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Search for Hidden Treasure

The Search Begins with REALTORS®

By Ginny Cooper, Contributing Writer

Any pirate worth his (or her) salt knows that the best treasure is always hidden. So does any real estate appraiser! It's that hidden information he's trying to dig up that leads Frank Gregoire, IFA, RAA, to nurture his relationships with REALTORS®, because he knows they have a bounty of it. And contrary to popular belief, they are allowed to communicate it to the appraiser, Gregoire notes. He is the author of Module 6 of the 2012 Bert Rodgers 14-Hour Continuing Education Course: Appraising Real Estate—The Effects of the Great Recession.

Piracy on the Seas of Legislation

"Appraising is part of the real estate business and the real estate business is the relationship business," said Gregoire in a recent interview. Those relationships are the key to Gregoire's current business model, as he no longer does mortgage appraisals. "I couldn't make a living at it," he said ruefully. Instead, the clients of Gregoire & Gregoire, Inc. are cash buyers who want to feel comfortable with the negotiated sales price of a home or REALTORS® and their clients who hire him to complete an appraisal before a home is even listed. "When I do the appraisal up front and the seller lists the property at the value I indicate, it generally goes to contract within 30–45 days, for an amount within

three to five percent of the appraised value."

Gregoire's new business model is the result of the legislative changes enacted over the past few years—changes that were intended to curb the illegal, improper and unethical practices of some REALTORS®, appraisers and lending institutions in the first place. That legislation was even necessary angers Gregoire. "The idea (that everyone involved in a real estate transaction is a crook) is insulting!" he said, "But laws are not made for honest people."

Cindy Carroll of Carroll and Carroll Real Estate Appraisers & Consultants says appraising for the mortgage industry is taking up a smaller portion of their business these days. "We have some good clients who appreciate good work and are willing to pay a reasonable fee for it," said Carroll. And for those clients the firm does appraising for mortgage lending purposes.

Where did the changes come from? In 2007, the New York Attorney General's office was prepared to file a mortgage fraud lawsuit against First American and its subsidiary Appraisal Management Corporation (AMC), eAppraiseIT. Instead, an agreement was reached between Fannie Mae, Freddie Mac, the FHFA and the New York Attorney General's office to implement a Home Valuation Code of Conduct. "HVCC is a disastrous law," said Cindy Carroll at the time. "The bottom line is that it is completely impossible to legislate ethics." (NABOR Magazine, October 2009). How right she was. But despite the best efforts of REALTORS®, appraisers and lobbyists from the mortgage industry, HVCC was implemented on May 1, 2009. Gregoire writes: "The original agreement was expected to have a two-year term, but was sunset by implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, passed by Congress and signed into law in July 2010. Components of the HVCC agreement were incorporated in federal law by Dodd-Frank amendments to the Truth in Lending Act (TILA)." The result, he said, was that "everything that everyone found distasteful about HVCC still exists. This attempt by the federal government to fix things just caused more problems."

Walking the AMC Plank

Both Fannie Mae and Freddie Mac adopted new Appraiser Independence Requirements in October 2010 in order to comply with the standards imposed by the Dodd-Frank Act. Although there are several options available to lenders to maintain the required separation of those individuals involved in loan origination from the selection of appraisers, the means employed by most lenders and loan originators is the use of AMCs. The AMCs (many owned by the largest banks in the nation) assign appraisals to a panel of independent contract appraisers. The AMC retains a portion of the fee paid by the borrower for managing the process, as much as 60 percent of the fee.

The fees charged for appraisals, however, have not increased accordingly. And because Fannie Mae and Freddie Mac were caught off guard when the real estate tide turned, they responded with more forms and requirements to protect themselves, which added to the time necessary to thoroughly and professionally complete an appraisal. For many AMCs, the criteria for selecting the appraiser are the appraiser's fee and turnaround time. Gregoire writes: "As a result of the low fee split offered to appraisers and the AMC demand for quick completion of the appraisal report, it is not uncommon to find appraisal assignments are being awarded to appraisers at the low end of the range of experience. Additionally, some AMCs tend to assign a relatively high percentage of assignments to appraisers from outside their area of geographic expertise." And these were some of the same problems the legislation was supposed to fix!

