

Open House: Watch out for the appraisal scam

by *Jim_Woodard*

One of the most sensitive and fraud-prone elements in home sales is the appraisal, the professional determination of a property's current market value.

Only too often, the independent appraiser hired by a mortgage lender isn't independent at all. If he doesn't come up with figures the lender wants, his appraisal assignments from that lender are ended. This is a strong motivation to give in to the lender's demands.

The system is structured so that the mortgage company usually has control of the appraisal process, said a report from the American Society of Appraisers.

"The lenders usually hire the appraisers, the buyers don't - even though they are paying for the report. The pressure on the appraiser happens because deals are made or broken depending on whether a house appraises for the sale price or not.

"Buyers need to make sure they are getting an accurate home appraisal and not just an appraisal that hits the right number to make the deal go through. If they don't, they may buy a home that costs more than it's worth and they will lose money if they have to sell it within a few years," the ASA report stated.

Home buyers need to protect themselves by checking the credentials of everyone involved in the sales transaction, especially the appraiser. Ask questions about his experience and credentials. Check his references. You might hire your own appraiser. You (the homeowner) will pay his fee and have the right to select one that you feel will best serve your needs. Check first with your lender to be sure your selected appraiser is acceptable to them.

The Society of Appraisers suggests the homeowner ask their lender for a copy of the appraisal report. It is a consumer's right under federal law. Reading the report will give the home buyer an idea about what similar homes sold for and what factors made the property worth more or less. It might reveal what fixes could add value to their homes before they sell it.

A couple of points of clarification:

- An appraisal is not the same as a home inspection. Appraisals are an opinion of value, not an assessment of individual problem areas.

- Also, don't rely on Web sites that claim to immediately come up with values of specified properties. These are very rough figures, often calculated from old databases.

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Q: Are subprime mortgages the only kinds of loans experiencing payment problems?

A: There have been recent reports from major lenders that significant payment problems are being experienced by borrowers of "A" quality mortgages, in addition to the subprime loans. However, it's seldom noted that in many cases where high creditworthy borrowers are encountering problems, it's a second mortgage that creates the problem - originated in "piggyback" mortgage transactions.

This is a way many borrowers acquire a home with minimal down payment and escape paying for private mortgage insurance. They apply for two mortgages simultaneously, a first and second loan. With such small initial equity and with home values declining in some areas, it's inevitable that some of these deals will result in delinquencies.

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Q: What kind of home sales incentives really work?

A: When home sales dip and inventories of available properties rise, some highly motivated sellers come up with creative incentives to attract buyers and expedite a sale.

That's the situation in today's market, with added incentives such as an automobile in the garage, a large flat-screen TV in the living room, or perhaps a free trip to an exotic location. However, recent studies have concluded that these sales incentives seldom work.

The incentives that really work in many cases are more substantial help with finances. Simply reducing the price of a home can often attract buyers, or offering to pay the points (fees) of a mortgage, or assisting in paying the needed down payment or closing costs will grab the attention of buyers.

Other success-proven incentives include paying for a home warranty contract. If the unit being sold is a condominium, the seller might offer to pay the association fees for a specified number of months.

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Q: Is there a slump in the industrial real estate market?

A: No. In fact, the industrial market rebounded in a big way during the second quarter of this year. Net absorption totaling 45 million square feet bested space completions of 31 million square feet by a wide margin, enough to push the vacancy rate down another 10 basis points to 7.6 percent.

Space under construction has increased 23 percent since year-end 2006 to 141 million square feet, suggesting that the vacancy rate is unlikely to fall much further. Asking rental rates were flat year-over-year for warehouse/distribution space and up by 10.3 percent for R&D/flex space. This information was provided by Bob Bach, senior vice president at Grubb & Ellis, a major commercial real estate firm.

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Q: Is it a good idea to pay off a mortgage when the cash is available?

A: While many people are having a tough time making their mortgage payments and keeping their property out of foreclosure, other homeowners have plenty of funds in the bank or in securities to completely pay off their mortgage, but they opt not to do so.

Keeping a mortgage makes good sense, according to Keith Fenstad, with Tanglewood Capital, a money management firm. He offers the following advice:

"Don't consider paying off your mortgage unless you're saving at least 15 percent of your gross income for retirement. That includes maxing out your 401(k) contributions at work. Also, before you pay off your mortgage, pay off short-term debt such as credit cards, auto loans and other revolving lines of credit. They are likely to have much higher interest rates with zero tax benefits."

Fenstad also suggested establishing a cash reserve for at least three months of expenses in preparation for unexpected expenses. You should have up to six months expenses if you are the household's sole earner, he said.

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