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Jack Smith / Bloomberg News

A Realtor shows a \$1.1 million home in Coronado, Calif. A 2003 survey found 55 percent of appraisers felt pressured to overstate values.

Lenders fear inflated real estate appraisals

Michigan Realtors also probe alleged overvalued properties, which raises chances of loan defaults.

By Elise Oberliesen / Special to The Detroit News

Lenders nationwide, including in Michigan, are increasingly worried about inflated appraisal values and groups are taking steps to clamp down.

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Home appraisals are designed to protect lenders and homeowners alike from overextending themselves when taking out a home loan. When the appraisals are inflated, borrowers can wind up owing more than their home's value, even if prices don't fall. Lenders also can be left holding the bag if the loan isn't repaid.

In a fast-moving market, even buyers can be eager to get an appraisal that matches the purchase price, so the deal can close. Colleen Lynema, branch manager at Indigo Financial Group in Dearborn, says there are cases when real estate agents ask appraisers: "Can't you overlook this?"

Unlike other states, in Michigan a home's total square footage is comprised of living space on the main and upper floors -- not in the basement, Lynema said.

But that doesn't stop people from trying to roll extra square footage into one giant number. A bigger house is more valuable and a basement is a logical place to add space, especially if it's finished, Lynema said.

The fluid nature of appraisals has long been an open secret in the real estate world. Now, the fast-moving housing market has increased worries that inflated appraisals could lead to problems and federal banking regulators are looking more closely nationwide at how lenders are managing the process.

The Michigan Association of Realtors also is investigating the problem more deeply. It put together an appraisal fraud task force in May to address inflated appraisal issues, said Carrie Wolanin, a spokeswoman for the Realtors group.

Its goal is to better understand the problem to solve it. "We need to look collectively at how appraisers are being regulated," Wolanin said.

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Real Estate

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Plenty of lenders and appraisers adhere to good practices. Still, appraisers say nationally that they are sometimes pressured to increase valuations, directly or indirectly, by mortgage brokers, loan officers and real estate agents, who all are eager to make sure a deal is completed.

About 55 percent of appraisers say they have felt pressure to overstate the value or condition of a property, according to a 2003 survey by October Research Corp., a provider of news and information to the real estate services industry.

Fraudulent appraisal practices are problematic in certain "pockets" of Metro Detroit. "Dearborn has been an area that has been a real problem," Wolanin said.

Many factors influence why appraisals become inflated in the first place, said Audrey Acquisti, a spokeswoman for the Michigan Mortgage Brokers Association in Lansing.

Information dropping can be a big culprit, she said. A seller simply mentioning how much they need out of their home or a real estate agent blurting out numbers may be all it takes.

"It can be undue influence on the appraiser," Acquisti said. Appraisal problems can be a "major problem for the seller," she said. "If the value comes in lower, you could have an angry seller."

Lower appraisals hurt sellers who rely on their equity for future real estate deals. Less equity has sellers feeling the pinch as they try to close on their next -- and usually more costly -- property, experts say.

Appraisers are meant to be unbiased sources, Acquisti said. Their job is to compare what properties are selling for within about a one-mile radius, she explained. When those numbers fluctuate it affects everyone on the block.

"If you have an overinflated value on one piece of property, the next time another appraisal is done in that subdivision, an appraiser will most likely use that property . . ."

Wolanin said "flipping," or buying a home at a low cost and selling it at a much higher price, is a common practice. Acquisti said appraisers feel great pressure to do the right thing.

The Wall Street Journal contributed to this report. Elise Oberliesen is a Metro Detroit freelance writer.

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