APPRAISERS: HR 3901 otherwise known as the "Anti-Predatory Lending Act Of 2000"

THE FINAL ANSWER

By Donald J. Martin, CRP, RAA, GAA

Relentless pressure from clients today for predetermined answers, omission of repairs and delivery of reports in unrealistic time frames may be a major contributor toward loans made at excessive amounts and at terms that might not be otherwise available. Along with the rise in high LTV (Loan to value) ratio loans has been an increase in foreclosure activity and great losses in the lending industry. Industry analysts indicate an increase of roughly 3 times the foreclosures from ten years ago.

Predetermined value requests must be stopped before they get started, inform your clients at the onset with the clear understanding that you cannot estimate what the value of the property may be until an Appraisal of the property is completed. Only after adequately inspecting the property, reviewing and researching data within the market in question can an experienced Appraiser give an opinion of value for the subject property. It's most certainly not worth the risk an Appraiser takes both from a standpoint of liability to the end user of the Appraisal Report (the lender buying the loan or other user of the report) or the risk of the sanction, fine or even loss of the Appraisers license.

I recall numerous clients calling and saying, just make this one deal and you'll have all are business! I can't begin to tell you how many times, that line has been said in one form or another to just about every Appraiser. That type of client is not worth having, the moment you would disagree with them on that assignment or any future assignment, they disappear anyway and you as the Appraiser will be left accountable. We have had clients like this tell us, "but the old Appraisal firm we used to use did this for us." I'm always curious, if that's the case, why did they leave that Appraisal firm?

It is the responsibility of the Appraiser to adequately reflect upon and discuss with the client that a request for a predetermined answer is unacceptable, significant repairs must be reported and that the Appraiser must take an adequate amount of time to properly formulate and develop an Appraisal of the subject property. In our office we keep in mind first and foremost that it is better to lose a client than a license.

All repairs that are considered significant in nature, those that have obvious impact on the value of the subject property or place the subject property at risk should be discussed within the appraisal report. Often clients call Appraisers and say, "can't you just eliminate the repair noted?" "We can't make a loan on a property with that repair needed or if it is noted as being in fair condition." It's amazing to me in this day and age that a client would even consider calling and asking an Appraiser to change an Appraisal report. While I think most Appraisers would agree that they are not home inspectors, there are still due diligence requirements for an Appraiser to note obvious repairs that are needed to be done on a property.

For those Appraisers that are familiar with HUD's Handbook 4150.2 handbook, this is an excellent resource as a guide along with both Fannie Mae and Freddie Mac guidelines. Even though many Appraisers may not be interested in performing an FHA Appraisal, they should still keep abreast of what these requirements are and consider them as relevant repairs that should be noted. At last count little more than one in four or about 24,000 Appraisers out of over 80,000 Appraisers in the country were registered to perform FHA Appraisals under the new guidelines effective February 01, 2000.

All to often today clients are demanding answers in periods of time so short an adequate amount of research is nearly impossible to do in the time prescribed. Remember, just because the client claims they need the report in a certain amount of time, does not mean that it is appropriate for you to deliver a report in that amount of time. If the report omits significant information, it is the Appraiser that will be held accountable, not the client. I almost have to laugh to myself when we get calls from clients on a foreclosure property that need the report done in under a week. I have to wonder what the hurry is when it may have take 6 months or longer to go through foreclosure and the lender is faced with having to market the property.

It seems, on foreclosure properties many lenders don't realize that they put the Appraiser under pressure to consider completing an Appraisal report before an opinion of value has been properly formulated. It is the responsibility of the Appraiser to educate the client and let them know the time frame they require is inappropriate for the assignment in question. With foreclosures at record high levels, why are clients placing more pressure on Appraisers for faster turnaround times? You would think, they would consider that the amount of time allowed per assignment is a major contributor to the excessive number of foreclosures today. Until we as Appraisers collectively tell clients that the time frames requested are inadequate, the clients will continue to ask for them.

If we as Appraisers, don't stand up for ourselves both individually and collectively and tell our clients that "The Final Answer" must be ours and not theirs than we as Appraisers cease to have value to the process. "The Final Answer" must be a reflection of an independent valuation and not be based on a predetermined value or loan amount, that all relevant repair conditions must be noted and that we require an adequate amount of time to perform a professional Appraisal.

We as Appraisers place our own livelihood in jeopardy in the long run, by doing anything less. If losses continue to remain high or escalate, the value of the appraiser to the lending process becomes greatly diminished and if we do not add value to the process we risk elimination. Let's hope that when your client asks you "Is that your final answer?" that you can say "that's my final answer."

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Donald J. Martin, CRP, RAA/GAA Certified General Real Estate Appraiser in IL, IN, MI and WI and approved by HUD/FHA for six regions of these states is a fourth generation appraiser. The first in our long line of appraisers was Great Grandfather Charles L. Klima, the founder of Clyde Building & Loan, Cicero, IL in 1914. Today we carry on the proud tradition for 85 years and four proud generations.