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Tomorrow's housing market - Opportunies for success...and risk for real estate professionals

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Risk management for real estate professionals transitions to a new stage with upticks in the housing market, relaxed lending rules and lower unemployment. Collateral Underwriting, either a blessing or a curse, impacts the valuation profession. These changes can lead to increased opportunity, or increased risk.

Easy Money

Factors leading to the "Great Recession" were numerous and complex included relaxed borrowing standards and minimized oversight. The unscrupulous took advantage, compromising financial and housing markets. Professionals and the public all made decisions contributing to these woes. Regulatory and industry response was helpful, confusing and/or painful. Dodd-Frank, UAD, HAMP, the AMC format and other intervention had some calming effect. One ancillary consequence was a significant increase in professional liability insurance claims against all real estate professionals.

Nevertheless, sources indicate an improving housing market. Trulia's Q4 2014 Housing Barometer states that 3 of 5 indicators - existing home sales excluding distressed sales, home price level and delinquency plus foreclosure rate - are moving towards "normal". CoreLogic's November National Foreclosure Report indicates a decrease of over 35% of homes in some stage of foreclosure between November 2013 and November 2014.

Further optimism results with FHA's lowered insurance premiums for low income and first time buyers. Smaller down payment requirements bring optimism and concern. Many see this as a way to bring buyers into the market. Others see it, and proposed bank deregulation, as dÃ©jÃ vu, inviting the abuse and problems of the previous decade.

Regardless, these dynamics will challenge real estate professionals in a more active market.

Valuation

The valuation industry faces challenge in 2015. Potential changes in Dodd-Frank, State AMC legislation and Collateral Underwriting draws concern from valuation professionals. Fannie Mae's Collateral Underwriting program develops a database of alternative property sale comparisons to compare against comps used in an appraisal. The database is then used in an appraisal review with FNMA's objective of reducing the rejection rate of appraisals by lenders. Appraisers are concerned because lenders and their third party affiliates (ie AMC's), but not appraisers, have access to this database. The originating appraiser will only be able to learn if the CU database has "better" comps upon return of the appraisal, potentially increasing loan processing time and cost. Since appraisers initially developed the information in the database, making it available to appraisers could speed up the lending process. Increased demand on the appraiser increases the risk involved in preparing the report, potentially leading to another spike in liability issues for boots on the ground appraisers.

Risk Management, Insurance and the Real Estate Professional

Knowledge of economic and regulatory trends diminishes risk to one's practice. New and first time buyers create opportunity, but can also increase risk. Liability is reduced when a professional acts with an understanding of all parties' roles in the mutual goal of serving clients. Numerous liability claims involve multiple parties, including professionals who may have performed without error. But a client dissatisfied with one part of the transaction often becomes dissatisfied with the whole experience, bringing claims of malpractice or impropriety against everyone involved.

Participating in the transaction based on one's singular role misses the bigger picture. Thus an inspection issue becomes a lawsuit against the agent; a failure to disclose allegation against the agent becomes a valuation claim against the appraiser and so on. Last decade's litigious environment has diminished only slightly. Improving economic factors are steering us back to some stability. It remains to be seen if real estate professionals can together embrace the changes to come on behalf of the industry and consumer.

John Torvi is VP of marketing and sales at the Herbert H. Landy Insurance Agency, Needham, MA.