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Bifurcated appraisals – A way to cut costs? - by Shaun Fitzgerald

October 18, 2019 - Appraisal & Consulting

Shaun Fitzgerald
Fitzgerald Appraisals

Does anyone remember when mortgage operatives required that only certified appraisers could inspect a property? Trainees (with a minimum of 45 hours of appraisal-specific education) couldn't inspect a property without supervision; licensed was not good enough either. The result was that no one was willing to train a new appraiser and no one was willing to pay someone until they were certified.

The latest in appraisal cost-cutting is the "bifurcated" appraisal. Here's how it is supposed to work. The process starts with an individual or an organization that has the authority to initiate the lending process–typically though, it's not a "lender" as defined by all the laws and regulations intended to safeguard the financial systems. Rather than requesting an appraiser to complete the entire appraisal process, the loan processor hires an inspector to conduct the inspection, take some photos and produce a report about the features, quality and condition of the property. The inspector's report is then delivered to the appraiser. The appraiser reviews the inspection report, selects comparables that are appropriate for the subject property, makes adjustments and opines on the value. The appraisers communicates that they have relied on the inspection report, signs the report and delivers it to the loan processor.

The person hired to conduct the inspection is most likely a member if the "gig" economy. The inspector needs no licenses, no errors and omissions insurance or liability insurance; they are on their own. If they are limited by any professional practice requirements, competency standards, ethical standards or confidentiality requirements, those requirements are essentially at the behest of the person or organization that hires them. The fees for this service are sometimes as low as $25! Big cost savings, right? Well, maybe not. If the entity providing the loan actually wants to protect their investment, they might require that the inspector be able to recognize that oil-fill pipes coming out of the ground might mean an underground oil storage tank. They might want an inspector who can notice telltale termite indicators. Perhaps they'll want someone who recognizes mold-producing situations or structural deficiencies. Now, if they want someone with those qualifications, they are not going to find someone who will do the job for $25! And if that person–who can recognize those issues–takes the assignment, they have probably been in business long enough to recognize that they need E&O insurance, and they probably have some sort of professional standards and/or a set of best practices.

The second step of the bifurcated appraisal process is when the appraiser does all the things that an appraiser does–except the inspection. Interestingly, the Uniform Standards of Professional Appraisal Practice (USPAP) does not necessarily require that the appraiser conduct a physical inspection, so the appraiser is in the clear there. But, note that I said “all the things that an appraiser does.” “All the things” includes making a number of certifications and putting their signature on the report. As soon as the signature goes on the report, the appraiser is on the hook for the entire report. So what capable appraiser is going to do that for short money?

Actually, appraisers may indeed make those certifications and affix their signature. And they might even do it for a low fee. However, quick and cheap often means low quality–or limited responsibility. The likely result of clients that insist on fast, cheap bifurcated appraisals is that they will get an appraisal that is loaded with limiting conditions that make the opinion of value something that cannot necessarily be relied upon.

For years, buyers of real estate have been hiring home inspectors prior to starting the mortgage process. I have long wondered why mortgage providers have not required a copy of that report. And, once they have obtained such a report, why not pass it on to the appraiser? A restructuring of Fannie and Freddie is now underway; will mortgagers continue to have little regard for property condition when they can no longer pass the loan off to someone else? If there is a pullback–or an outright recession–will we go back to seeing a need for a more comprehensive inspection as part of the appraisal process? Is that what it will take?

Shaun Fitzgerald is the owner of Fitzgerald Appraisals, Easton, Mass.