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The War Against Appraisal Fraud Is Producing Mixed Results, Not All Good

When a property goes under contract, the buyer's lender — or the buyer himself, if it is a cash purchase — seeks assurance from a licensed appraiser that the property is worth at least the purchase price.

Collusion between buyers, their real estate agents, and appraisers to overvalue a property has been identified as a contributor to the surge in foreclosures which we saw in recent years.

One of the "cures" for this problem was to take the selection of the appraiser away from the mortgage broker. This has been accomplished by creating appraisal management companies or AMC's which select the appraiser for each transaction from a list of approved appraisers — that is, appraisers who have agreed to kick back up

to 50% of their appraisal fees. Getting on this approved list, I'm

learning from reading NAR's Appraisal Insight blog, seems to be based primarily on how little the appraiser charges for his or her work, thereby maximizing the AMC's profit.

A mortgage broker whom I respect highly — and therefore gets most of my referrals — educated me about this issue recently and referred me to that blog, which further educated me about what may be the next real estate scandal.

Shelley backed up her discomfort with AMC's (which become mandatory on May 1st) with her own personal experience. She hired her favorite, highly experienced appraiser for a transaction, only to have the lender reject the appraisal because it hadn't gone through their AMC. When Shelley

saw the new appraisal, she immediately identified several errors in it, but the lender didn't want to hear about them, because the appraisal had met or exceeded the purchase price. The loan was approved. It could and should have been approved from the first appraisal, but it still bothered Shelley that the AMC's appraisal was so shoddy, and that the lender didn't care. **Note:** AMC's are totally unregulated. Sound familiar?

At www.JimSmithColumns.com I have posted additional comments from three mortgage brokers and a licensed appraiser on this topic.

The Discerning Home Buyer

When I'm showing a home, I like to turn on the hot water faucet in the master bathroom and see how long it takes for the water to get hot. I close the drain so see how much water is consumed. All that water had been heated, but cooled off between uses — wasted energy. (This problem can be cured.)

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