

Appraiser Independence Called Key to Restoring Confidence

BY AMILDA DYMI

WASHINGTON—Pending federal approval, property evaluation standards and the creation of the Independent Valuation Protection Institute are attracting positively cautious reviews.

Now is time for action in securing that appraisals are untainted, independent and in compliance with national Home Valuation

Code of Conduct policies that represent an important first step in the right direction, stated Thomas Inserra, CEO of Zaiio Corp., in a letter to Office of Federal Housing Enterprise Oversight director James Lockhart, which was also forwarded to Fannie Mae and Freddie Mac.

"We believe the compromise of appraiser independence has seriously threatened and will continue to threaten the safety and

soundness of our nation's financial institutions, as it has eroded investor confidence and has led to the current mortgage liquidity problems," he wrote.

He pledged the support of his company for the current efforts to secure appraising objectivity and independence, noting that in the past "a structural conflict of interest" has compromised the independence of appraisers to the extent it turned into one of the major

factors that created the current mortgage crisis.

"Abuses occurring during the last mortgage crisis from 1980 to 1995 when 2,912 financial institutions with \$924 billion in assets failed involved compromises of the independent role of appraisers. Our observation is that with today's crisis, the appraiser independence problem is even worse," Mr. Inserra states in his letter.

Moreover, his company's anticipation is that "some lenders and mortgage brokers will resist the proposals and request significant changes" and strongly urges OFHEO, Fannie and Freddie "to stand firm and not weaken the proposals nor delay their implementation."

The executive believes new property valuation rules are expected to help thousands of industry participants including Zaiio, Scottsdale, Ariz., and its partners. The company has partnered with nearly 10,000 independent appraisers throughout the country who cumulatively serve more than 500 mortgage lenders and financial institutions, Zaiio said.

Despite the overall enthusiastic support, however, when it comes to the creation of the Independent Valuation Protection Institute, Zaiio states the following concerns:

"We believe there are 11 specific unintended consequences associated primarily with the establishment of the institute that would impede successful implementation of the Home Valuation Code of Conduct. Among our proposals is to assign the important tasks of the institute to the Appraisal Foundation, which is currently the sole organization recognized by Congress and authorized to issue official industrywide national appraisal standards."

Unintended consequences stated in the letter include conflicts with current legislation due to the lack of legislative authority for the institute that can "threaten its market acceptance," because Congress has granted authority to establish national appraisal standards to the Appraisal Foundation and its independent boards, the Appraisal Standards Board and Appraiser Qualifications Board. It recommends the institute to be established as a third board of the Appraisal Foundation. Also, Section 5 of the HVCC requires qualification standards for lenders, correspondents and others selecting appraisers on behalf of the lender, which is in conflict with the authority granted by Congress to the Appraisal Foundation Qualification standards of Section 5 of the HVCC will be established by the Appraiser Qualification Board of the Appraisal Foundation. The board currently "has congressional authorization to establish qualification standards and is well equipped, experienced and best able to fulfill this mission."

Other unintended consequences: Section 8 of the HVCC requires lenders to measure and test appraisal and valuation quality that cannot occur unless appraisal quality is defined, the initial funding is not sufficient to fulfill the mission in the long term, the only existing identified recourse in instances when appraiser independence is compromised is forcing lenders to buy back loans, or compromise appraiser independence.

The use of the term "any financial connection" in relation to selection of board members appears overreaching and would result in the elimination of well-qualified board members even though no real conflict exists.

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