

Home sellers say new appraisal rules make deals harder

BOCA RATON, Fla. – June 18, 2009 – New rules to safeguard the integrity of home appraisals are complicating the deals they're supposed to protect.

Real estate agents, mortgage brokers and buyers, as well as homeowners who want to refinance their loans, are feeling the effects of rules designed to prevent inflationary appraisals that helped fuel the housing boom.

"The intentions were good, but the execution was very poor," said Louis Spagnuolo, vice president of mortgage banking for WCS Lending in Boca Raton.

Since May 1, home appraisals must be ordered at an arm's length, often through a national management company. Gone are the days when a mortgage broker or lender could hire a familiar appraiser to close a deal. Now, communication between the appraiser and real estate agents is discouraged.

South Florida real estate professionals and their clients say the rules contribute to low appraisals, which jeopardize home sales and refinancing applications. They're worried that the recent uptick in sales could slow as a result.

Chuck Luciano of Keller Williams Realty recently represented a client who agreed to sell a five-bedroom Boca Raton home for \$1.085 million. An appraiser from Miami estimated the value at \$1.025 million.

"The seller didn't want to drop the price, and the buyer said, 'Why should I pay more than the bank says it's worth?'" Luciano said. "I lost the deal."

The new rules were proposed by New York Attorney General Andrew Cuomo, who pushed for the standards after spending more than a year investigating industry appraisal practices. They govern only loans that will be sold to Fannie Mae and Freddie Mac, government run mortgage companies that buy most of the nation's home loans, and not loans guaranteed by the FHA or VA.

One problem, real estate agents and mortgage brokers say, is that the management companies assign appraisers who don't know the area and lose experienced appraisers by taking a large percentage of the fees.

Another common complaint: appraisers value properties on the low end to appease lenders, which are scrutinizing appraisals now after suffering large loan losses in recent years.

Bill Burton of Boca Raton was trying to refinance into a loan with a 4.75 percent interest rate. Burton has a high credit score and lives in an upscale development. But his Deerfield Beach mortgage broker said the bank turned him down after insisting that the appraiser include in his report two sales from a less-desirable community nearby.

"I can't fathom not being approved," Burton said. "It's a disgrace."

But appraisers and the management companies blame the flood of foreclosures and short sales for skewing the value estimates downward.

Mortgage brokers and real estate agents are upset because they've lost control of appraisals, said Dan Morden, an appraiser in Broward and Palm Beach counties. "That's a bitter pill for them," Morden said.

Two management companies that do business in South Florida say the complaints are unfounded.

Charles Ware of Elite Appraisal Management in Michigan said his firm grades appraisers and assigns them to nearby properties. Valuation Logistics in Oregon typically keeps \$25 of the average \$450 appraisal fee, chief executive Scott Olson said.

"Our appraisers are getting almost all of their money," Olson said.

The livelihood of real estate agents and mortgage brokers depends on sales, said Guy Cecala, publisher of the Inside Mortgage Finance newsletter. Changes that appear to stand in the way of that are sure to draw criticism.

Regardless, more conservative appraisals likely are here to stay, he said.

"It's a political reality."

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