

Broker price opinions could be contributing to downward spiral

<http://www.dailyherald.com/story/?id=281542>

<http://www.latimes.com/classified/realestate/news/la-fi-harney29-2009mar29,0,7017116.story>

WASHINGTON - Are lowballed valuation estimates on short sales and bank-owned foreclosures artificially depressing property values in neighborhoods across the country?

Growing numbers of appraisers and consumer groups believe the answer is yes - and are demanding that either Congress or state regulators crack down. Their complaints focus on what are called "broker price opinions," or BPOs, that substitute for actual appraisals.

Unlike standard property valuations performed by licensed appraisers - which can run to hundreds of dollars - BPOs often cost \$50 and are performed by real estate agents who may have minimal or no appraisal training and are subject to no regulatory oversight. Realty agents defend BPOs, arguing that their extensive knowledge of local market trends equips them to render accurate estimates.

BPOs have become a booming business as foreclosures and short sales have risen sharply. When banks that own foreclosed houses need to put values on them for resale, increasingly they order BPOs that can be delivered quickly at rock-bottom fees.

Short sales - where a lender agrees to take less than the principal amount owed by a delinquent owner provided the property is sold to a new buyer - also frequently entail use of BPOs.

On the Internet, BPOs are hawked to realty agents as a route to quick profits in an economic downturn. "This is the easiest and fastest way to make big money in 2009," says one Web site that promises agents "six figures or more" per year. The same site suggests that "bad times put you in the ideal spot" to rack up income by churning out BPOs for lenders.

One problem is that selling BPOs to value houses violates the law in 23 states, according to appraisal industry leaders. In other states, BPOs may not be prohibited but critics say they may be far off the mark in accuracy - typically coming in below appraised values. That's partly because agents who perform the BPOs may set the value extra low to ensure quicker sales.

When BPO-valued houses are listed at fire-sale prices, they exert a downward pull on the values of other houses in the neighborhood because, under current lending industry underwriting guidelines, appraisers must consider recent listing prices as well as closed sale prices.

In testimony March 11 before the House Subcommittee on Financial Institutions and Consumer Credit, David Berenbaum, executive vice president of the National Community Reinvestment Coalition, called on Congress to outlaw BPOs when used as appraisal substitutes in distressed property transactions. Berenbaum said that realty agents "develop hasty and inaccurate BPOs that underestimate" the value of bank-owned and other distressed real estate. That lowballing, in turn, "is often destructive to local markets and depresses the value and equity of (lender-owned) properties." Gary Crabtree, CEO of Affiliated Appraisers in Bakersfield, Calif., says his company's research "shows very clearly" that BPOs frequently understate actual market values by as much as tens of thousands of dollars.

Why would agents lowball their BPO valuations? Crabtree argues that there are inherent conflicts of interest: "They want to sell the property fast" to make bank asset managers "look like heroes" to their bosses. They may also want additional BPO and property listing assignments from those same bank managers, yielding them commission dollars. Many of the properties are snapped up by investors at the depressed prices driven by BPO valuations. Those sales then become "comparables" for appraisers, "which simply intensifies the downward spiral" in local property values, said Crabtree.

Regulators in a number of states recently have expressed concern about excessive use of BPOs. The Nevada Real Estate Division warned agents that when a real estate salesperson "prepares a BPO for any reason other than listing and selling a property, and receives compensation, they have violated" state law.

Nebraska regulators issued a similar warning last December, threatening to criminally prosecute realty agents who are not licensed to perform appraisals but who do BPOs as appraisal substitutes.

The National Association of Realtors, whose 1.2 million members include many of the agents who prepare BPOs, says it has no policy guidance for Realtors on the issue, but expects to issue a statement in May. Asked whether the association would at the minimum urge members to adhere to state laws and regulations, a spokesman said "there is no policy" on the sensitive BPO issue at present.

National appraisal groups, including the Appraisal Institute, whose members lose revenue when lenders or property owners order BPOs, are up in arms. Bill Garber, the Institute's head of government relations, said BPOs are an attempt "to pay the least to obtain something" - appraised value - "that is extremely important to get right."

- Write to Ken Harney at P.O. Box 15281, Chevy Chase, MD 20815 or via e-mail at kenharney@earthlink.net.

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