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Appraisal Institute calls on HUD to rescind mortgage regulation

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The Appraisal Institute recently led a coalition of four organizations and 35,000 members calling on the U.S. Department of Housing and Urban Development (HUD) to rescind regulations regarding appraisal management companies (AMCs). The coalition also sought new rules on AMCs.

A letter addressed to HUD Secretary Shaun Donovan and co-signed by the Appraisal Institute, the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers, and the National Association of Independent Fee Appraisers asked HUD to rescind Mortgagee Letter 97-46 immediately and to correct a reporting discrepancy related to management company fees.

Mortgagee Letter 97-46 details the Department's policy governing appraisal fees and the use of third-party entities providing appraisal and management services. According to the groups, the policy has the unintended result of allowing homebuyers to be misinformed as to the costs of appraisal services in a mortgage transaction.

Jim Amorin, president of the Appraisal Institute, said, "More residential mortgage lenders are relying on AMCs to provide appraisal services, and with the restrictions HUD has placed on appraisal and management fees, the home buying consumer ends up paying more in fees and getting less in service."

Unfortunately for the unsuspecting consumer, the restriction on total management fees to "no more than" the customary fee for an appraisal has driven many competent and experienced appraisers away from FHA and other mortgage programs, according to the groups. The loss of these seasoned professionals is adding "unnecessary and substantial risk" to the FHA program, the groups said.

The appraisal coalition's letter added, "In many instances, management companies are being forced to use appraisers from distant locations with less experience and training, or more pointedly: those who will work for less. Using less experienced and less qualified appraisers to perform FHA assignments is not a good business practice and is not good public policy."

The coalition's letter also called on HUD to crack down on objectionable business practices by some AMCs: "We request that the Department follows through on a commitment to propose rules for public comment relating to AMCs that would ban inappropriate practices, such as hiring an appraiser primarily on price or turnaround time, without consideration of competency or qualifications. The positive impact of such rules on the lending community, consumers, and the appraisal community would be profound."

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