

Appraisal Issues and Concerns

National Mortgage Servicing
Conference

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Appraisal
Institute®

*Professionals Providing
Real Estate Solutions*

Biggest Problems Facing Appraisers

- ✿ Inappropriate Pressure
 - ✿ Lack of firewalls w/in institutions
 - ✿ Exclusionary lists
- ✿ Title XI, FIRREA is Broken
 - ✿ Lack of enforcement
 - ✿ Lack of resources
 - ✿ Emphasis on minimum credentials
- ✿ Non-existent/Disparate Regulation of Clients
 - ✿ Inappropriate pressure
 - ✿ Brokers & Loan Originators
- ✿ Professionalism -- Unaffiliated Appraisers

Legislative Solutions

- ✿ Congressional (109th Congress)
 - ✿ H.R. 1295 – Responsible Lending Act
 - ✿ S. 2280 – STOP FRAUD Act
 - ✿ Legislation in the works for the 110th Congress
- ✿ Appraiser Regulatory Reform
 - ✿ Prohibit appraiser coercion, bribery, collusion
 - ✿ Expand enforcement by appraiser regulators
 - ✿ Provide resources to enforcement bodies
 - ✿ Promote professionalism of appraisers
 - ✿ Other issues
 - ✿ Criminalize mortgage fraud, Identity theft
 - ✿ Consumer education

State Legislation

- ✿ Appraiser independence statutes
 - ✿ Numerous states considering legislation
 - ✿ Prohibit setting preconditions
 - ✿ Penalties for violators
- ✿ Mandatory Licensing
 - ✿ Not all appraisers are licensed by appraisal boards and performing work under USPAP
 - ✿ Enforcement problems
- ✿ Appraisal Board Funding
 - ✿ Dedicated funding
 - ✿ AI-ASA-ASFMRA-AARO Initiative

Solutions

- ✿ Congress: Enact Appraisal Reform!
- ✿ Feds: Enforce Existing Guidelines!
- ✿ States:
 - ✿ Enforce Existing Requirements
 - ✿ Establish them where they don't
 - ✿ Expand education
 - ✿ More guidance needed at state level
 - ✿ Non-bank mortgage lenders/Mortgage brokers
 - ✿ A project for Conference of State Bank Supervisors?
- ✿ Streamline fraud reporting by appraisers

Solutions

- ✿ Educate financial institutions about appraisal process
 - ✿ Preferred value expectation
 - ✿ USPAP requirements for appraisers
 - ✿ Use of engagement letters
- ✿ Hire competent appraisers!!
 - ✿ Designated appraisers vs. Licensed appraisers
 - ✿ Non-designated sanctioned six times as often
- ✿ Best Practices Statement

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Fraud and It's Impact



Fraud in Mortgage Lending

Mortgage fraud is having an increasing impact on the Mortgage Service Industry and will continue to grow as the housing market deteriorates. In the past the strong housing market hid a number of deficiencies in origination including appraisal fraud. Now these deficiencies have come to rest upon the mortgage industry.

The Service Industry needs to discuss and focus on the issues:

- The Causes of Mortgage Fraud
- Identifying the Results of Mortgage Fraud
- Identifying the Next Steps

Mortgage Fraud - Causes

- Relaxed Underwriting Guidelines
 - Emphasis on Production and not Quality
 - Stated Income and No Doc Products on lower Credit Quality
 - More Loan Products for 550 FICOS and below
- Little to no oversight of Mortgage Brokers and Appraisers and Others
 - Massive Influx of Mortgage Brokers in Industry in last 5 –10 years
 - Six of every 10 new jobs in U.S. were mortgage related
- Exotic Loan Products
 - Interest Only
 - Option Arms
 - 3/27 – 2/28 ARM Products
 - Teaser Rates for ARM Loans

Fraud – What are the Results

- Increased cost of Servicing
- Increase in Delinquencies
 - Higher First Pay Defaults (FPD)
 - Early Pay Defaults (EPD)
 - Increase in delinquencies on Arm Resets
- Increased Investor scrutiny of servicing practices
- Increase in losses to Securities/Investors
- False appreciation of home prices
 - High LTV's
 - Piggybacks
 - Equity Stripping
- Increase in Claims and Repurchases
 - Lenders are reluctant to pay on repurchase claims
 - Lenders are filing bankruptcy or closing attributing to low percentage of successful payment of claims & repurchases

Fraud – Early Pay Defaults

LLS recently completed a study by ordering property inspections on First Pay Defaults. The results of the property inspections were quite alarming.

- **18% of loans inspected were either**
 - **Uninhabitable**
 - **Vacant**
 - **Vacant and Boarded**
 - **For Sale**
 - **Occupied by tenants, when the borrower stated “Owner Occupied” in the application**

Fraud – Next Step

- Hold the Lender and Mortgage Broker Accountable
 - Tighter Due Diligence
 - Less flexibility on lender guidelines
 - Require adequate Reserves from both Lenders and Brokers
- More Stringent State and Federal License Requirements for Mortgage Brokers, Lenders and Appraisers
- More Aggressive prosecution of perpetrators of Fraud
 - Increase penalties for fraud (penalty = crime)
- State Appraisal Boards increase staff to handle claim volume
 - 1/3 of the states are passive or inadequate in handling appraiser fraud claims per the Appraisal Institute