The Truth about Mortgage Brokers, Part II

Two years ago, I posted my concern about the way Mortgage brokers handled their business (see “The Truth about Mortgage Brokers” in this resource list. I got some flack from a couple of Mortgage brokers who linked to it. They considered themselves honest and forthright with their customers. I hope they were.

It is obvious as this is written (March of 2007) that housing is in the tank. It is in the tank because a bubble was created by too easy credit being pushed by the Mortgage industry. Teaser rates, Low Doc, No Doc loans meant people who had little or no credit were given more money than they are able to pay back.

Now it is obvious a lot of property will now go into foreclosure, a situation which was preventable. Had appraisers been given protection from the unrelenting pressure placed upon them by mortgage lenders to “bring home the bacon”, this situation could never have developed. Instead, congress wink wink...we need the economy to zoom, and the rest is history.

Today and always, the appraiser must operate independently for their appraisal to be meaningful. It would be easy to place the blame on the appraiser. After all, they are the last line of defense. But with the mortgage broker threatening to withhold payment (65% of appraiser claim this has happened to them); and, the ace in their pocket is to file a frivolous complaint to the state board; the appraiser is forced to comply or suffer the consequences. Dozens of appraisers have been forced to defend themselves before their regulating bodies over complaints where the complainant never even shows up. And the complainant (mortgage broker) knows the system will punish the appraiser with lost time, legal fees, and there is no down side to filing such complaints.

This situation is doomed to repeat itself over and over until the appraiser is given the authority of an officer of the courts and the process of selecting an appraiser is removed from the Realtor; the borrower; AND, the lender. Only with a system of rotation can the appraiser expect to be isolated from the pressure to inflate their reported values to support the inflated property prices at the heart of the current subprime lending crunch.