

Reprisals on Appraisals

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A federal class-action lawsuit is focusing attention on an issue that's important to homeowners nationwide: Who -- or what -- tells you how much your property is worth?

Is it a person? A digitized substitute? Does it matter?

A group of professional appraisers is suing a major mortgage technology firm, charging that it systematically takes their appraisal report information, warehouses it, and markets it to lenders and developers of electronic substitutes for traditional appraisals.

The suit was filed last month by appraisers in Maryland, Virginia and Oklahoma against FNC of Oxford, Miss. FNC markets a high-tech system that converts traditional appraisals into electronic formats, then sends them to mortgage lender customers. FNC says it processes about 400,000 appraisals a month and deals primarily with the 45 to 50 largest mortgage lenders in the country.

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The suit alleges that FNC has "duped" thousands of appraisers into using its AppraisalPort system with assurances that their appraisal data is "secure" and that FNC "does not have access" to any report or any intention to store or re-market it. However, according to the suit, FNC "downloads this data . . . and then markets" it, cutting appraisers out of potential additional business with no compensation.

The suit quotes Bill Rayburn, FNC's chief executive, as telling an industry publication, "When an appraisal is transmitted to the lender, we are able to pop it open and suck all the data out."

In an interview, Rayburn declined to comment on the suit but said any information FNC obtains is provided by lenders after they have agreed to accept and pay for an appraiser's report. Many appraisers are eager to work with FNC, he said. They "find that they get extra business [because] FNC furnishes their names to lenders" that want property valuations in their markets in electronic formats.

Although the litigation focuses on the plaintiffs' claim that their appraisal information is being pirated and re-marketed, the larger picture is probably more relevant to homeowners: When it comes to valuing a piece of real estate, do you need trained professionals on location, or are computer analyses of available data sufficient and cost-effective?

After all, popular real estate Web sites such as Zillow <http://> post satellite photos of more than 60 million houses across the country and offer free instant estimates of each property's market value. How tough could appraising really be in the digital age? Isn't the real dispute here an updated version of the 19th-century artisan revolts against mass industrialization, with tradition-bound appraisers playing the role of the Luddites, fighting new technologies at every turn?

During the past five years, mortgage lenders have moved aggressively toward wider use of "automated valuation models" (AVMs) as low-cost substitutes or backups for traditional appraisals. Not only are AVMs cheaper -- typically under \$40 vs. about \$400 -- but they're a lot faster.

Traditional appraisers concede that they're under intense pricing pressure and that AVMs have siphoned substantial amounts off their income. But they reject the Luddite label,

arguing that public data alone can never substitute for the eyes, ears and resources of a professional.

Tom Allen of Thomas E. Allen Appraisals in Tulsa, Okla., who has no involvement in the FNC litigation, said many AVMs come up with estimates "that are not even close" because "they are missing essential information you can only get by being there."

Allen says AVMs are "just about worthless" in markets where value patterns are complicated -- some segments declining, others flat, still others rising -- as is happening in many parts of the country. That's because the public information AVMs rely heavily on is several months old, "at least," and cannot include factors that appraisers routinely build into their reports, such as interviews with local real estate agents about pricing and sales trends.

Nor can AVMs include site analysis: Is there noisy or noxious activity nearby or upwind, and what does that do to value? What about the condition of the property? Does it need a new roof? Are there structural issues, a bad floor plan, water damage?

Are the measurements on file at the tax assessor's office accurate? Or have there been additions or upgrades that raise the value?

Bottom line: Even FNC calls appraiser-collected data "the gold standard." AVMs can be useful starting points -- although Zillow's free "Zestimates" have been criticized for frequent inaccuracy by a variety of groups, including the National Community Reinvestment Coalition, a group of fair-housing advocates. If you truly want to know what a property is worth, don't settle for less than an experienced appraiser, live and on site.

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