

What Ever Happened with Doing the Right Thing? Or How Did We Get Into This Mess?



Andrew Cuomo

As I ponder where this Real Estate Market is headed I have increasingly become aware of what I like to term "Below the Radar" challenges that both Buyers and Sellers will face in today's market. These "Below the Radar" challenges are not publicized to any extent in the trade articles, newspapers but they are all over the Internet. There have been articles written that allude to some of these "Below the Radar" challenges locally and nationally, but to date I have seen nothing informing the Public of any substance.

The H.V.C.C. Mess

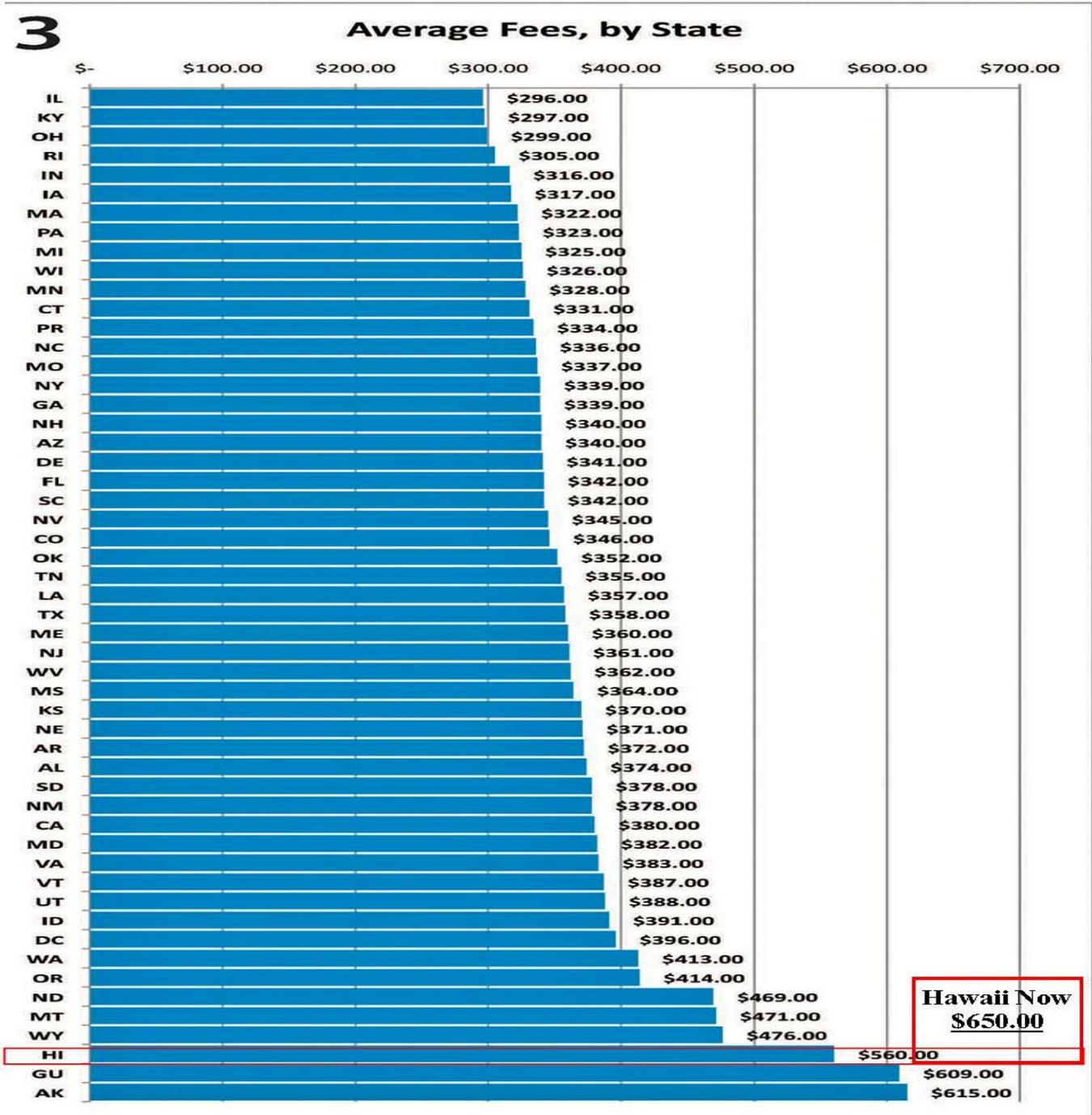
The New York Attorney General, Andrew Cuomo has set up new guidelines for the new appraisal process known as H.V.C.C. or Home Valuation Code & Conduct. Both Fannie Mae and Freddie Mac have adopted these guidelines and now we are stuck with the results and it is a 'mess.'

