

Genie Back in the Bottle - The Appraisal Industry

Is it already too late to put the “genie” back in the bottle? Like much of the real estate industry, “it depends” is part of any answer. First, let’s look at how the magic lamp was opened and the *genie* was released; and the possible impact on the future of the real estate and mortgage industries. In the last year the appraisal industry has been turned upside down and inside out. Veteran appraisers across the country have been forced into other professions. Imagine going in to work tomorrow and finding out your pay has just been cut in half. You worked for ten years setting your own schedule and controlling your own business, and now you are no longer your own boss. You have no options and no one ever asked your opinion about this new business plan. Today you work for yourself and tomorrow you work for a company who knows nothing about your business. They don’t need to understand appraising to run an Appraisal Management Company. Somebody flipped the switch and a new industry emerged; an industry now in charge of the real estate valuation process. A new industry with enormous power and regulations just beginning to be imposed. If you look back at the events of the last year, this could never have happened to any other industry. Try telling the bar association and attorneys they will now work for half fees and on someone else’s schedule. It’s still hard to believe this really happened. And now, even though the HVCC may be history, the AMC’s brought to power by the HVCC remain a part of the appraisal landscape. The best parts of the HVCC never came to fruition, but the worst part is alive and well.



The national real estate market collapsed. Whenever there is a problem of this magnitude, someone has to take the blame. Changes had to be made. In the recent real estate crisis, the appraisal industry was selected as the most likely candidate for changes and regardless of what happens in the years ahead, many experienced, highly educated, dedicated and well qualified appraisers may have been lost forever. The year of the HVCC changed the appraisal industry forever. Can we turn back the clock? A politician (who knew nothing about the appraisal business) took out his magic lamp and used the all-powerful *genie* to change the face of the appraisal process. Somehow, some way, the genie needs to go back in the bottle!

Picking one division of an industry to single out, in hopes it will solve all of their problems, is where this started to go wrong. Completely re-inventing one department or segment of the home buying process is NOT going to solve this problem. The same problems remain, and they would be the same now whether the changes to the appraisal industry were made or not. Appraisers certainly were not the sole cause of this current real estate crisis. Appraisers were used as a pawn in the lending process, which fueled the real estate buying frenzy, which eventually backfired on the lending industry. The appraisal industry turned out to be one of the many *victims* of this current real estate meltdown. Let’s talk just a little about real estate values - how they escalated - and what finally led to the bubble bursting.

Real estate prices are in direct correlation with the availability of mortgage funds.



The more people that have access to home loans, the more buyers; and the better chance the seller has of getting a higher price. It's nothing more than the law of supply and demand. Let's face it: over a three year period (+/- during the real estate boom), money was easy to get. It was too easy to get a home loan. The lending industry used some great advertising to attract customers. 100% financing with no money down sounds pretty good, and lenders were busy telling everyone that buying a home was much smarter than renting. Unfortunately, that is not always the case. But, they made it appear that every family deserved a loan and a home. The ads worked and easy loans spread like wildfire.



Homes were selling, prices rising, and it appeared there was no end in sight; just part of the American dream. But unlike the fairy tales and happily ever afters, eventually “tomorrow” had to come. Just think about the executives who said “let’s give loans to people who don’t look so good on paper; as long as they can pay the upfront loan fees, let’s make it work. Or, let’s create an “interest only” loan that lasts for the first few years on a mortgage. We just want them to buy a home and get a loan. Let them worry about what the future holds. Let’s create ‘low doc, stated income,’ and ‘no doc’ loans. We’ll let the applicants write down whatever they want on the loan application and if they sign it, we’ve got no liability. Borrowers can walk in and say they make \$60,000 a year but over half is in cash, and we’ll smile and say *no problem*, we’ve got a loan for you.” It’s not very logical, but it turned out to be very profitable; at least for a little while. You have to admit those executives were right. Profits soared and anyone who wanted a loan got a loan. Easy credit put many people in homes they simply could not afford. And, instead of saving more money and getting a traditional mortgage, they sank whatever money they had in getting a loan (or in fixing up the house) which left them *house poor*. The ones who could least afford to buy a home in the first place were charged exorbitant loan fees. “Don’t worry about your low credit score or low investment, we’ll even finance your upfront loan fees. The rates will be just a little higher.”

