
Mortgage application fees may rise on appraisal reform



A new agreement between the NY Attorney General and Fannie and Freddie should promote independence and accuracy of appraisals. But it's going to cost buyers.

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Last Updated: March 12, 2008: 4:22 AM EDT

NEW YORK (CNNMoney.com) -- It's going to cost some borrowers even more to get a mortgage beginning in 2009.

In a recent agreement with New York State Attorney General Andrew Cuomo, Fannie Mae (FNM) and Freddie Mac (FRE, Fortune 500) pledged that they will only buy mortgages from lenders that use independent appraisers. Since these two companies account for more than 70% of all mortgage loans, virtually all lenders will comply with the guidelines.

Inflated home appraisals were a big part of what helped fuel the current housing bubble. For years, appraisers were pressured by mortgage originators, real estate agents, home sellers and borrowers to over-value the homes they appraised.

"Cuomo looked at the pressure appraisers were under; they were never allowed to act independently during the housing boom," said Jonathan Miller, president of New York appraisal firm, Miller Samuels. "Good appraisers had to find new careers or work that wasn't dependent on the lending industry."

The rising tide of inflated appraisals lifted all boats, boosting fees for agents and brokers alike, and ensuring the transaction would be completed, regardless of the cost, netting the seller a handsome profit and the buyer a dream home. After all, a bidding war might push a home's price up, but a lender won't agree to issue a mortgage based on a sale price that isn't supported by a home's appraised value.

And so, all parties involved often pressured appraisers to go high - called "hitting the number." Appraisers who didn't go along often found it difficult to get more work.

Cuomo's plan should help curtail the bullying that often pumped prices up.

But while eliminating mortgage fraud will be good for the real estate market in the long haul, this reform will come at a cost to consumers.

Right now, mortgage brokers need just one appraisal for each deal. The broker can then include it with applications to as many lenders as they'd like.

But beginning in 2009, brokers won't be permitted to do that. A different appraisal will have to be ordered by each lender that a borrower applies to. That cost is then passed along to the applicant.

"The borrower would be responsible for an appraisal fee (often \$300 to \$400) for each loan submitted," said Roy DeLoach, executive vice-president of the National Association of Mortgage Brokers.

Mortgage brokers could avoid multiple appraisal fees by applying to just one lender at a time; if the first lender approves the loan, then the borrower won't need to pay for any more appraisals.

But submitting applications one at a time can take a lot of time, and some consumers could lose the lower interest rates they had locked in for 30 days.

So while previously the appraisal process might cost buyers about \$400, it could end up costing anyone who needs to shop around for a deal - perhaps half of all buyers - as much as \$1,000-\$2,000.

Mortgage brokers also fear the Cuomo pact will drive borrowers to deal directly with lenders, putting some brokers out of business. They say that will eventually drive up borrowing costs by shrinking competition.

But, even if the Cuomo agreement does come with a cost, says Jonathan Miller, "false appraisals cost home owners far more than any transactional-cost increases would."

And over-appraising has become routine, according to Miller. "People who were morally flexible would play ball," he said. "Before the housing boom, I estimate that 80% of the appraisers were competent and ethical. Now, the reverse is true." Many appraisers regularly add a cushion to every job.

"These appraisers are form-fillers," said Miller. "They're called 10-percenters because their evaluations tend to be 10% above actual values so the applications are accepted."

And as all the over-appraised homes became part of the record, that pushed up pricing trends further, since appraisers use comparable homes as the basis for new appraisals.

Thomas Inerra, an appraiser and CEO of Zaiio, which is creating a national database of home evaluations, and who has testified about appraisal abuse before Congress, has what he considers the most comprehensive and elegant solution of all.

He thinks appraisals should be handled like credit reports, with all home values stored in a giant database that can't be altered by any of the parties in a transaction. This, he said, would ensure accuracy and transparency.

House values would only change only as market conditions dictated or with physical alterations of properties. And, it would be fast.

"By storing compliant appraisals in a database like a credit bureau stores credit scores, Zaiio is now delivering appraisals to lenders in seconds rather than the normal five to seven days," said Inerra. ■

First Published: March 12, 2008: 4:17 AM EDT

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