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Traditional Appraisers In High-Tech Battle

By [Kenneth R. Harney](#)

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A bitter dispute has broken out in the property-appraisal industry that could affect how millions of houses are valued.

On one side are traditional appraisers, who render estimates based on interior and exterior inspections, market conditions and the recent selling prices of comparable properties.

On the other side are data companies that vacuum up vast quantities of publicly accessible property information and help create automated valuation models (AVMs) that many lenders use for home-equity loan transactions. Increasingly, lenders also consult them to make primary mortgages.

Traditional appraisals cost \$300 to \$500 and can take more than a week to complete. AVMs, in contrast, are available almost instantaneously online and may cost a lender \$25 or less. AVMs power the estimates that anyone can obtain online free from Web sites that promise to tell you how much your house is worth.

Appraisers have resented encroachments by AVMs for years, in part because they have lost some of their business. They also have challenged the accuracy of AVMs, arguing that too often the estimates are inaccurate, especially when prices are changing rapidly.

But now many appraisers are upset about something they view as even more threatening. They claim that their appraisal reports are being systematically looted of key information without compensation or permission.

Appraisers say that one of the dominant electronic real property data companies, FNC of Oxford, Miss., is "extracting" proprietary data compiled by appraisers and reselling it to lenders and others who

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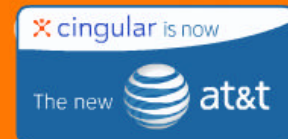
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may load it into AVMs. To add insult to injury, appraisers say, they pay FNC \$5 per report when they send valuations to lenders in electronic form using FNC's online platform, AppraisalPort.com.

"We are paying them and they are stripping out our work product without paying us a dime," said Patrick Turner, a Richmond appraiser.

Angela Atkins, a spokeswoman for FNC, said the firm is within its legal rights and extracts only property-description data from appraisal reports, not proprietary narrative analyses or value estimates. FNC is building a national property-data repository -- analogous to the three national credit bureaus -- for its lender customers, most of which are among the top 30 highest-volume mortgage companies in the country, Atkins said.

"We are not an AVM company, and we could not exist without appraisers," she said.

Turner said, however, that the physical descriptions that he and thousands of other appraisers include in their reports -- square footage of interior space, numbers of rooms, floors, bathrooms, bedrooms, lot dimensions and the like -- are proprietary because they often are more accurate and up to date than publicly accessible records.

He cited an appraisal he completed recently outside Richmond, where publicly recorded data indicated that a house had 1,100 square feet of habitable space. His measurements showed that it had 2,900 square feet above ground and a newly renovated basement of 1,200 square feet.

"Imagine the difference in [appraised value] between a 1,100-square-foot house and a 2,900-square-foot house," Turner said. Computerized valuations "can't be accurate when the public records they are relying on are out of date or wrong. That's why everybody wants to strip out our data -- it's valuable because it's accurate and current -- but they don't want to pay us for it."

Turner said he and other appraisers are discussing how to take better control of their data. Copyrighting appraisals is one possibility, legal or regulatory relief are others.

In the meantime, he said, consumers should pay closer attention to the appraisals used in their real estate transactions. Computerized valuations "can't smell, can't see, can't hear" and may be based on outdated information in fast-changing markets, he said. That, in turn, could cause buyers to overpay by thousands of dollars. It could also cause sellers to cut prices when a computer-assisted valuation comes in with an inaccurately low number, causing lenders or borrowers to balk at contract prices.

Turner also advised buyers to demand copies of full appraisals to make sure they are done by licensed professional appraisers and not an electronic black box. "Nobody should pay \$400 for an appraisal that was done by a computer somewhere and cost \$25," he said. Not only is that a violation of federal rules banning markups of real estate settlement services, he said, "it's just another form of stealing."

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