Creative financing was an understatement. In the end, these consumers lost it all. Now they have to start all over. Many American dreams have been shattered during this boom and bust time. It was inevitable there was going to be a problem. People were getting loans they could not afford and getting them easily. There was no concern for the true financial outlook for consumers and many lenders were pushing loans through just as fast as they could. It was easy money gone crazy.



When the bottom fell out, the lending industry had to make changes in their appraisal ordering, their fees and disclosures; their integrity or responsibility has never been questioned. The appraisal industry was singled out for change and many people still believe housing prices were inflated, simply due to appraisers who overpriced real estate. Next, we are arguing over AMC's and the HVCC, and everybody thought they had the best idea to "fix" the *appraisal* industry. It was never discussed that the appraisal industry did not need to be "fixed" and was not the cause of this problem. According to the Working RE/OREP, Appraiser Talkback Survey (with over 4,500 appraisers responding), 92% of appraisers were NOT in favor of the HVCC. 82% did not consider AMC's to be a legitimate business model. 53% reported they continued to experience pressure for values. Now the pressure comes from AMCs (pressure which they were supposed to eliminate). And, over 55% still say that they are occasionally asked to re-examine reports with the intention of trying to "make the deal work." Even under the new system, meant to fix the old system, within their first year of existence they are experiencing the same issues they were designed to eliminate. It makes it appear that many lenders still really don't want the appraiser to provide a true opinion of value; they just want the *deal to work*, so they can get paid. Um... sounds familiar?



In today's mortgage environment, *Appraisal Quality* may be dependent on who is looking at the report. "Quality" in untrained eyes (remembering many AMC employees are untrained in appraisal and know little about the real estate industry) may be determined only by the percentage of adjustments to the comparable sales within the appraisal report. As long as the *comps* are within a certain distance from the subject property and totally within the FNMA percentage guidelines for adjustments, the report is deemed a *quality appraisal*. In a market with *perfect* comparables, the system works very well.

The problem is that across America "perfect comparables" exist in about 20-30% of the total market. This leaves appraisers working in the largest percentage of the market, who may be providing what an AMC would consider "low quality" work. As appraisers work hard to protect the investor and provide unbiased values, they are forced into spending more time on each report, making less money, and still end up explaining their work to someone who has no idea what they are talking about. All the training required to earn a license, the hours of education and continuing education, the experience and local knowledge, all their years of hard work, ethics, and the integrity required to value real property is (far too often) not enough in today's appraisal environment. Veteran appraisers who have run their own businesses and built them up through dedication and hard work, now find themselves explaining their work to a stranger on the other end of a phone, in another state, with little or no training and many still with no licensing requirements. And, this person may have the power to control the appraiser's future work load. No longer does hard work get rewarded with more business. Appraisers have lost control over their businesses and their futures. Improvements are on the way, but appraisers have quickly forgotten just how much change has already occurred; changes that completely altered their way of business and life. Appraisers may sometimes get confused in this new system. They continue to try and do what they believe they were hired to do; provide an educated, unbiased opinion of value. However, until the lending industry decides exactly what it wants from the appraisal industry, the real estate industry will continue to suffer.

Appraisers solve valuation problems. The real dilemma is understanding which problem they are being asked to solve. Lenders must define what they want from an appraisal report. Do they truly want to know the property value? Or, are AVM's the way of the future where you can keep searching until you find the one with the value that works best for your situation. The values of most AVM's are unreliable, but they provide a written "source" that can *confirm* a value. The old saying "the buck stops here" needs to be directed towards the lending industry. Until the system that uses appraisal services defines what they want and need from the appraisal industry, the industry cannot move forward. The only way to fix this *problem* is to start where the *problem* begins; where the flow of money is controlled. We have moved from one end of the spectrum to the complete opposite, as lending restrictions have now overcorrected and many well qualified people still do not qualify for a home loan. The lending guidelines, whether to lax or to rigid, have little to do with the appraisal industry.

► There are far too many stories like the one below.

Getting Out. Why I'm Leaving Residential Appraisal.

By appraiser Mike Reid.

I used to love appraising. Long before there was any appraiser regulation, my clients came to me for valuation opinions because of my years of experience in real estate and their recognition of my accurate and reliable reports. Then came the HVCC. Now my clients of 24 years are not allowed to contact me. They have to order appraisals through a third party appraisal management company (AMC) which takes up to 60 percent of my fee for their trouble. I have signed up with about a half dozen AMCs. One went out of business owing me over \$7,000. Three asked for all my exhibits (resume, license, E&O policy, application forms, etc.) and I've never heard from them again. One expected me to complete a URAR full appraisal report for \$90. My most recent AMC has not sent me an assignment in months due to their lack of volume.

