

KENNETH HARNEY *Nation's Housing*

New appraisal rules driving down values

WASHINGTON — It's by far the hottest controversy in real estate this summer, and it could directly affect the value of your house — probably negatively — by tens of thousands of dollars.

The issue concerns low valuations and the new rules guiding appraisers in both price-depressed and rebounding markets. Consider these snapshots of what's going on:

▶ In San Diego, Steve Doyle, division president for Brookfield Homes, is trying to close out the final 20 houses of a 120-unit single-family subdivision. Prices range from \$340,000 to \$350,000. But recently there's been a major hitch: Appraisers assigned by banks are coming in with valuations \$60,000 or more below Doyle's selling prices. The appraisers, who Doyle says are unfamiliar with local markets, inexperienced or both, are using distressed sales — foreclosures and short sales of existing houses — as their comparables. Some of the distressed properties are in poor condition, and all of them offer fewer amenities, according to Doyle.

▶ In Wilmington, N.C., a loan applicant with a house in excellent condition, and an unblemished payment record, sought to refinance into a 4% percent mortgage. She had purchased the property four years ago for \$160,000 and made about \$20,000 worth of improvements in the interim. Her loan application, according to Paul Skeens, president of Colonial Mortgage Group of Waldorf, Md., was "a slam dunk. Nothing to it." The house was worth \$180,000 to \$200,000, according to one estimate.

But when an appraiser with little local knowledge was sent in by a bank to value the house, he chose two short-sale properties that had both closed in the mid-\$140,000 range, and one inheritance sale around \$155,000. The last property was "in horrible condition," said Skeens. "I'd call it dog meat." The deal-paralyzing appraised value that came in for the cream-puff refi: \$149,000.

▶ In the suburbs near Cleveland, Enzo Perfetto, manager of Enzooco Homes, builds cus-

tom houses on clients' lots. Recently, according to Perfetto, banks have begun assigning appraisers from far outside the area to value lots as part of mortgage packages on new homes. Some of the comparables they use are foreclosure sales, and that depresses land valuations. A young couple who paid \$75,000 for their lot recently had it valued at just \$30,000 by an out-of-area appraiser who looked at only online data, according to Perfetto — discouraging the young couple from proceeding.

"I think the pendulum is swinging way too far in the wrong direction on appraisals," said Perfetto. Bank-assigned appraisers often "don't know the local market and they're going for low numbers to be 'safe.'"

Complaints about lowballed appraisals — from builders, realty agents, consumers and mortgage companies — have erupted since May 1, when government-sponsored Fannie Mae and Freddie Mac put their new appraisal rules into effect nationwide. Critics charge that the new system is fostering the use of appraisers willing to

work for low fees — sometimes 50 percent below previous standards — and who are willing to conduct home appraisals far outside their typical areas of activity.

The Fannie-Freddie system — known as the Home Valuation Code of Conduct — is complicated by the fact that it is a byproduct of a legal settlement in 2008 between New York Attorney General Andrew Cuomo and the two government-sponsored mortgage investors.

Under the code, appraisers are now routinely assigned by appraisal management companies rather than being selected by mortgage companies or loan officers. The management companies pocket as much as 40 to 50 percent of the appraisal fee.

Frustration with the new system boiled over and made its way to Capitol Hill late last month. The National Association of Home Builders called for an immediate change in the rules governing the use of foreclosures, short sales and other distress transactions as comparables for appraisals on non-distressed, typical homes, whether new or resale.

Two congressmen — Travis Childers, D-Miss., and Gary Miller, R-Diamond Bar (Los Angeles County) — have introduced legislation calling for an 18-month moratorium on the appraisal code. In identical letters to James Lockhart, the top regulator of Fannie Mae

and Freddie Mac, and Cuomo, the National Association of Realtors also requested a moratorium and complained that the code is raising costs to borrowers, distorting property values and killing sales.

Asked for comment, Lockhart said through a spokesperson that his agency is monitoring the situation, and considers "the views of market participants important."

Bottom line: Be aware of the issue. It affects your equity, even if you're not buying or selling. And watch to see whether Congress fixes the problem.

