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Dodd-Frank Financial Reform Bill - How it has implications for appraisers

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The Dodd-Frank Wall Street Reform and Consumer Protection Act is now law. This wide ranging legislation, spawned out of the fires of the Great Financial Meltdown, intends to change the financial landscape beyond recognition.

I'll leave those types of evaluations to the experts. Let's consider how it affects appraisers.

The bill's portions related to real estate appraisers clearly tilt towards appraisers' concern with the HVCC's effects. Some effective lobbying clearly went on which persuaded the bill's crafters.

One key appraisal-related provision has to do with "customary and reasonable" fees. It indicates that "lenders and their agents shall compensate fee appraisers at a rate that is customary and reasonable for the appraisal services performed in the market area of the property being appraised." This doesn't sound remarkable except that Congress put in some teeth; "fees may be established by objective third-party information, such as government agency fee schedules." (Some believe the VA's fee schedule would meet that requirement.) The law calls for study of fees; such studies aren't to include those done by appraisal management companies.

Some say there is no provision for defining an objective third party nor are firm time lines established. Others believe no standards are established as to how data is to be collected, and, at what level - town, county, etc - or, how the reliability of any study is measured.

This early, the law's implications are not completely clear. Greater clarity should result once the Federal Reserve issues Interim Final Rules the end of this October if indeed "customary and reasonable fees" fall under its purview.

It's too early to draw too many conclusions but AMCs are not out of the picture; they will adjust and continue to be major players; appraiser mistreatment will not end; definitive "lists" of reasonable and customary fees is not imminent; despite the HVCC's "sunset", Fannie/Freddie will not completely lose their clout; banks and other traditionally regulated lenders not using AMCs should be able to gain some competitive advantage.

Dodd-Frank contains an important admonition: "those with an interest in the underlying transaction of the appraisal may not bribe, coerce, extort, or otherwise inappropriately influence the appraiser." Equally useful is language admonishing appraisers: "appraisers may not have a financial interest in the transaction involved in the appraisal. Those with an interest in the transaction may not mischaracterize the appraised value of the property."

The law, as related to appraisers, takes an immense step forward towards creating the socially and economically desirable goal of independent, objective, impartial, and competent property appraisals. The appraisal section of the legislation is labeled Title XIV. Is it destined to become as much of a household term as Title XI of FIRREA?

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