Plan to Reduce Human Appraisals May Lead to ‘Wildly Inaccurate’ Estimates

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Federal agencies have proposed a plan to reduce the number of homes that require an in-person appraisal, hoping to speed up the closing process and save money for home buyers and borrowers looking to refinance. Under the proposal, which was developed by the Federal Deposit Insurance Corp., the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency, in-person appraisals would be necessary only for homes valued at $400,000 or more. Currently, that threshold is $250,000.

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Automated home evaluations likely would take the place of in-person appraisals for qualifying properties—a move appraisers warn could lead to inaccurate estimates and more sellers who are unrealistic about home value. Automated evaluations “provide an estimate of the market value of real estate but could be less burdensome than appraisals because the FDIC’s appraisal regulations do not require evaluations to be prepared by state-licensed or certified appraisers,” the agency said in a statement. “In addition, evaluations are typically less detailed and costly than appraisals.” Such evaluations have been required for transactions exempted from the appraisal requirement since the 1990s.

The plan would not apply to government-backed loans through agencies such as the Federal Housing Administration, Department of Veterans Affairs, or Fannie Mae and Freddie Mac, which have established their own appraisal rules and standards.

Buyers and homeowners who are refinancing could save an estimated $500 by forgoing an in-person appraisal. However, appraisers say automated appraisals are unreliable. “Automated valuation

models are when you throw a lot of data in the hopper and flip the switch; it churns, and it spits out a value," Jonathan Miller, president and CEO of New York–based appraisal firm Miller Samuel Inc., told realtor.com®. The problem, he says, is that AVMs don't account for property condition, which lead to "wildly inaccurate" estimates.