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Public trust in the real estate appraisal process

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Over the last several months, there has been a lot of talk about "public trust" and the real estate appraisal process. So what is "public trust"? Simply put, it essentially means that within our democratic process, the public holds the power to decide who to trust to run and operate our democratic process. Essentially, it is something that is earned. So why so much talk linking "public trust" with the "appraisal process".

The answer is simple, and one that most real estate professionals understand. Markets move and the Scope of Work for most appraisal assignments is to estimate a defined market value as of a point in time. A professional appraiser understands that it is the "market" that dictates value, not the appraiser. However, with the changes in the various real estate markets, often swiftly, the appraisal process can come into question, and the questions typically are fueled by ignorance. The reality is, the appraisal process works. It has worked, is working, and will continue to work, as long as the public understands and trusts that it is an appraiser's responsibility to provide an "unbiased" opinion of value.

The real estate appraisal industry definitely has been tested over the past couple of years. The media is not short of war stories on situations involving fraud, etc. that cause the public not to trust the appraisal process. Though these stories may be difficult for most professional appraisers to quietly tolerate, the truth is, the real estate profession knows that anyone who engages in the appraisal process that misleads the public is not an appraiser. The same is true of any profession. The bright spot, however, is that these situations have actually elevated the profession as a whole, enhancing "public trust" in the appraisal profession.

Since the Great Depression, the appraisal industry has been dealing with the growing pains of becoming a true profession. The recent changes in the industry could be perceived as a final growth spurt in becoming a formal profession. Just a quick review of the changes over the past 20+ years displays the growth. In 1989, after the savings and loan situation, the Financial Institution Reform, Recovery and Enforcement Act (FIRREA) was adopted that set regulations for federally regulated financial institutions to follow pertaining to the appraisal process in lending. Shortly thereafter, the Appraisal Foundation was formed by a federal mandate and the Uniform Standards of Professional Appraisal Practice (USPAP) were created. Subsequent to USPAP, most states, including those in New England, created appraisal licensing laws and established appraisal commissions to oversee the licensing process. This act created minimum standards of education and experience required to become a professional real estate appraiser.

During the past couple of years, there have been a number of changes to USPAP clarifying the appraisal process. Most states have also realized the education and experience thresholds originally set were too low. Many state real estate appraisal commissions, including Connecticut's, now have tightened up the requirements for obtaining a real estate appraisal license. This past year, a number

of states have also passed laws regulating appraisal management companies, which essentially resulted from the Home Valuation Code of Conduct that was created due to insecurity by the public over the relationship between the mortgage broker - lender - appraiser in providing residential loans. Fannie Mae, Freddie Mac, The Veterans Administration, and the Internal Revenue Service have all been adopting more defined guidelines for the appraisal process. Finally, in the past couple of months, one of the biggest changes to come involves new requirements in the Frank-Dodd legislation yet to be enforced. All of these changes are meant to shore up "public trust" in the appraisal process further defining the act of real estate appraising as a true profession.

Despite all of these changes, there is one fact that the public seems not to want to accept and it is the foundation of the "trust" part of the equation. The reality is, becoming a professional real estate appraiser requires more than just guidelines and formal education, or even continuing education. It requires experience - or the dirty word of "time".....

The Appraisal Institute has taken great strides to assure public trust in the appraisal process. In addition to providing input into various legislation, providing education, awarding designations to those who have demonstrated professionalism, the Appraisal Institute also has its own Code of Professional Ethics and Standards of Professional Appraisal Practice that goes beyond the minimum regulations required by states for licensing or adopted by USPAP. It is in these additional requirements that Appraisal Institute members understand, and take great pride, that as a professional real estate appraiser, we have a stay in the "public's trust" over the appraisal process. How? - By taking the appropriate time necessary to develop a credible and supported valuation analysis, one appraisal at a time.

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