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Low ball, high ball appraisals: Are we better off? At what cost to the integrity of appraisers?

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During the height of the market, no value could be too high; no sale price unjustified by market evidence, whatever and whatever it might be. Appraisers were just "reflecting" the trends of supply and demand in residential markets. The inflated values of the previous decade were an outgrowth of housing markets inflated by cheap and delusional money, buyer and lender greed, and appraisers fueling an upward cycle. Despite protestations, appraisers were so eager to please their clients and collect a fee that they helped facilitate sales, wittingly or unwittingly, that would create the next upward bump in the market. A bunch of appraisers surely should end up in jail for their antics during the boom.

The market finally and collectively and in a very big way put a stop to all the nonsense. We then entered the era of the new ice age in real estate. Lenders became very concerned about all the things they blithely ignored or explained away for so long and devised new methods to measure risk and check on appraisers, whom they never really trusted that much anyway but had to put up with since machines had not totally taken over the process.

In the current environment, we have seen a complete reversal of appraiser behavior that was "normal" during the boom. Now, it's not so much how high, but how low. This is the era of the "lowball" appraisal. Appraisers engaging in behavior as a result of operant conditioning by underwriters and AMCs now look for ways to get values as low as possible. Is a low value better than a high value? USPAP doesn't really care; USPAP wants value opinions that are supported. So, should appraisers engaging in this type of behavior be treated any differently than those appraisers to whom the sky was the limit during the boom?

Neither extreme is correct. Neither extreme is professional. Neither extreme gives the market valid market information and adds nothing to boost appraisers' credibility.

Where appraisers were once pressured to come up with the highest values, it seems that the reverse is now happening. In a curious perversion, ostensibly in the interests of prudent lending and sound valuation, appraisers are being pressured to come up with artificially low values. Further, residential appraisers are burdened with excessive, specious requirements and inadequate compensation. This prevents them in many cases from spending sufficient time in developing credible value results, rather spending unproductive, undercompensated time in dealing with irrelevant and demeaning requests from lenders.

Dodd-Frank, HVCC, The Final Rule were all designed on their face to protect appraisers from undue pressure and to eliminated the abuses prevalent during the boom. However, are they allowing appraisers to function independently, objectively, and impartially as they are charged under USPAP? The current environment may work against promoting desired appraiser behaviors.

Clearly the lending industry is running scared after the market meltdown and the sweeping changes in the business of lending. The environment is filled with a lack of trust which extends directly to appraiser activity.

Coupled with the grip that Appraisal Management Companies (AMCs) hold over lenders and appraisers, it is no wonder that appraisers currently are working at a disadvantage that rivals the untenable conditions under which they worked during the boom times.

What good are all the changes made to promote unbiased appraiser behavior if appraisers aren't allowed to discharge their professional responsibilities? Is it any wonder why many appraisers have moved out of residential appraising since it has become increasingly difficult to carry out their professional responsibilities and make a decent wage?

There isn't much difference between appraisals supporting artificially low values in the current market and the overly optimistic values that were developed during the boom. Neither extreme serves the public trust, does not promote order in real estate markets, and does not meet USPAP requirements.

We may not be that much better off in the new environment. Without doubt, it is an improvement over the old ways, but at what cost to the integrity of the appraisal process and to public confidence in appraisers?

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