I recently testified before my state legislature in support of a bill to regulate AMCs. My first suggestion was to support the repeal HVCC at the federal level. Secondly to ensure that a certified appraiser is on staff at the AMC to do review work, and third to require the AMC to have a surety bond of \$500,000 to \$1 million so payment to appraisers is assured if the AMC defaults. Others recommended that AMCs become regulated by the State Appraiser Licensing Board.

I have 24 years of appraising experience, am licensed in two states as a General Certified Real Estate Appraiser, have been HUD approved for the whole 24 years, without any complaints and have completed hundreds of hours of special education. What good has that done for me now?

What is driving this patchwork quilt of ineffective appraiser regulation? Have you heard of "The Golden Rule?" He who has the gold makes the rules! The greed of lenders is the source of the problem and always has been. They are the ones with the money to lend. They are the ones that establish the lending guidelines that have to be followed by everyone else in the lending chain. They are the ones with the "pipeline" to keep full and flowing. When they run out of borrowers with 20 percent down they reduce the requirements to encourage borrowers with 10 percent down. Keep that pipeline full. When they run out of borrowers with 10 percent down they reduce the requirements again to encourage borrowers with five percent down, then zero down, then "no doc loans." Keep that pipeline full.

What about the increased risk? Well, they just pack the loans up and sell them off to someone else in a mortgage backed security that is so far removed from the valuation process no one can figure out the value anymore...not even the sophisticated investors. (Nobody thought to ask the appraisers!) Now it's time for me to say goodbye to my clients and friends in the residential real estate and financial service fields. You've heard of the theory of "trickle down" economics? Well here is how my exit from the business will trickle down to you all.

Dear MLS provider, I will be canceling my subscription for data services at the end of my current period.

Dear title company, I will be canceling my subscription for data services at the end of my current period.

Dear software company, I will not be renewing my annual software maintenance agreement at the end of my current period.

Dear Board of Realtors, I will not be renewing my annual dues this year.

Dear Appraisal Institute, I will not be renewing my annual dues this year.

Dear E&O insurance company, I will not be renewing my policy at the renewal.

Dear state of Washington, I will not be renewing my appraiser license or my state business license at the end of the biennium.

Dear state of Oregon, I will not be renewing my appraiser license at the end of the biennium.

Dear education provider, I will not be needing any more CE credits so will not need any more expensive classes.

(Not to mention all the service providers that provide me with everything from office supplies to computer equipment). *(Depending on the area apx. \$4,000 - 6,000 a year).*

Dear AMCs, goodbye.

Dear Consumer. You are the only one I feel sorry for. I will no longer be in a position to provide you with an independent valuation for your largest lifetime investment. Your lender does not want you to know who I am, how to contact me, how much I charge, what value opinion I reach. They just want you to pay for some conforming paperwork. If they receive any bad news they just shoot the messenger.

Read the full article
<http://appraisals4realestate.wordpress.com/>

GOOD
NEWS,
BAD
NEWS

Stories like this have covered blogs across the nation. The same story; a long history of providing excellent service and quality, all for naught. This was just one appraiser, one story. In the big picture, maybe not a huge impact. Multiply this story across the county, the state, and the country, and the *trickledown* effects of the HVCC will reach far and wide. With all these changes, have we solved our real estate lending problem? Or, have we just exchanged one problem for another. The real estate industry needs some positive news for a change. Agents, lenders, and appraisers need to work in conjunction with each other. All with a common goal; to help consumers “to and through” the home-buying process. Consumers expect and deserve to know they paid a fair price for their home, and a skilled appraiser is the best option to achieve credible valuation results. Many consumers don’t trust lenders or appraisers these days. In many cases they are turning to the internet for solutions, which may only extend the crisis. There is no substitute for a local appraiser or a local lender. Somehow, we have to move past all the negatives and only one industry has the power to make that happen. It is NOT the real estate or appraisal industry.

