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An appraiser's signature is very valuable in the mortgage process

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People in the Boston area often attribute the following paraphrased quote to one of Boston's most flamboyant mayors, James Michael Curley, - "Never put in writing what can be spoken; never speak what can be whispered; never whisper what can be communicated with a nod or a gesture." Apparently, someone else said it before him and perhaps more eloquently, because I heard a similar quotation recently in connection with gov. Rod Blagojevich's taped telephone conversations about the Illinois U.S. senate seat.

Apparently, appraisers never heard either quotation. Appraisers put everything in writing and then sign their names to it. If someone challenges them, they put their responses or corrections in writing, and sign that, too!

An appraiser's signature is pretty valuable in the mortgage process. It serves as documentation that the hurdle of sufficient collateral has been met. Many appraisers don't realize how valuable that signature is these days. Hopefully, not too many will find out how cheaply they sold their signature over the last ten years; there's a few trillion dollars of real estate value missing, and someone is going to come looking for documents with signatures on them. Unfortunately, there aren't a great number of signatures on documents in a loan package.

As the mortgage crisis was coming to a head, we heard more and more stories about "lender pressure" on appraisers. It's pretty well acknowledged at this point that at least some lenders or their surrogates (unlicensed mortgage originators) were pushing appraisers to find high values in exchange for future business. Unfortunately, some appraisers succumbed to the pressure. They may not even have recognized it as pressure because it was almost never in writing and may not even have been verbal.

As a result of the issue of appraiser pressure, we are seeing two new actions by the regulators and the lenders. The regulatory action is embodied in the establishment of the Home Valuation Code of Conduct (HVCC), which makes it illegal to pressure an appraiser to alter an appraisal to meet the client's objectives. The lender action is the growth in popularity of AMC's.

AMC's are becoming popular because they create a firewall between the appraiser and the lender. If a lender uses an appraiser to select a capable appraiser, order and track the appraisal through the process, and deliver the results to the lender, then how can the lender ever be accused - much less prosecuted - for pressuring the appraiser. The AMC firewall does a tremendous job of protecting the lender from prosecution. As the AMC process becomes more widespread and popularized, it is likely that the aims of the HVCC will be essentially irrelevant. It is also likely that only small local lenders will have to comply with the HVCC - unless, of course, they hire an AMC themselves.

In the not too distant future, I can envision absolutely no appraiser pressure from the lenders because the lenders will have no contact with the appraisers. All contact will be through the AMC.

The HVCC will be never be violated by any lender who uses an AMC. But of course that should lead us to ask "why not impose the HVCC on the AMCs?" Well, that's hard to do. The worst AMCs are no better than the mortgage originator pumping out minimal documentation from a home computer on the kitchen table; the best AMCs are testing appraisers, training them, reviewing their work and even suggesting revisions to the appraisal that will "satisfy the client's objectives!"

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