Nation's Housing

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A Curtain Of Silence Hides Proper Appraisals

WASHINGTON — Congressional investigators, major mortgage lenders and home real estate appraisers are expressing growing concern over what they see as a multi-billion-dollar federal problem: a nationwide curtain of silence that often prevents accurate property appraisals.

The net results of the silence, they charge, are inflated real estate valuations, excessive commissions to realty brokers, unnecessarily large loan losses to lenders through foreclosures, and rising losses for agencies like the Federal Savings and Loan Insurance Corporation.

One key congressional panel, a House government operations subcommittee, already has called for correction of the problem. Now professional and trade groups are joining the effort.

The shroud of silence, they say, works like this: Real estate appraisers across the country have come under increasing pressure by mortgage lenders to provide scrupulously accurate valuations of homes. Lenders use these appraisals to determine how large a mortgage the property can support. The higher the estimated market value, the bigger the potential mortgage. The more inflated the appraisal, the larger the lender's risk of loss.

If a federal agency has either insured the mortgage or insured the lending institution, the loss ultimately may be borne by taxpayers. If a private mortgage insurer underwrote the loan, the costs are paid through higher premiums charged against all new home buyers.

For example, an appraisal of $200,000 on a house that's actually worth $170,000 may mean an 80 percent loan of $160,000 rather than the $136,000 maximum mortgage that the house truly supports. In the event of a foreclosure, the lender stands to suffer at least an extra $24,000 loss on the eventual resale. Multiply that risk exposure by many thousands, and you begin to grasp the losses already suffered during the last five years by federally chartered savings and loans, banks, and home-loan giants such as the Federal National Mortgage Association (Fannie Mae).

The House subcommittee on commerce, consumer and monetary affairs estimated earlier this fall that excessive appraisals contributed to 40 percent of the Veterans Administration's $420 million in home-loan guaranty losses in fiscal 1985 alone. It also found that real estate overvaluations totaled a stupendous $3 billion in a sample of just 800 of the nation's 3,200 federally chartered S&Ls examined during a 2½-year period.

Although appraiser incompetence and outright fraud played large roles in the losses, the subcommittee concluded that "significant problems with appraisal accuracy" were caused by the "unavailability" of data on home sales transactions.

The unavailability of data is the curtain that obscures the true details of many real estate sales. Appraisers, for instance, are denied access to Multiple Listing Service data banks in most markets. Controlled by local boards of realtors, MLS represents an invaluable barometer of current asking prices and market trends.

"MLS needs to be opened to appraisers if people seriously expect accurate appraisals," said Debra Anthony, director of legal and legislative affairs for the American Institute of Real Estate Appraisers. Ironically, Anthony's organization is affiliated with the very group that has denied appraisers such access — the National Association of Realtors.

A far more important form of data unavailability, according to appraisers and lenders, relates to contractual provisions in home sales that vitally affect the true market value of the property, but are hidden from appraisers' views.

One appraiser associated with a large national real-estate organization gave the following example in an interview. Although the sales price in a recent home transaction was reported publicly at $235,000, the true price was actually $35,000 less. In the final copy of the sales contract — never available to anyone but the seller, buyer, broker and settlement counsel — the seller agreed in writing at closing to rebate $35,000 to the purchaser. The unrecorded money that passed hands was for "improvements" to the house demanded by the buyer.

The lender never knew a thing about it. Appraisers using the recorded transaction as a "comparable" — a benchmark for similar home financings in the area — would also be kept in the dark, even if they asked brokers for the facts.

That's because highly relevant contractual arrangements are made available to appraisers "virtually nowhere," Anthony said. Real estate brokers in particular refuse to disclose such information, she said, because they fear suits by their clients, the sellers. They also stand to reap smaller sales commissions.

Appraisers are being stonewalled, in effect, at the very moment that major lenders such as Fannie Mae and Freddie Mac (the Federal Home Loan Mortgage Corp.) have stiffened the information requirements upon them. Freddie Mac's new appraisal standards demand that "appraisers must ... fully explain the effects (that special) financing or (sales) concessions have on the final estimate of value."

How can appraisers fully explain what they are denied any access to whatsoever?

"It's tough," said a Freddie Mac spokesman. "We've got a nut to crack here."