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Appraisals and Property Issues Accounting For Larger Share of Mortgage-Closing Delays

Property characteristics and appraisals have accounted for an increasing share of the issues that delay closing of purchase mortgages, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

Real estate agents participating in the survey cited property issues as causing 22.5 percent of closing delays in January, based on a three-month moving average. That's up from a 16.5 percent share as recently as October.

The increase appears to be tied to home price trends, according to Tom Popik, research director for Campbell Surveys. "Leveling home prices increase lender scrutiny on property characteristics and delay mortgage closings," he said.

Closing delays related to appraisals, title search, insurance and property inspections have all increased in terms of market share in recent months, led by appraisal issues. "In most cases, the appraisals are coming in shy of contracted price and deals are falling apart," according to a real estate agent in New Jersey.

Home price appreciation has started to level off and even decline in some areas, according to various indices. Non-distressed sales in January had an average price of $268,700, according to *HousingPulse*, down 4.8 percent from January 2014.

While real estate agents have cited concerns about appraised values, the views of homeowners and appraisers were in synch in January, according to Quicken Loans' Home Price Perception Index. The index tracks home values estimated by loan applicants.
Quicken found that appraiser valuations were only 0.18 percent higher than homeowners' estimates. That marked the closest the two opinions have been since September 2013, with appraised values being higher than values estimated by loan applicants during each month in that stretch.

A tool recently released by Fannie Mae could also reduce appraisal-related mortgage-closing issues, according to Lance Coyle, president of the Appraisal Institute, an association of real estate appraisers. At the end of January, Fannie released Collateral Underwriter, an automated appraisal risk assessment tool that lenders can use to manage appraisal quality.

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Coyle said an increase in appraisal requirements has been a point of frustration for many appraisers in recent years because they often result in extra work without commensurate compensation. He said the growth of appraisal overlays is one of several reasons many highly skilled professionals have left the industry.

"The Appraisal Institute hopes that introduction of Collateral Underwriter will lead to a reduction of lender or secondary-market investor overlays," Coyle said. "But only time will tell whether that happens." ♦