

## **Forsythe Appraisals Says New Appraisal Agreement with Fannie Mae and Freddie Mac Will Help Restore Consumer Confidence in Home Market**

One of the foundations of a residential real estate transaction is an accurate, objective assessment of a home's value. Regardless of market trends, buyers and mortgage lenders rely on independent professional appraisers to provide an impartial valuation of the property.

To ensure objective appraisals, New York Attorney General Andrew Cuomo has reached an agreement with Fannie Mae and Freddie Mac, the two largest sources of U.S. mortgage financing, to establish a code of conduct for appraisers.

"There is no doubt that restoring the independence of professional appraisers is the most viable and expeditious solution to restoring consumer confidence in local residential markets," said Tim Forsythe, CEO, Forsythe Appraisals LLC, a 68-year-old national appraisal firm based in St. Paul, Minnesota. "That's why we support the spirit of the agreement which is designed to ensure appraiser independence. However, we need to fully consider the potential ramifications. This agreement casts a very broad net."

Forsythe noted that over-aggressive lending policies in the past few years created situations where appraisers around the country felt pressured to provide a particular value for a home or condominium in order to close the sale. From 'tweaking' the numbers to providing fraudulent information, these unethical and illegal actions have severely impacted the nation's residential marketplace, he added.

"In light of all the pain being felt by the real estate industry, it's time to recognize the importance of a good, independent valuation as a cornerstone of the buying and selling process," adds Tim Forsythe, whose firm operates a staff-based model where appraisers report to their managers, not directly to the company's clients.

Testifying on Capitol Hill last June, Alan Hummel, SRA, senior vice president and chief appraiser for Forsythe Appraisals and then-chairman of the Appraisal Institute's Government Relations Committee, said many appraisers face pressure in mortgage transactions. "They are told to doctor their appraisals or else never see work from those parties again," Hummel told the Senate Subcommittee on Housing, Transportation, and

## Community Development.

A recent independent study by the October Research Corp, sponsored by Forsythe Appraisals, found that 90 percent of respondent appraisers indicated that they felt pressure to raise property valuations to enable deals to go through, up 35 percentage points from levels reported in 2003.

"Appraisers, as the only independent party in a mortgage transaction, do not benefit from raising or lowering the valuation of a property, yet they face loss of employment unless they succumb to pressure to provide a fraudulent report," said Hummel. "It is time to elevate the practices of many lending professionals and create a single standard for ordering appraisals," said Hummel. "We need to aggressively enforce laws to punish bad actors."

### **A Viable Solution**

Restoring the independence of professional appraisers is the goal of the recent Cuomo agreement with Fannie Mae and Freddie Mac, which would create a new independent oversight body and code of conduct designed to remove undue influence from the valuation process. "This is one of the greatest, most dramatic reforms of the housing industry in the last 20 years," Cuomo said at a recent New York press conference. "We believe as a group that this will be a significant and dramatically positive reform."

The agreement is subject to revision, and Cuomo's office will be accepting comments from industry sources and other interested parties through April 30.

Under the agreement - which followed a New York State investigation of lending industry practices - Fannie Mae and Freddie Mac will only buy home loans from lenders that endorse an appraiser code of conduct. The code would:

- Establish requirements governing appraiser selection, solicitation, compensation, conflicts of interest and corporate independence.
- Create a new entity, the Independent Valuation Protection Institute to monitor and study this area.
- Create a new complaint hotline for consumers and appraisers to report any prohibited interference by loan officers, real estate agents and others.
- Prohibit lenders from influencing an appraisal through coercion, inducements or other forms of pressure.
- Require lenders to use an appraiser who is not employed, affiliated or otherwise connected with the lender.

## **The Impact**

"We strongly believe this agreement will play an important role in reinforcing the value and expertise of independent residential appraisers," said John Forsythe, SRA, president, Forsythe Appraisals. "There needs to be a very clear separation between those who have a vested interest in the outcome of the loan ordering the appraisal and the professional who provides that service."

While there will be interpretations needed to clarify points of the agreement, the result will likely be some sort of restructuring of the appraisal industry in order to support the new standards.

"One of our long-held beliefs is the importance of creating a barrier that protects the providers of appraisals against undue influence," said Tim Forsythe. "That way our appraisers can feel empowered to provide the best, most qualified and independent valuation of the subject property."

Tim Forsythe noted that there are appropriate reasons for a buyer or lender to contact an appraiser, such as a request to consider additional comparable sales before determining the value. "That's very different from an inappropriate request like saying, 'unless you hit this value, you'll never work for us again.'"

"Ultimately, it is the appraiser whose valuation remains attached to the loan - even if the mortgage broker goes out of business or the lender resells the loan," said Tim Forsythe. "Appraisers understand they are accountable for their work, and the proposed agreement will go a long way to strengthening their independent role in the valuation process."

## **About Forsythe Appraisals**

Headquartered in St. Paul, Minnesota, Forsythe Appraisals was founded in 1940 by the grandfather of the Company's current CEO and president. With 37 branch offices nationwide, Forsythe Appraisals is the largest independent provider of real estate appraisals in the country. For more information contact [www.forsytheappraisals.com](http://www.forsytheappraisals.com).