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Darkest at Dawn... Those with experience and staying power will emerge out of the ashes

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Appraisals are at the core of most financing related transactions. Much is said about the accuracy of appraisals, the pressure brought to bear on appraisers, and cures put into place to remedy abuses and deficiencies in the appraisal industry.
Given the importance of the function, appraising doesn't appear to be a growth industry. That makes sense, given the performance of real estate and, in particular, of housing over the past several years.
I've written about this before but it's curious to me in the extreme that in the midst of the worst housing market in memory, appraiser ranks shrank and anecdotal reports indicate that many appraisers experienced abysmally bad years over the recent past.

For those going back that far, they can recall the bad times of the early 1990's when there were far many properties needing to be appraised than there were appraisers. The ultimate result of that unprecedented time was the creation of the limited appraisal, i.e., an appraisal short of a complete appraisal process and which invoked the USPAP Departure Provision.
The limited appraisal had its place but surely was misused by crafty clients and appraisers. By the beginning of the new century, not only were limited appraisals widely used but it was determined that exterior only (drive by) appraisals were sufficient for many transactions and saved time and money.

As the refinancing boom began, the GSEs developed computerized underwriting systems - risk management models - which, when combined with new appraisal forms developed specifically to feed these systems, were able to direct appraisers into scopes of work appropriate for the level of perceived risk.
Many of these appraisals consisted of exterior only inspections. Many appraisers performed these appraisal assignments, disquieted by the lack of interior inspections and their effect on the accuracy and, indeed, on the appraisal's credibility.
Changes in USPAP to adapt to changes forced upon it by the lending industry during this time provided more clarity and protection to practitioners. The limited appraisal was replaced with a more comprehensive scope of work concept. This was a welcome change but did not solve the essential problem, the lending world's irresponsibility in pursuit of more "product", more volume, and more profits. We all know how this turned out.

In the current downturn, this type of explosion of appraisal work that occurred in the 1990's did not happen this time. In a way, the lending industry has further "improved" on the limited appraisal/exterior inspection by making heavy use of broker price opinions and other appraisal-like products with the idea that while these products lacked the accuracy and comprehensiveness of an appraisal by an appraisal, they were "close" enough. Appraisers, meanwhile, have been largely wallflowers or have been requested to become AVM operators.

Admittedly, much of the action has been on the portfolio level and those operating at that level choose to rely less upon appraisals than on high level programs. It's hard, however, to understand how a computer model can with any accuracy assess local conditions without a fair amount of additional assistance.

In the current environment, the lending business has found religion and has shifted back to underwriting that resembles the 1950's. And appraisals are being subject to unprecedented scrutiny. As one appraiser noted, appraisals are not being "reviewed" so much as they are being "graded" like term papers.

"Full" appraisals are the norm once again. Interior inspections are all the rage. Appraisal management companies rule and appraisers, while nominally free of valuation pressure due to the HVCC, are pressured with absurdly short turnarounds and crammed down fees.

Let's add another piece. The average age of appraisers has crept up based on industry surveys. This is not a young person's business as it is presently constituted. Given low work volumes and arduous working conditions, why would persons flock to this business, even in a bad economy?

These dismal conditions won't last forever. They can't. Demand and supply will cross over. Those with experience and staying power will emerge out of the ashes of the housing bust and new appraisers, despite tough entrance requirements, will enter the business and bring skills and education that will improve what appraisers do. The lending industry may even emerge from this crisis with better procedures, having been not so gently nudged down that path by the nation's lawmakers.

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