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## **Integrity remains job one in the real estate appraisal profession**

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By Rey Archambault, SRA

Appraisal fraud was the topic of a recent article in the real estate section of a widely circulated local newspaper. The piece struck a nerve, as I'm sure it did with many appraisers in Connecticut who take their profession seriously and take pride in the way they conduct themselves professionally.

The author cited an April, 2010 Lexis Nexis Risk Solutions, Mortgage Asset Research Institute report on mortgage fraud from the year over year period 2008-2009. The study is available on-line and is worth a look when you have a chance. While I can't fault the author for providing misinformation gleaned from the study, some pertinent missing information might have gone a long way toward telling the story without painting the appraisal profession with a broad brush, as a whole, as incompetent, or worse, questioning the integrity of the industry. True enough, the study does reveal an increase in the percentage of mortgage fraud cases nationally in 2009 (up 50% from 22% of overall mortgage fraud in 2008 to 33% in 2009) which were attributed to valuation issues, while instances of fraud by application irregularities declined slightly from 61% to 59% during the same period. However, in light of a significant decline in applications nationally due to a fragile real estate market, even a decline in fraud pitted against reduced applications can result in an increase in the percentage of frauds alleged.

Keeping in mind that valuation fraud was still second to application fraud cited in this study, pertaining to misrepresentation of borrower's income, assets, liabilities and personal information which go into the mortgage lending decision making process, it should be noted that three of seven criteria cited in appraisal fraud analysis within the referenced study actually declined in the year-over-year period 2008-2009, including the use of incorrect comparable sales, material omissions of information and inflated values over 30%. Three other criteria were unchanged from a statistically significant standpoint - including inflated values of between 15-30%, invalid adjustments and incorrect photos. Inflated values under 15% did rise 7% from the previous year from 11% to 18%. It should be noted that Connecticut did not rank within the top 10 states for overall mortgage fraud during the period cited, nor among the top states in appraisal fraud or misrepresentation (Midwestern states of Ohio, Illinois and Michigan ranking at the top).

Connecticut homeowners, lenders and investors should take heart in the fact that mortgage fraud does not appear to be booming at this time. A representative of the Connecticut Real Estate Appraisal Commission indicated that slightly more than a dozen complaints of evaluation irregularities are currently being investigated. With a population of over 1,700 licensed and certified appraisers statewide, that represents a less than 1% ratio of investigated claims to active appraisers. Appraisers operating in Connecticut are required to complete continuing education hours

as part of license renewal procedures (a minimum of 28 classroom hours during a two year cycle for the most recently completed renewal year just completed). Included in this educational requirement is seven class hours of comprehensive education pertaining to the Uniform Standards of Professional Appraisal Practice (the appraiser's "bible" in terms of guidelines for day to day practice adhered to nationally). Over the past 15 years, the appraisal profession has become one of the more difficult professions to enter due to formal education, practical hours of training and on topic education requirements, encouraged by both government entities and the professional associations and governing boards overseeing the profession.

The Appraisal Institute offers both member and non-member appraisers a comprehensive roster of classes, seminars and other texts and resources designed to satisfy state and federal licensing requirements and broaden an appraiser's knowledge of industry issues. The Connecticut's Chapter of the Appraisal Institute has long been at the forefront of appraiser education and has served as a national model for its available resources, with a number of well qualified instructors who are also active in the appraisal industry.

Appraisers play a vital role in the real estate lending arena. A properly prepared valuation provides meaningful analysis of the collateral being pledged in the largest of all investments, affecting individuals from all walks of life, including individual residential buyers, businesses, secondary market investors, judicial practitioners, and state and municipal government entities in need of valuation expertise. Having been in the business for 25 years, I can honestly say I am ever impressed with the level of professionalism the vast majority of my Appraisal Institute member colleagues demonstrate in their daily endeavors. Fear not Connecticut, integrity remains job one in the real estate appraisal profession.

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