Of increasing concern to Carroll is the data mining being done by the AMCs. "It makes me uncomfortable. But we (appraisers) have been threatened for years with automation. In reality, there will always be the need for truth-tellers."

'Land Ho!' for REALTORS®

"The most important step a REALTOR® can take to minimize the damage caused by the 'fix' is to maintain control over access to the property," said Gregoire. The purpose for this is two-fold. "Number one, you want to meet the appraiser at the property when he or she arrives to inspect it. You want to make sure that the person who conducts the inspection is the person who is going to sign and deliver the report."

The second reason to meet the appraiser at the property is to hand over to them valuable information. Not the facts and figures that the appraiser can dig up on their own through the public records and MLS data, but the hidden treasure trove of information that only someone with first-hand knowledge of the transaction has. “The transaction details become part of the narrative that the appraiser is required to write regarding market conditions and neighborhood analysis,” explained Gregoire.

This is an opportunity to provide information that the appraiser has no access to or is not privy to. A good example is information on comparable properties. While the appraiser will be inspecting the subject property, time and access dictate that the appraiser will not internally inspect most comparable properties. He or she must rely on MLS data and the information provided by REALTORS®. Because the purpose of MLS information is to induce someone to buy the property, it is most often presented in the most positive, yet vague, descriptive words possible. For example, said Gregoire, a REALTOR® once described a comparable sale, of which she had personal knowledge, as being “worn,” whereas the MLS listing described it as nearly perfect. But if you present a sale as tainted, Gregoire cautioned REALTORS®, be prepared to provide documentation as to why.

How to Avoid Being Keel-hauled

Carroll offers another tip, this one related to the geographic competency requirement, wherein an appraiser’s competency to perform the appraisal is tied to his or her familiarity with a specific market or geographic area. While Gregoire cautions that “just because an appraiser is from out of the area does not mean the appraiser lacks geographic competency,” Carroll advises REALTORS® to ask where the appraiser is coming from before they even make the appointment to allow the appraiser to inspect the property. If the appraiser is not local, Carroll advises that the lender be asked to use somebody else.

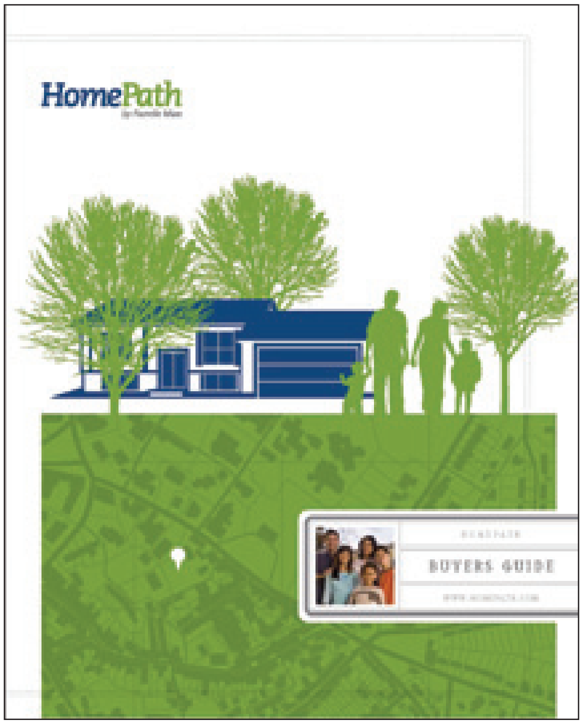
When the appraiser’s opinion of value does not coincide with the contract price and you feel you have a valid reason to ask for a reconsideration of value or wish to challenge an appraisal, having a relationship with the appraiser helps. It aids the exchange of information and helps to identify any deficiencies in the process. Because at the end of the day, said Gregoire, “we’re in the people business.”

Is HomePath® the Right Path?

Is This Program Right for Your Customers?

