

## THE NATION'S HOUSING COLUMN

By KENNETH R. HARNEY

WASHINGTON -- When you apply for a mortgage to buy or refinance a house, should you be concerned that your appraiser is being paid much less -- maybe just half -- of the \$300 to \$600 you're charged on your settlement sheet? Should you know who pockets the rest, or that cut-rate fees are too low to attract the most experienced, highly trained appraisers?

Should you care that the appraiser might be pushed to come up with a number so fast -- almost overnight in some cases -- that he or she doesn't have the time to do a proper inspection and accurate evaluation of comparable properties, pending sales contracts and local market trends?

All these questions are at the core of a swirling controversy created by the release of new appraisal standards by Fannie Mae and Freddie Mac, the giant mortgage investors. The "home valuation code of conduct," issued by the companies' federal regulator late in December, is under attack by the very industry it purports to protect -- professional real estate appraisers. It's virtually certain to turn into a political issue in the new Congress, and may be the subject of a federal court suit.

The code of conduct, now scheduled to take effect May 1, is the end product of a settlement involving New York Attorney General Andrew M. Cuomo, the Federal Housing Finance Agency, and the two congressionally chartered mortgage companies the agency oversees.

The settlement came after Cuomo threatened Fannie and Freddie with an investigation aimed at ferreting out alleged appraisal overvaluations, and evidence of illicit pressure on appraisers to "hit the numbers" needed to close loans. As part of the deal, the two companies and their federal regulator agreed to create a set of standards to ensure that appraisals are accurate and insulated from pressure -- whether from lenders, mortgage brokers, realty agents or third-party appraisal management companies.

But trade groups representing appraisers are unhappy about key details. Four of the largest appraisal organizations, including the Appraisal Institute and the American Society of Appraisers, issued a joint statement charging that the code will force lenders to shift their valuation assignments to third-party appraisal management companies, abandoning the traditional system of using local appraisers selected by mortgage loan officers. The code bans brokers, who originate a substantial share of new mortgages nationwide, from any involvement in selecting appraisers.

Management companies, the groups complained, "place appraisal quality last while shifting the cost of appraisal ... services to the consumer without any disclosure." Often, management companies require appraisers to perform valuations for \$180 to \$200 -- far below their regular fees of \$300 to \$600 -- and deliver their report within 24 hours to 48 hours of an assignment.

Consumers are charged the full fee at settlement with no knowledge that a third-party management company is taking a large percentage of what appraisers normally are paid for their work.

The Title Appraisal Vendor Management Association, which represents third-party managers, denies that lower fees result in less-accurate home valuations. Jeff Schurman, the group's executive director, says "there's no evidence of that," and if there were, major banks and mortgage lenders would not hire them. Appraisal management firms offer lenders valuation services anywhere in the country they're needed to handle loan applications, said Schurman, and they deliver them quickly. He added that the portion of the appraisal fee the management companies take is "reasonable" given the overhead savings they provide lenders.

But some prominent appraisers are scathing in their criticism of management firms. Jonathan Miller, president and CEO of Miller Samuel Inc, one of the largest appraisal companies in the New York City area, says "their quality is terrible -- all they want you to do is crank it out at the lowest cost." Only "the least experienced people" are willing to do the work, "and the product is unreliable."

George Dodd, an appraiser based in Virginia, says "the most experienced appraisers (will be) the hardest hit" by the new code "because of our unwillingness to sacrifice integrity and quality by doing business" with management firms. Rather than work for peanuts, Dodd said, "I can flip burgers at McDs for more."

Where is all this headed? The National Association of Mortgage Brokers plans to appeal to Congress to reverse the code's ban on broker selection of appraisers, and it is considering a lawsuit challenging the code. Appraisers also are expected to seek changes, either from Fannie and Freddie's regulator, or from Congress.

Why should this matter to you? Miller says quick, slipshod appraisals can severely undervalue some properties -- forcing buyers to come up with bigger down payments -- and can scuttle refinancings. Or they can overvalue houses that should be selling for less.

Either way, it matters.

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