In the last century, no other single investment has provided a better return than real estate. We will eventually discover that this will continue to be true. The real estate, appraisal, and lending industries must find a way to work through this situation and promote a united front. Until consumers see a new confidence in the real estate and mortgage industries, the overall market will continue to decline. It will not gain any momentum until we have reasonable lending guidelines again. So, all this talk about “fair” and “customary” fees and the sunset of the HVCC is a step in the right direction. But, what did the HVCC do that has changed everything? AMC’s are evidently here to stay and continue to impact appraisers and consumers. Consumers hear about appraisers wanting to be paid more and complaining about the HVCC and AMC’s, and they are bombarded with negative information about agents, appraisers, and the total real estate market. The entire industry is so far out of kilter, it will take a miracle to bring it back. It is interesting to see that the nation’s largest lender’s profits don’t seem to be affected by all the turmoil. In fact, profits are up. Everyone loses except for the ones who started the problem in the beginning. No one ever said life was fair and the Golden Rule continues to be alive and well in America.

It’s time to raise interest rates to a realistic level and start making loans again. The real estate valuation issue will resolve itself and at the end of the next decade, we will look back to see that property values have remained steady on the national average. There will of course be exceptions where overbuilding went array and jobs were lost, but all in all real estate still provides a logical, reliable investment. For most families, buying real estate is still the best investment for the future.

Does anybody want a 4% loan? Ask all the people with adjustable rates who thought their rates would go down as the national interest rates dropped, only to discover their rates rose anyway. 5-6% loans would keep many people from facing foreclosure. But, the same people who offered the *low* and *no doc* loans just a few short years ago, now have decided they know best and the loan restrictions have climbed to unrealistic levels. These low interest rates look wonderful, but if no one can get a loan with these wonderful rates, what good are they doing? Maybe the lenders think this reflects an effort on their part to stimulate the housing market. However, 75%+ of all clients can’t get a loan.

No matter how much money they put down or what their credit score, every single item must be perfect in order to qualify for today's home loans. It's all a front that keeps normal consumers from obtaining loans. If you don't need a loan, maybe you can get one. Otherwise, forget it.

The loan officers that work in your local market are just like the rest of the industry, just trying to earn a living. They do not make these rules or create loan offers. They follow the rules like the rest of us. But, the people in charge of these lending institutions have total control over loans, and when and how those loans will be administered. They control when the real estate market rebounds.

Let's get real. Everyone in business has to make a profit to survive. At a 2% profit you can't stay in business. Why bother for a two percent return? Mortgages should be realistic, maybe 5-7%. Lending guidelines have to get realistic again. The people who were qualified to get a loan in the first place have more than likely been making their payments on time and working through the valuation issues, depending on their local market. The people who got loans they could not afford are facing tough times. Surprise, surprise. This group of loans contributed to the climb in property values and created problems for the entire economy. If we could go back in time and get rid of these questionable loans, chances are the real estate market would look a lot different today. It was certainly not the sole factor in this downturn, but it did play a large part in the creation of a 'crisis.' People were advised they were making wise financial decisions by the same people who now are forced to tell them they have to foreclose on their homes. How quickly things can change.

Let's concentrate on moving forward and getting America moving again. Let's focus on getting all the real estate agents, appraisers, home inspectors, attorneys, pest inspectors, home repair and remodeling services, insurance companies, title companies, surveyors, contractors, home cleaning services, advertising agencies, newspapers, magazines, etc..... back to work. All who are just trying to make an honest living. What is the one thing all these people have in common? Their reliance on lenders to lend money. Without funding, the real estate market is gone. The flow of money determines the housing market's success or failure.

If there was a new source of home loans for people tomorrow, buyers (and people who want to refinance) would line up; qualified borrowers. Not only are we punishing those on the lending fence, we are punishing those who have worked, and saved, and done all the things they have always been told to do. They followed all the rules and still they cannot get a mortgage in today's lending environment. Many underwriting guidelines have done a complete flip and the requirements are so tough, even the most qualified borrowers cannot get their loans approved. We have gone from one extreme to the other and consumers are paying the price.



Something has got to change to jumpstart the housing market. Lenders, please don't lower the interest rates again, the rates don't improve the market. Lower the lending guidelines so that real working families, who have saved their money and planned for their future, can once again buy a home. Don't punish these borrowers (and all those who work to help them) for the sins of the overboard lending practices of years past. Until the flow of money is restored, the real estate industry is doomed to stagnation.

The New York Attorney General let the genie out of the bottle and the lending industry (which created all the easy loan programs that started Mr. Cuomo on his quest), is the only hope for getting the genie back in the bottle.

