis we are seeing in the subprime marketplace."

Not linked to home prices, appraisal fees are based on the complexity of determining a home's value. Appraisers who work directly with lenders typically are paid a fee of \$300 to \$1,000 in San Diego County, Schwarzentraub said. Some may make less if they work for an appraisal management company, she added.

Anthony F. Majewski, acting director of the California Office of Real Estate Appraisers, said there are about 20,000 licensed appraisers and trainees in the state. About 250 complaints annually lead to formal investigations. Between 60 percent and 70 percent of those result in discipline.

POLICING THE INDUSTRY

Punishment may include public admonishment, remedial education, suspensions, fines of up to \$10,000 per incident, or revoking an appraiser's license, he said. Revocations occur about 12 times a year.

Some critics say state agencies nationwide lack the will and the resources to aggressively police the industry.

In California there is a bill pending to shield appraisers from improper pressure, Leonard said.

In part, the measure would prohibit people with an interest in real estate transactions from influencing appraisals sought in connection with loans. Schwarzentraub says there already are adequate laws. The real problem, she said, is inadequate resources for enforcement.

The issue has reached Congress, where bills to shield appraisers from pressure have been introduced by Sen. Barack Obama, D-Ill. and Sen. Chuck Schumer, D-N.Y., said Don Kelly, chief external relations officer of the Appraisal Institute, a trade association.

In Palm Bay, Fla., Pamela Crowley, an industry watchdog, says she is being sued for defamation to prevent her from talking about what she views as interference with the appraisal process.

A Brevard County judge recently denied a temporary injunction to prevent her from making any comments, or posting comments from others, about First American eAppraiseIT, a Poway, Calif.-based business that manages appraisal services.

Crowley operates the Web site www.mortgagefraudwatchlist.org. The case revolves around her stating that she received information that eAppraiseIT had unlocked electronic reports compiled by appraisers for lenders. Her attorney, Eric Lanigan, said eAppraiseIT has acknowledged that occurred, but has strongly denied any wrongdoing.

First American eAppraiseIT declined to comment for this article.

Doranne Godwin, a San Diego appraiser since 1984, said the Crowley case has drawn national attention to the problems appraisers face. Like Schwarzentraub, Godwin is moving away from "lender-type appraising." Most of the pressure, she said, comes from mortgage brokers.

"I've been trying to gear away from the lender work and do more divorce estate work and relocation appraising," she said. "I am choosing my lender clients more carefully. I am keeping the clients who do not do put pressure on me."

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