The guidelines require all appraisals to be ordered by "disinterested third parties", also known as AMC's (Appraisal Management Companies). Six or seven huge, national entities (and remember, real estate is local), have been formed as AMC's and they have 99% of market share at this time.

Before H.V.C.C., mortgage lenders could order appraisals on their own from a qualified list of experienced appraisers. Now they need to order all appraisals through the AMC's.

Appraisers in the Mainland collect about \$350 for a single family home appraisal, the AMC now collects about the same \$350, but keeps 30% of the fee as its profit, and pays the appraisal 70% of that fee. That means AMC's are hiring appraisers who are willing to churn out appraisals for \$245 each! Those appraisers tend to be **less experienced** and **less capable** than the appraisers lenders formerly worked with.

In Hawaii it is a whole different 'ball game' on Appraisal Fees and we are coming out on the 'short end of the stick.'



These AMC appraisers are of course inundated with business and are unable to devote the required time to each appraisal. The results in many cases have been predictable: **the quality of the appraisals has diminished, the reports take a lot longer, there is more red tape, and consumers often need to pay for more than one appraisal before an accurate job is done, if then.**



Under the New H.V.C.C. Guidelines:

Does the Code require or prohibit the use of foreclosure data by appraisers?

The Code does not speak to foreclosure data. It is up to the appraiser to determine if the data is applicable and appropriate or not.

In-House Appraisers

May in-house appraisers prepare appraisal reports?

Yes, in-house appraisers may prepare appraisal reports if the conditions of Section IV.B. are met.

May a lender's in-house appraiser adjust the value on an appraisal during an appraisal review as part of a pre-funding or post-funding quality control process?

Yes, a lender may use an appraisal that has been adjusted by an in-house appraiser during a review process. The Code does not prohibit the underwriting of an appraisal by a lender's underwriting staff. The Code does not prohibit a lender's due diligence in originating a loan.

Is a lender required to use an AMC for ordering appraisals?

No. A lender may order appraisals directly from an individual appraiser.

May a lender direct a mortgage broker to a specifically authorized AMC that will receive information from the broker about the loan application and begin the appraisal process?

Yes, as long as the lender has previously arranged for its appraisal process to be managed by the specifically authorized AMC. This process is compliant with the Code because the broker is not responsible for selecting, retaining, or providing for payment of compensation to the appraiser.

May a lender that uses a group of specifically authorized AMCs direct a broker to use a specific AMC from the group to submit information about the loan application and begin the appraisal process?

Yes. This process is compliant with the Code because the broker is not responsible for selecting, retaining, or providing for payment of compensation to the appraiser.

May a lender order an appraisal by directing a broker to select an AMC from among a group of specifically authorized AMCs, one of which would receive information from the broker about the loan application and begin the appraisal process?

No. Such a process would give the broker an element of responsibility for selecting or retaining the appraiser, and therefore would not be compliant with the Code.

May a lender accept an appraisal prepared by an appraiser that was ordered by a mortgage broker?

No. The Code does not allow a lender to accept an appraisal prepared by an appraiser that was ordered by a mortgage broker as noted in Section IIIA. of the Code.

May a mortgage broker provide the lender with an approved appraiser list for the lender to use when ordering appraisals for that particular broker?

No.

May a mortgage broker order an appraisal directly from an AMC that was specifically authorized by the lender?

The Code prohibits brokers from ordering appraisal services, but brokers may initiate the appraisal process on a lender's behalf in accordance with arrangements made by the lender.

Does the Code permit a mortgage broker to select an appraiser from the lender's list of approved appraisers, if the lender is responsible for the relationship with the appraiser, including compensation?

No. The Code prohibits lenders from relying on an appraisal where the broker had a role in selecting, retaining, or compensating the appraiser.

The "Bottom Line":

In most cases, appraisals are going to be ordered through an A.M.C.
Guess Who Owns Most of the A.M.C.'s? Banks!

