

## ***Reader Feedback on 4/2/09 Column About Appraisals:***

### **From Shelley Ervin of Clarion Mortgage:**

I have no disagreement with anything you have written. In fact, I am seeing many homes sell well below appraised value...usually HUD or bank owned. Of course, this is the primary contributing factor to the valuation issues.

A few months ago, I attempted to do a refinance of a townhome in Adams County. The borrowers purchased the townhome from the bank for \$65,000. The property was greatly distressed—the previous owners in anger had gutted the kitchen, torn down the deck, and done other damage. My borrowers improved the property dramatically, including replacing the deck and completely remodeling the kitchen. The appraisal came in at \$85,000. There were 2 comps inside the complex to support this value. The bank came back and said, NO WAY...they purchased it less than a year ago for \$65,000 and it is located in a declining market; it CANNOT be worth more. The bank used comps of other distressed properties in the area, and scolded the appraiser for not including those comps...even though those properties were greatly distressed. I tried to get this loan done at Everbank, Chase, and Flagstar...then gave up. We are waiting.

Until foreclosures slow, I don't believe the lenders are going to let up...they are scared to death.

All I can say, is if you have \$...go out and BUY!

#### **Shelley Ervin**

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### **From Don Opeka of Orion Mortgage:**

I think you have understated the problem that is coming if the Home Valuation Code of Conduct is implemented on May 1 as planned. The HVCC is the result of a deal between the New York Attorney General, Fannie Mae and Freddie Mac to remove all influence on appraisals from Realtors, mortgage companies, or sellers. The obvious result is to direct appraisers to routinely under value properties because they will be criticized for a value that is too high, but there will be no consequences for a low appraised value. The HVCC, as presently structured, guarantees the problems you describe will become routine.

By comparison, under the rules in effect before the HVCC, the mortgage company was responsible for choosing the appraiser. If the appraiser did not do a responsible job, he could be replaced easily. The process was abused occasionally, but appraisers generally did a good job under the old rules. The new rules beg for abuse in the form of under valuing property.

A contract between unrelated parties was the best indication of a property's value. If the appraised value is supposed to be the value at which a willing buyer and willing seller come to an agreement, what is a better indication than a contract? If the seller thought someone else might pay more, he would not have accepted the offer. If the buyer could find a better house for the money, he would be buying something else.

The people who wrote the HVCC presume buyers and sellers are stupid and routinely make irrational decisions. The assumption is that sellers and Realtors can routinely convince a buyer to pay far too much for houses. The presumption is that an appraiser with a vested interest in a low value is a better judge of what a home should sell for than a buyer. You may have more comments on this, but from what I hear, properties that are over priced are hard to sell.

For those new to the real estate industry, this is

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a return to the past problems we had with FHA and VA appraisals when the mortgage company had no say in choosing the appraiser. The people involved in this rule making, and most in the industry, are too young to remember the problems we had with similar rules in the early 1970s. It is ultimately a back door way to lower home values. Remember that when a borrower is in trouble and out of money, their best option is to sell the property. With the new appraisal rules, values will be held down. Holding values down, simply makes it harder for a borrower who put less than 20% down to sell, a typical unintended consequence of a well intended government action.

The simple way to resolve both the appraisal issues and the foreclosure issue is to outlaw mortgages. The government could require all buyers to pay cash for their home. If they pay cash, there is no need for an appraisal, so there cannot be any appraisal issues. If they pay cash, there is no mortgage, so there cannot be a foreclosure. Unfortunately, this proposal has some consequences that we may not want to accept. The most serious one would be to eliminate the jobs of the people who regulate appraisers.

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### From Norm Lewis of Guild Mortgage

This is excellent. You raise the same questions that I have had about “declining market” limitations that are placed on us- if we are going to make it harder to buy and sell homes in difficult markets, how are those markets ever supposed to recover? I refer to Rule #3 of Norm’s Three Rules of Mortgage Lending: Don’t Confuse This With Common Sense.....

This is a conundrum in the business that no one seems willing to address- at least, not so far as I have been able to see. It is easy to sit around the conference table and make up rules, but someone should be considering consequences!

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