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What is going on... The oddities out there having to do with real estate appraising

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Is it just my skewed view of reality or does the appraisal business not make a whole lot of sense right now? (It may not have made a lot of sense for a long time, I just may be slow in realizing this.) By way of illustration, these recent items seem to me to be telling. Have a look; see if you agree with my comments.

A quick internet search will find this story all over. A former real estate appraiser was sentenced last week to three years in federal prison for her role in a "massive" mortgage fraud scheme that obtained inflated mortgage loans on "pricey homes" in some of California's most exclusive neighborhoods. The article (San Diego Daily Transcript - 2/2/10), goes on to say that "not only were homeowners ultimately victimized by the bogus loans, it also resulted in losses of 'hundreds of millions of dollars' at banks that issued the loans." According to the U.S. attorney's office, Rizk collected "hundreds of thousands of dollars in fees for providing inflated appraisals in the scheme. "Her appraisals typically valued the homes three times higher than what the home really cost. To justify the inflated values she used comparable appraisals on homes that were actually bigger, more luxurious and in better neighborhoods."

Comment. It always staggers me that so little money is made by the perpetrators in these schemes. What were they thinking?

Was it worth it? Probably seemed like a good idea at the time. I guess the appraiser will have some time to think about it.

The article goes on to say that HVCC has been criticized by Realtors and lenders. Among other things, the length of time to get an appraisal has been "extended" and "valuations are often based solely on comparables and do not include upgrades or other things that can enhance the value of a home." The article concludes by saying, "the pendulum has swung from one extreme to the other. Ask anyone who has had a home appraised recently and you'll find a person who is disappointed by the results."

Comment. Imagine, appraisers are being criticized for using comparables and not consider "other things" that enhance the value of a home. Could it be that the "disappointment" out there is a function of the market and not because of what appraisers do and how they do it?

Housing Wire notes First American Valuation and Property Solutions added a new product: appraiser reviews of broker price opinion (BPO) reports. Appraiser reviews allows firms without on-staff appraisers to "outsource" BPO verification.

In this product, a licensed appraiser "confirms" the set of values a real estate agent uses by looking

at comparable sales to verify the BPO report's accuracy. If a discrepancy is found the appraiser provides a new set of values, and explains how they were determined.

A First American spokesperson said, "With this level of activity, it is even more important to verify accuracy while increasing throughput and reducing processing costs."

The practice of reviewing BPOs is not new. Typically an asset manager handling real estate owned (REO) properties will commission two BPOs for a property, HousingWire notes.

Comment. Gee, sometimes, they use appraisers to "verify" brokers' opinions.... Here's a perfect example of the industry simply end running the appraisal process. No wonder appraisers feel like they are feeling more and more outside the process.

Conclusion. These are but a few of the oddities out there having to do with real estate appraising. There's something going on out there and it doesn't like appraising or appraisers. No blame on the news sources I've identified: it's the tenor of the times.

As concerns my comments, you may have your own which may be better and more insightful than mine. Please feel free to have an opinion. Feel free to send me your own stories. With enough of them, I will get them into a column. I won't name names. Email me at billp@shepherdnet.com.

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