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U.S. housing faces extra drag - low appraisals

REUTERS By Alexandra Alper | Reuters - 50 mins ago

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NEW YORK (Reuters) - When Sean McGowan signed a contract to buy a New Jersey home in November, he didn't expect he'd still be living with his parents nearly a year later.

The deal fell through after two appraisals came in tens of thousands of dollars below the contract price, part of a wider trend of differences over property valuations that is compounding the U.S. housing crisis.

"It was very frustrating. We really wanted to move in," said McGowan, a 31-year-old real estate lawyer.

Many housing experts say low appraisals are yet another headwind for a housing market already suffering from a plunge in prices, high unemployment and tight credit.

Lenders are forced to cap their mortgage loans at the value set by appraisers and buyers and sellers often can't agree on how to make up the difference with an original deal price.

"It's hard to talk about any recovery of the housing market and home prices until the appraisal issue is squared away, and that is a broad issue," said Guy Cecala, publisher of Inside Mortgage Finance, a Maryland-based trade publication.

Sixteen percent of Realtors reported contract cancellations in July, matching June's level, which was the highest since March 2010, when the National Association of Realtors began collecting data.

Nine percent reported contract delays due to low appraisals, and 13 percent reported a contract was renegotiated to a lower price because an appraisal came in below the original price in the last three months, the NAR said.

Appraisers in the United States have long been used to controversy for their role in the country's housing market.

The appraisal system has been reformed in recent years to put a stop to the high estimates of property

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values that even appraisers admit helped inflate the housing bubble.

Many industry watchers argue the new regime has caused the pendulum to swing too far to the other side, inadvertently causing the opposite problem: artificially low appraisals.

"The industry, both from a lending perspective and appraising perspective, has gotten as outrageously conservative now as they were outrageously aggressive a few years ago," said Rick Sharga, senior vice president of data firm RealtyTrac.

APPRAISER PURSES PINCHED

In the run-up to the housing crisis, appraisers were accused of inflating home values to get work with realtors and mortgage brokers.

Mortgage finance agencies Freddie Mac and Fannie Mae have barred brokers and Realtors from any role in selecting appraisers since 2009. The Federal Housing Authority, which plays a key role in the U.S. housing market by insuring loans for low- and middle-income Americans, adopted a similar ban.

The three agencies together owned or insured around 90 percent of mortgages issued in the first half of the year.

As a result, 300 to 400 appraisal management companies (AMCs) have sprung up, mostly since 2009, to act as intermediaries between appraisers and lenders, according to the Appraisal Institute, an industry association.

AMCs hire contractors to provide 70 percent of residential appraisals, while the appraising arm of banks perform the rest, according to the same group.

Realtors and mortgage brokers, upset that their deals are often stymied by low valuations, say AMCs are to blame in large part for the conservative estimates. Some appraisers also resent the loss of high fees they used to receive.

"They are hiring these young guys and it's all based on price and not expertise," said Mike Evans, an appraiser and former president of the American Society of Appraisers, a trade organization.

"Some guy blows in from 300 miles away and grabs three comps that may not be in the right area, and leaves," he said, using the industry jargon for comparable sales that are used to evaluate a property's value.

Appraisers in Mexico, Britain and other countries are typically more educated than U.S. appraisers and work at small firms, according to David Bunton, President of the Appraisal Foundation.

AMCs and appraisal arms of banks take a cut of the appraisal fee which averages around \$400, according to Evans. That leaves appraisers pushing for volume, not quality, he says.

"Because they don't want the scrutiny, they don't want to seem like they are going high, they just grab the three lowest sales" as comparables, said David Demuro, a residential appraiser in Florida.

Demuro mostly works for AMCs that pay at least \$275 per job, but says some appraisal fees are as low as \$150. Demuro averages 15 to 35 appraisals per month.

Industry insiders say fear among overworked appraisers of being sued if buyers default on properties they valued too highly, combined with anxiety about being blacklisted by banks and AMCs, keep them cautious.

Not all contract cancellations are linked to differences over appraisals. Tight lending rules that deny would-be house buyers a mortgage and inspections that reveal something wrong with the house are common causes too.

Federal agencies will not begin to regulate the companies until at least January 2013 under the Dodd-Frank Act though AMCs are already required to pay "reasonable and customary" fees to appraisers.

Dennis Blanton, a Coldwell Banker realtor in Myrtle Beach, South Carolina had a buyer agree to

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U.S. housing faces extra drag - low appraisals

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purchase a vacation home for \$77,500, before the appraisal came in at \$50,000.

"It takes the wind out of the sails of the buyer," said Blanton. He noted the appraiser used short sales -- whereby home-owners are forced to sell a home often at discounts of around 20 percent discount to normal sales -- for comparison. His buyer is no longer looking for homes in the area.

Others argue that the move to put AMCs at the heart of buying and selling homes has been healthy for the industry.

"Appraiser independence is a piece of the solution to the mess we are in right now," said Austin Christensen, president of AMCLINKS, a national appraisal company, who says appraisals were too high before AMCs were in the picture.

"Now that you have no pressure on appraisers to arrive at the appraisal, I think they are coming up with accurate values, more so than ever before."

Demuro agrees. He says that five or six years ago, if he couldn't bring in a high appraisal, the realtor or mortgage broker would not give him work again.

That doesn't happen any more, he says.

"I don't have the added stress of thinking about, 'I may lose this client. I may not be able to pay my bills next month because this appraisal is not going to come in and they're going to get upset'," he said.

(Additional reporting by Leah Schnurr; Editing by James Dalgleish)

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I'd be suspicious of this. Appraisers have always been the Bank's whipping boys. No real reason to think that's changed. Banks don't want to make loans at these low interest rates. The appraisers give them a reasonable excuse not to.

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