By Ginny Cooper, Contributing Writer

The Federal National Mortgage Association (FNMA) is a government-sponsored enterprise chartered by Congress for the purpose of directing money to mortgage lenders. Referred to as "Fannie Mae," this organization is a national finance company, but it doesn't offer home loans. FNMA has existed for more than 70 years as a financial support for mortgage lenders including local and national banks, thrifts, credit unions and other financial institutions in all 50 states. FNMA exists to securitize or buy the mortgage loans originated by the institutions it supports. The money FNMA supplies to financial institutions replenishes their funds, allowing them to lend money to other homeowners. FNMA also is an active force in keeping funds flowing to support affordable rental housing and helping struggling families avoid foreclosure.



The First Steps

Among FNMA's many financing programs is a special mortgage product: the HomePath® Mortgage. HomePath® allows a borrower to purchase a FNMA-owned property with a low down payment, flexible mortgage terms, no lender-requested appraisal, no mortgage insurance and expanded seller contributions. The final negotiated sales price is used to underwrite the loan. While mortgage insurance is not required for HomePath® loans, higher loan-to-value HomePath® loans may incur an additional cost.

Heed the Signs on the HomePath®

A prospective buyer will know that the property being sold qualifies for a HomePath® mortgage as it will have a sign displaying the HomePath® logo. Some HomePath®-qualified FNMA property listings are available by way of online offers. Listings that qualify to have an online offer made on them will have a "Make an Offer" button on them.

In an effort to warn buyers about the possibility that some of their properties may need work, the following statements have been made in the HomePath® literature: "Fannie Mae does not warrant or guarantee any work that may have been done on the property, whether as part of its efforts to sell the home or pursuant to conditions in the purchase contract. Where a home warranty is available, you may wish to buy it at your own expense."

A Detour for Homes Needing TLC

Because some of its offerings may need fix-up, FNMA offers the HomePath® Renovation mortgage. This is a mortgage for purchases that only require light to moderate renovation. The loan combines money for the purchase of the real estate and for renovation up to 35 percent of the completed value of the property, but no more than $35,000.

The down payment can be low, but must be at least three percent. However, the down payment may be funded by the borrower's savings account; a gift; a grant; or a loan from a non-profit organization, state or local government, or employer—options not available with standard financing.

Terms, Low Fees and Waived Requirements Make for a Smooth Path

The mortgage terms of the HomePath® mortgage are very flexible. HomePath® mortgages can be fixed-rate, adjustable rate or even interest-only loans. (Interest-only loans are not available for properties requiring the HomePath® Renovation mortgage.)

No appraisal is required for mortgages that qualify for the HomePath® program. Therefore, there is no appraisal fee or other expense for a valuation of the property with these loans. However, an appraisal is necessary for properties financed under the HomePath® Renovation mortgage with the "as completed" value of the property used for the basis of the mortgage.

Many condominium project requirements have been waived for both HomePath® mortgages.

Another key aspect of this mortgage program that separates it from other low down payment loans is that no mortgage insurance is required. Mortgage insurance is usually required by lending institutions when the purchaser's down payment is small, in order to protect the lender from the added risk of default.

A Wider Path for Buyers

Another unique aspect of the HomePath® mortgage is that it is not only available on primary residences, but may be applied to second homes and investment property as well.

Acceptable seller contributions for HomePath® mortgages have been expanded. As a result, a prospective buyer may be able to include additional closing costs or other incentives in the offer to purchase.

FNMA strongly encourages all buyers to have a professional property inspection performed prior to buying any of their properties. Therefore, there is a 10-day inspection period so the buyer has time to have the property inspected.

HomePath® May Be the Road to a Successful Sale

To obtain information on FNMA's HomePath® financing including: online offer worksheet, real estate purchase addendum, owner occupant certification, disclosure information on lead-based paint and/or lead-based paint hazards, how to apply to become a HomePath® listing agent, and HomePath® marketing materials, visit: www.homepath.com/realestate.html.

You may download the HomePath® buyer's guide at www.homepath.com/resources.html.