



appraisal news

Valuation news & opinions
from Appraisal Services, Inc.

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Fannie Mae introduces test appraisal forms



Fannie Mae is in the process of revising most of their popular appraisal report forms used in the lending process. Unfortunately, the test forms

were designed with almost no input from the major appraisal organizations, much to the dismay of these organizations and appraisers. The most prevalent appraisal form in use today is the Uniform Residential Appraisal Report (URAR), also known as the FNMA 1004 form. This popular form was designed in the mid 1970's with cooperation between the major appraisal organizations at the time and various government agencies. Literally tens of millions of appraisals have been completed on this form. This time however, Fannie Mae is revising their forms as part of a solo process. The revised URAR is a much more abbreviated form than the present URAR. There is very little room for comments and, in its present state, this revised form will be almost useless for the purpose of a litigation appraisal. Even today's URAR form requires quite a bit of addenda for that purpose.

How does this affect your practice?

You'll want to be sure that any appraiser you use has the ability to develop an appraisal without having to rely upon a preprinted form. This will not be any easy for any appraiser who has relied upon preprinted forms during their whole career. Appraisers mostly doing mortgage type work will have the most difficulty with this. An appraisal done on a free form basis without the benefit of a form needn't necessarily be a full narrative appraisal. We have shorter formats available too.

➤ www.efanniemae.com

How do appraisers assist in mortgage fraud?

Every day, appraisers get calls from loan officers needing to "push the value" on a property in order to make a deal work. Some unethical appraisers willingly comply or else they risk losing additional appraisal business from the lender. There are many variations on how mortgage fraud is accomplished and a fraudulent appraisal is just one way to assist in the process. Here are a few recent examples of fraudulent appraisals that we've reviewed just in the last month alone. Some details have been slightly altered to protect the confidentiality of our clients, but the major issues are still the same.

Recent case histories

I recently received an appraisal order for a small ranch property in a rural subdivision that was selling for \$450,000. It seemed to be a high price for a house that was about 2,000 square feet less than other houses selling for similar prices. USPAP requires appraisers to analyze the current real estate contract and I was having no luck making contact with the builder of this property. An online search discovered that the builder's corporation had the buyer as the President. The buyer and seller was the same person!

The buyer had obviously provided me with a fraudulent real estate contract. The financing fell apart at that point and the loan officer who had ordered the appraisal could hardly hide his disappointment with the fact that I had 'blown his deal.' The moral of the story? Mortgage fraud is often accomplished with a willing lender and appraiser working together. It isn't until another ethical appraiser gets a chance to review the original appraisal that the fraud becomes apparent. Most importantly- the

review appraiser needs to get out in the field to verify a lot of the data.

Can it get any more blatant?

I reviewed an appraisal recently where the subject property appeared to be over valued by about \$50,000. The subject property was new construction and was built in a neighborhood of 40-50 year old houses. These older houses were valued about \$80-100,000 less than the subject. The appraiser did not mention this at all and was very careful to not include any of the adjacent houses in the photos. Because the subject's neighborhood was comprised of such low values, the appraiser had to choose comparable properties from new construction subdivisions about a mile away.

I obtained a copy of the building permit application that was filled out by the borrower. Ironically, the borrower himself had indicated construction costs about \$50,000 less than what the appraiser used in his cost approach.

It was obvious that the appraiser did not have time to drive by the comparable sold properties, despite affirming to do so in the certification pages of the appraisal. This became more apparent when I drove by the comparable sold properties and noticed that the map arrows on the location map page of the appraisal were sometimes off by about ¼ to ½ mile. The photos of the comparables used in the appraisal were downloaded from the MLS. This practice of not driving by the comparables is illegal and so prevalent that the Division of Banks and Real Estate added the mislabeling of properties on the location map as a license infraction. I ended up providing the client with a revised value about \$50,000 less than the original appraisal. This sort of comprehensive appraisal review is a service that we routinely offer. Feel free to contact us if you are in possession of an appraisal whose findings seem suspect.

➤ www.obre.state.il.us

Predatory lending- have your clients been victimized?

by Patrick J. Butler

There has been much discussion of predatory lending lately. The financial misreporting by some of the players in the secondary market such as Fannie Mae and Freddie Mac has placed even more of an emphasis on the lending industry and appraisal process.



In my opinion, one of the most widespread problems is the over appraising of a property to be used as collateral for a loan. There has been nothing to prohibit loan officers from requesting a value from an appraiser that exceeds the market value of the property. Only time will tell if the new Illinois Fairness in Lending Act will have any affect on such coercion by loan officers. A recent study by the October Research Corporation reported that 55% of appraisers who responded to their survey felt pressure to inflate the values of properties. I personally think the other 45% of appraisers do very

little business with mortgage brokers.

The Uniform Standards of Professional Appraisal Practice (USPAP) regulates appraisers in this area. It is a violation of USPAP for an appraiser to accept an appraisal order based upon a predetermined value. In reality, this practice happens all the time. Some appraisers are very overt about the practice and will willingly *guarantee* a particular market value in order to secure business from a lender. And other appraisers are simply naïve in that they feel the market value is really doable and then find out otherwise when they finally inspect the subject property and find out that perhaps its condition isn't as good as they thought. Even the latter appraiser is guilty of violating USPAP.

It is also a violation of USPAP for an appraiser to provide a verbal value to the lender without properly developing that appraisal and having a conforming work file. Very few appraisers have work files in

their possession as a result of providing a verbal value to a lender over the telephone. This verbal value technique is typically followed by the appraiser guaranteeing that the verbal value is what will be delivered.

If you have clients involved in any sort of litigation where an appraisal may have been involved, then it would be prudent to have that appraisal reviewed. Sometimes, a misleading appraisal is only obvious once a field review is conducted.

Changes ahead for scope of work

Every appraisal has to describe the scope of work that was completed. Scope of work is the degree of research and analysis the appraiser decides is needed to support and produce a credible value opinion. The scope of work decision allows for flexibility in how an assignment is completed. There's obviously a difference in the scope of work for a drive by appraisal for a lender versus an appraisal used in litigation. The appraiser is also bound by a set of Standards in USPAP for which the appraiser can sometimes depart from- this is literally called *departure*. Whether or not the appraiser can depart also depends on the scope of work. The interplay between the scope of work and departure has caused a great amount of confusion among appraisers and regulatory officials. The Appraisal Standards Board has published an Exposure Draft that proposes major changes to the scope of work requirement. The ASB has also proposed eliminating the Departure Provision when the scope of work changes become effective.

The scope of work decision represents the future of the development of an appraisal. As such, appraisers should be educating themselves right now in anticipation of the changes to come. Appraisers also need to be aware of the current Standards as they related to scope of work and the Departure Provision. Check your next appraisal to see if the scope of work is even mentioned.

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