

TIME TO REAPPRAISE SYSTEM THAT'S ALL TOO OPEN TO ABUSE

By Mitchell Schnurman Star-Telegram Staff Writer

Real estate appraisers get paid \$400, tops, for their role in a transaction that generates tens of thousands of dollars in fees. And they're supposed to hold the line and say no?

Little wonder that things got so out of whack in residential real estate.

In the past few months, as elected officials and regulators examine the meltdown in housing, more are focusing on appraisals. These independent assessments of a home's value are required for every mortgage, and they set the parameters on a loan.

Lawsuits have been filed recently against major lenders, alleging that they pressured appraisers to trump up home values so borrowers could get bigger loans. And appraisers are accusing lenders, home builders, mortgage brokers and real estate agents -- the major parties who rake in most of the fee income -- of threatening to blacklist them if they don't play ball.

California and Florida get most of the attention, because home prices grew by double-digit rates for several years and are now plummeting. But prices have been falling nationwide, too, and many fear that deeper declines are ahead. Last week, the Federal Reserve cited the housing market when it again cut interest rates.

Texas home prices have held up better than most, but we haven't escaped the rising pressure on appraisals. The strongest evidence of a problem: soaring foreclosures. They're largely a result of more subprime lending, and those loans, in particular, depended on friendly appraisals, among other things.

"No place has been immune to inflating the numbers, and bad appraisals lead to bad loans," said John Brenan, director of research and technical issues for The Appraisal Foundation, an organization authorized by Congress to set standards and qualifications for the industry.

Appraisers have always felt some pressure to deliver the magic number -- the appraised value that

home to be sold. But long ago, appraisers worked on staff for a bank or lender, and Brenan says their primary job was to make sure that the bank wasn't saddled with a bad loan.

Today, most of the work is done by independent appraisers, who are usually paid \$275 to \$400 for each appraisal. And they're often hired by mortgage brokers, the independent middlemen who bring together homebuyers and lenders.

Brokers don't just gravitate to appraisers who happen to provide higher numbers; they often seek them out.

Techniques used to be fairly subtle: a broker would say that an appraisal had to hit a set value and if that wasn't going to happen, the appraiser shouldn't do the work. More recently, some brokers have sent out mass e-mails, asking which appraisers would OK the price. "I have an e-mail that went to 200 appraisers," said Pamela Crowley, who has been in real estate since 1970 and has been an appraiser since 1995.

She runs a Web site, mortgagefraudwatchlist.org, which collects reports from appraisers about suspicious activity. She often sends the information to regulators. She says that appraisers face even more pressure today than in the go-go times of a few years ago.

"A lot of people are upside down on their loans, and they can't refinance without a higher appraisal," said Crowley, who is based in Florida.

She even tells stories of appraisals being altered, with higher values inserted, after the appraiser has turned in the report. Such allegations help explain why investors remain so skittish about the housing problem -- it's hard to tell just how far the market may fall.

'Dialing for dollars'

Appraisers aren't supposed to bend to such demands, and many surely resist. But their livelihood hinges on landing business, and brokers are known to cast about -- a process that appraisers call "dialing for dollars."

In an industry survey last year by October Research, a stunning 90 percent of appraisers said they were

from 55 percent in 2003. Three in four respondents also said they faced negative ramifications if they didn't deliver.

More than 10,000 appraisers have signed an online petition, urging the federal government to step in and stop the abuses that they say are corrupting the system.

"A lot of people have money riding on this, and if a deal falls through, there's hell to pay," said Harry Davis, who's in Austin and has been an appraiser for more than 30 years.

He says that real estate agents are the root of the problem. Brenan points to mortgage brokers, because their numbers grew rapidly and they became a primary source of business. Others say that lenders hold the most responsibility. Big finance companies are key players, too, because loans are bundled into investments sold around the world, with the blessing of credit-rating agencies.

The bottom line is that all these parties get paid -- and paid well -- only if the loan closes. If it goes bad a few years later, well, that's someone else's problem.

Richard Bitner co-founded a subprime lender in Plano, Kellner Mortgage Investments, in 2000. It closed almost seven years later, and he recently wrote a book on the experience, *Greed, Fraud & Ignorance: A Subprime Insider's Look at the Mortgage Collapse*.

Bitner, who lives in Colleyville, says that everybody connected to the business had too much to gain by funneling borrowers to subprime loans and doing whatever was necessary to close the loan.

In half the loans, he says, appraisals were 10 percent higher than real values, but major lenders that he sold loans to -- Countrywide, Citi and others -- were willing to accept that variance. A few months later, though, he'd get a loan on a house in the same neighborhood, and it would be valued at 10 percent more than the earlier one.

A 'brilliant strategy'

He quickly concluded that values were getting out of control. To protect his company, he would order second appraisals from Landsafe, an affiliate of Countrywide, because Countrywide agreed to accept any appraisals approved by its unit.

"It was a brilliant business strategy."

thought an appraisal was overvalued by 20 percent -- if Landsafe blessed it, Countrywide treated it as gospel."

If a loan went bad quickly, Countrywide sent it back to Kellner and began assessing the details, including the appraisal. But it wouldn't use Landsafe's review; instead, it ordered a "broker price opinion," and in every instance, the second opinion was substantially lower -- in some cases by as much as 25 percent, Bitner wrote. It was clear that as long as payments were being made, nobody cared about the true value of the house. Or whether borrowers had the income they had stated. Or whether they could cover the mortgage after the teaser rate expired.

Now that the house of cards is crumbling, the excesses are coming to light.

"Appraisers are supposed to provide the checks and balances in the system," said Brenan of The Appraisal Foundation in Washington. "But the housing market was going crazy. It was party time."

The bills are coming due.

Just say no?

More than 10,000 appraisers have signed an online petition, asking regulators to stop the pressure being put on them by lenders, mortgage brokers, real estate agents and others. Among their complaints:

If they refuse to inflate values, they won't get hired.

If they refuse to guarantee a predetermined value, they won't get hired.

If they refuse to ignore deficiencies in the property, they won't get hired.

Payment is refused if their appraisal isn't high enough.

Honest appraisers are being blacklisted.

Source: Appraiserspetition.com
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