

## Deal Nears to Curb Home-Appraisal Abuse

By AMIR EFRATI

February 26, 2008; Page A3

Mortgage giants [Fannie Mae](#) and [Freddie Mac](#) are close to a deal with New York Attorney General Andrew Cuomo to make changes meant to discourage inflated appraisals, widely viewed as an important contributor to the mortgage crisis, according to people familiar with the matter.

The proposal, in which the two government-sponsored companies would require lenders they work with nationwide to change their appraisal practices, would cap a year-long probe by Mr. Cuomo's office that has already resulted in a lawsuit against an appraisal-management company, for allegedly submitting to pressure by a big lender to inflate appraisals.

The agreement, which could take effect as early as this fall, might still fall apart, people familiar with the matter said. If completed, the proposed changes might significantly alter how appraisals are done across the country.

In one change being discussed, according to people familiar with the matter, Fannie and Freddie would prohibit lenders they work with from hand-picking or using in-house appraisers, to curb potential conflicts of interest. The two also would agree not to buy loans from lenders who used appraisals by wholly owned subsidiaries, according to a person familiar with the matter. The deal may also include a provision that Fannie and Freddie, which guarantee or acquire mortgages from lenders and package many of them into securities for sale, require lenders to refuse to rely on appraisals arranged by individual mortgage brokers, that person said.

The agreement may create an independent "clearinghouse" for appraiser information. Lenders would be required to provide copies of appraisal documents to the clearinghouse, which would provide reports to the public and staff a hotline for consumer complaints, a person familiar with the matter said.

"We have had ongoing discussions [with Fannie and Freddie] for several months. At the end of the process, we will either have agreements or we will take other appropriate action," Jeffrey Lerner, a spokesman for Mr. Cuomo, said in a statement.

A Fannie spokesman said talks with Mr. Cuomo's office on the appraisal issue are "moving forward." A Freddie spokesman declined to comment. A spokeswoman for the Office of Federal Housing Enterprise Oversight, which oversees Fannie and Freddie, said of the discussions with Mr. Cuomo's office: "We continue to work to achieve a successful outcome."

Mr. Cuomo, a former housing and urban development secretary, began a probe last year into the appraisal business, which culminated in a lawsuit against the appraisal unit of [First American Corp.](#) The suit claimed the company had submitted to pressure by [Washington Mutual Inc.](#) to make sure appraisals were high enough to justify the bank's loans. First American has denied the charges and has moved to dismiss the suit.

Mr. Cuomo's office subpoenaed Fannie and Freddie last fall for information on loans they had obtained from Washington Mutual. Shortly thereafter, the companies agreed to appoint independent examiners to look at whether they had done enough to protect mortgage investors from the risks of inflated home appraisals. Washington Mutual has said it was cooperating with subsequent investigations by federal regulators into whether the company had made or improperly accounted for loans based on inflated appraisals. It has said that after investigating Mr. Cuomo's allegations, "we can say with confidence that there has been no systematic effort by WaMu to inflate home appraisals."

Lenders generally require appraisals before making home loans. The appraisal is supposed to ensure that the lender has an authoritative estimate of the property's value. An inflated appraisal can cause lenders to advance more money than a house is worth, exposing both lender and borrower to losses, especially when home prices fall.

Jonathan J. Miller, a veteran New York appraiser and longtime critic of industry practices, said the proposed deal "sounds like a promising step, and that Mr. Cuomo's office is addressing some of the key problems that appraisers have had to deal with and that have led to the disconnect between value and risk in the mortgage markets." He estimates that home values are overvalued nationwide by at least 10% because of inflated appraisals.

--**Damian Paletta, James R. Hagerty and Kara Scannell** contributed to this article.

**Write to** Amir Efrati at [amir.efrati@wsj.com](mailto:amir.efrati@wsj.com)