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ARM indexes

Index	Last week	Previous week	Year ago
6-month CD	0.85	0.87	1.92
6-month T-bill	0.32	0.31	2.06
1-year TCMS†	0.48	0.51	2.35
3-year TCMS†	1.72	1.82	2.88
1-month Libor	0.30	0.30	2.45
6-month Libor	1.07	1.11	3.09

Index	Latest month	Previous month	Year ago
Cost of funds*	1.830	1.620	2.690

† Treasury Constant Maturity Series

* 11th district, Federal Home Loan Bank of San Francisco; latest figure is for June and changes on the last working day of the month.

Note: Most adjustable mortgages rates are generally one to three percentage points above these indexes.

Source: Bankrate.com; Federal Home Loan Bank of San Francisco; Federal Reserve; Libor is average of five London banks.

SAN FRANCISCO CHRONICLE MORTGAGE GUIDE

Market Indicator**

Last wk
5.375% This wk
5.375%

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Rates as of 6/30/09

Loan Product	Rate	Disc Pts*	APR	Lock
Emortgages.com 800-619-4400				
30-yr Fixed	5.125	1.000	5.220	30
5/1 ARM	4.000*	1.000	4.150	30
15-yr Fixed	4.750*	0.000	4.830	30
30-yr Fxd Jmb/Conf	5.375*	1.000	5.450	30

*Lender to pay broker compensation of 0.50 points.

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Loan Product	Rate	Disc Pts*	APR	Lock
Mortgage Capital Associates, Inc. 800-974-4434				
30-yr Fixed	5.250	0.000	5.340	30
15-yr Fixed	4.875	0.000	4.914	30
5/1 ARM	4.500	0.000	4.453	30
7/1 ARM	5.125	0.000	4.804	30
30-yr Fxd Jumbo	call			
5/1 ARM Jumbo IO	5.750	0.211	5.631	30

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Loan Product	Rate	Disc Pts*	APR	Lock
Mortgage Market 800-837-5626				
15-yr Fixed	4.625*	0.000	4.874	30
30-yr Fixed	4.875*	0.500	5.049	30
30-yr Fixed	5.375	0.000	5.524	30
30-yr Fxd Jmb/Conf	5.250*	0.000	5.398	30

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Loan Product	Rate	Disc Pts*	APR	Lock
ProMortgage 415-488-0319				
30-yr Fixed	5.000*	0.000	5.125	30
30-yr Fxd Jmb/Conf	5.125*	0.000	5.250	30
5/1 ARM Jumbo IO	5.000**	0.250	5.125	45
7/1 ARM Jumbo IO	5.375**	0.250	5.500	45
10/1 ARM Jumbo IO	5.500**	0.250	5.625	45

*1 Pt. Broker Fee ** 3/4 Pt. Interest-Only Jumbos to \$5mil

101 Nellen Ave, Corte Madera, CA DRE# 01334092

Loan Product	Rate	Disc Pts*	APR	Lock
Argonaut Mortgage, Inc. 866-585-9035				
30-yr Fixed	5.375	0.000	5.465	30
30-yr Fixed	5.125*	0.000	5.314	30
15-yr Fixed	4.500*	0.000	4.798	30
15-yr Fxd Jmb/Conf	4.625*	0.000	4.868	30
30-yr Fxd Jmb/Conf	5.375*	0.000	5.520	30

*1 origination point paid by borrower

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Loan Product	Rate	Disc Pts*	APR	Lock
CMG Mortgage Inc. 800-958-5339				
30-yr Fixed	5.000	1.000	5.125	30
30-yr Fxd Jmb/Conf	5.375	1.000	5.486	30
5/1 ARM Jmb/Conf	4.750	1.000	4.292	30
7/1 ARM Jmb/Conf	5.250	1.000	4.482	30

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Key Financial Indexes

	This Week	Last Week
1 year T-Bill	0.480	0.510
10 year T-Bill	3.630	3.750
Prime Rate	3.250	3.250
11 th District COF	1.380	1.380
6 Month LIBOR	1.240	1.240

National Average Fixed Rates

	This Week	Last Week
30 yr fixed conforming	5.373	5.461
15 yr fixed conforming	4.872	4.964
30 yr fixed jumbo	6.058	6.237
15 yr fixed jumbo	5.527	5.621

National Average Adjustable Rates

	This Week	Last Week
1/1 ARM conforming	4.930	5.010
3/1 ARM conforming	4.559	4.338
5/1 ARM conforming	4.621	4.872
5/1 ARM jumbo	4.924	5.006