Recent "Real Life Story" Concerning My Buyer's Escrow

I have a buyer client, I need to change her name to "Home Less" to preserve her privacy.

1). We entered into Escrow with an Accepted Offer in February of this year. Our closing was scheduled for 60 days.

2). We are under contract for a home that was listed at \$400,000 and our offer is for \$394,000.

3). After a 'normal' period of time, 2 weeks into the contract, the appraiser conducted their appraisal on my clients property. A short time after, the appraiser issued the appraisal and appraised the property for \$410,000.

4). The subject home under contract with my buyer is located in an area heavily populated with Short Sales and Foreclosures.

5). Our appraisal was submitted to the Underwriters and an Appraisal Review or Field Review was ordered as the Underwriter was basically saying that they are not in agreement with the Appraisers appraisal and findings.

6) A 'Rebuttal' was ordered for the Appraisal, which basically means the Appraiser now has the opportunity to rebut and justify their appraisal.

7) In our case the 'Rebuttal' was denied for the below reason. (This is the strangest thing I have ever seen in all my years as a Real Estate Broker)

“Due to in appropriate, across the board, excessive or omitted adjustments (without reasonable explanation and support provided by the appraiser) the final value is found to be Undetermined.”

Can you believe this?

8) Consequently by this period of time we fell out of contract time frames to provide Final Loan Approval, my client had given up their rental in anticipation of moving into his new home and is now "Home Less."

After a few days of scratching our collective heads in being presented with an appraisal that basically said "Undetermined Value" we finally sought National Head Quarters advise and received permission to order another appraisal which has come in exactly at our offering price of \$394,000, where I knew it should have been the whole time.

Then...

9). Who is going to pay for the New Appraisal?

10). Who is going to pay for my client's Loan Lock Extension which has expired now...twice?

All I can say here for the above last two points, was that it was 'taken care of.'

The sheer volume of appraisals and the need for qualified, experienced appraisers, compounded with the new H.V.C.C. guidelines is spelling "Disaster" for the Real Estate Industry and buyers and sellers are suffering because of it. What happens to the experienced appraiser who has been the business for years? Now they too have to take their turn in line with the much less experienced and qualified appraisers and wait until they are called by the AMC's. It is "Luck of the Draw" now in getting an experienced appraiser.

Many appraisers who won't or can't work for the reduced fees have been put out of business, or they are doing "comp searches" for us for \$100 per job.

In some instances it would appear that appraisers get paid regardless of the quality of the work and they may be under-appraising many homes because they cannot or will not take the time to do a proper job and find the best comps. This is especially true in our current Hawaiian Short Sale and Foreclosure demise.

(Please note that in the above H.V.C.C. Guidelines, it is up to the appraiser if the choose to use comparables that are Distressed Properties)

What may be happening also is that A.M.C.'s may be sending out trainees who are under-appraising the homes due to lack of experience and knowledge of specific neighborhoods.

When it comes to refinancing, a client might end up with an appraised value that comes in too low and consequently the client has no choice but to pay for a second, or even a third, appraisal.

Another problem is that appraisals are now taking much longer to complete, and a mortgage broker cannot always lock in a loan rate until the appraised value is known. This is because the value affects the "loan to value" ratio, which in turn affects interest rates that the client will be charged. It is exactly this situation that is literally 'killing' real estate transactions.

The end result is consumers are paying more for inaccurate appraisals delivered more slowly than ever before.

The concept behind the new H.V.C.C. guidelines is good and the primary feature of the guidelines was to prevent mortgage fraud and inflated appraisals.

However, lenders have always had the power to review appraisals by checking comparables themselves or by ordering review appraisals. Historically, this was often done by responsible lenders.

What was in place in the past, before the H.V.C.C. guidelines, (the mortgage 'meltdown') certainly made a lot more sense than the procedure that is in place now where the current H.V.C.C. guidelines puts small business owners out of business and causes home buyers and refinancees added expenses and the inability to close on their homes under contract.



For the 'lighter side' of this issue visit the following YouTube Post:

<http://www.youtube.com/watch?v=IDUpXwoj5Ck>



Titled: Hitler Rant on the H.V.C.C.

This is a dramatization but there is not much wrong with what it says.

