
Consumer bureau reviewing real estate appraisal fee disclosure

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The new [Consumer Financial Protection Bureau](#) is working on a real estate issue that gets to the core of the agency's purpose: bringing clarity and better disclosures about the often opaque and costly fees that home buyers, sellers and refinancers are hit with at closings.

One of the disclosures under review might surprise you: appraisal charges. Why do they need clarifying? Doesn't just about everybody who applies for a mortgage, whether it's to buy a house or refinance, have to pay \$450 to \$600 — sometimes more — to find out what the property is worth?

Correct. But the reality is a bit more complicated. Start with the fact that in 3 of 4 purchases or refinancings, according to industry estimates, the person who visits, inspects, measures and puts a market value on your property is receiving only a fraction of the money you are paying. Some appraisers are being paid less than half the fee, while the balance flows to an enterprise you've never heard of — an appraisal management company — that assigns the job to the appraiser. That management company, in turn, may be wholly owned by or in a joint venture or affiliate relationship with your lender, which in turn may be pocketing a significant portion of your appraisal dollars.

Current federal settlement disclosures give you no hint of where that money is really going. There is just a single line item for appraisal charges on the standard HUD-1 settlement statement. Say you're charged \$550. There is no hint that the appraiser gets \$250 and the rest goes to the management company and the lender.

The consumer bureau is considering whether to shed light on this by mandating two disclosures — what the appraiser is paid and what the management company is taking.

Should you care about this? Absolutely. Although banks and mortgage lenders maintain that there is no need for additional disclosure, appraisers, builders, realty brokers and others say the costs of appraisals to consumers have increased in the last two years, while the quality and accuracy of the work have declined. In a poll of its members last year by the National Assn. of Realtors, 70% reported consumers were being charged higher appraisal fees at closing — sometimes \$100 more than was the typical charge previously.

At the same time, appraiser members reported sharp reductions in their own compensation, by 40% to 50% per assignment. Many of the Realtors polled said they saw significant increases in the number of appraisers who were unfamiliar with local market conditions because they were from another geographic area. The same poll also found a growing incidence of sales transactions being derailed by appraisals that came in below the contract price agreed upon between the seller and the buyer.

Critics say the drops in fees to appraisers combined with higher charges to consumers are byproducts of the rapid spread of management companies, whose growth during the post-boom years has been fueled by rules from [Fannie Mae](#), [Freddie Mac](#) and Congress aimed at ensuring "appraiser independence."

Frank Gregoire, a past chairman of the Florida Real Estate Appraisal Board, which oversees and regulates the industry in that state, says that while appraiser independence is an important

goal, banks and their affiliated management firms are raising the costs of appraisals to consumers without improving services.

"The borrower receives no benefit" from the appraisal management service, he said. "The lender is able to outsource a significant responsibility" — the selection of an appraiser — "to an affiliated subsidiary, and profit from that task by making the consumer and the appraiser pay for the privilege. [This] business arrangement is concealed from the consumer/borrower, and the charge is misrepresented as an 'appraisal fee' on the HUD-1. This is dishonest, deceitful and unfair."

Industry defenders of management firms, such as Donald E. Kelly, executive director of the Real Estate Valuation Advocacy Assn., strongly disagree. Kelly says management firms perform the "back office" functions, including reviews and quality control, "that in the past were done by lender staff and employees." In other words, they earn the money they get. And there's no pressing need for consumers to see additional disclosures. They just need to know the bottom line.

Which brings the matter back to the consumer bureau. Though it can't comment on pending rules, the bureau has a statutory deadline in July to produce an improved version of the HUD-1 settlement form. How it comes down on real estate appraisal fee disclosures — more transparency for consumers or not — will be a revealing early test.

Source: [LA Times](#)

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