I am not going to go into the highly contested area of who was to blame for the Financial Crisis or the creation of the H.V.C.C. guidelines and why. I have my own ideas on this, but I will say that I think our Country will be taking a much needed step in the right direction this November.

The Last "Thing":

Since I am on a 'role', coming off of slamming the new H.V.C.C. guidelines, let me tell you about "The Last Thing" which I am not happy about.

The Honolulu Board of Realtors recently decided to completely discontinue the way they report their figures each month in recapping sales.

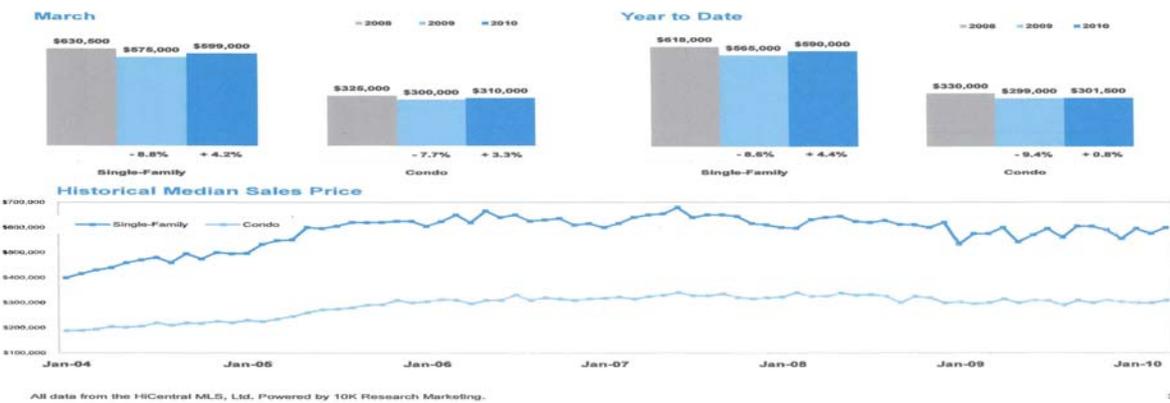
First off, they decided to totally eliminate the format they were using for years which was a great one. The now, belated Harvey Shapiro, the Economics guy, was doing the reports for the Board and after his passing, Paul Brewbaker,

another renowned Economics guy, took over for a while but has since stopped working the Board reports.

Now the Board, in their infinite wisdom has decided to 'farm out' to the Mainland the Monthly Reports and have cautioned all the Board members that we will not receive these reports until about a week has passed into the new month, for reporting on the previous month's sales. (This is why Andrew Gomes who writes the Real Estate Articles for the Advertiser took so long this month to issue a new article) In addition to this untimely issued report the structure of the report is terrible in my humble opinion and is divided up into not one, not two, but three different reports. They also have changed some of the reporting criteria.

Median Sales Price

A Monthly Indicator from the Honolulu Board of REALTORS®



Average Sales Price

A Monthly Indicator from the Honolulu Board of REALTORS®



My comment on this is: "Inexcusable."

The 'Old Report' was much better but was heavily dependant upon "Median" reporting such as Median For Sale, Median Sold, Median For Sale Price of New Listings, etc.

For this reason I have changed all of my data and graphs to reflect "Average" for all my reports which are issued monthly on my website. These averages, I believe reflect a much truer 'picture' of what is happening.

As an example:

Kailua Median For Sale Price for a Single Family Home in February was \$937,000 but the Average For Sale Price was \$2,279,395. Wow, what a difference! Since 52% of the entire inventory For Sale in Kailua is priced \$1,000,000+, don't you think that Averages are more reflective of what is really going on?

I, myself will have fully featured graphs and reports that are easy to understand as I always have on a monthly basis on my website at www.hawaii realestate statistics.com and they will be complete and ready for the entire Island by the end of the Third Day of each month for the previous month's sales.

Some of the Reports Available:



Oahu Single Family Home



Kailua Single Family Homes and Condos



Kapolei Single Family Homes



Hawaii Kai Single Family Homes and Condos

There are many more reports for Cities, Neighborhoods and even Specific Condo Complexes from all across the Island on my website. I have covered all the major areas, including Ewa, Kapolei, Makakilo, Miliani and there even reports on Short Sales, Distressed Properties by each area.

I want to thank you for your readership and I if you need an excellent Broker to help you just give me a call or send an email.

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