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John Petersen - Some pondering about the appraisal field

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As the dog days of summer approach and we start focusing on our vacations more than the work at hand, I thought it might be appropriate to offer some "ponderings" rather than bore you with my usual gruel.

First, I have to admit that I haven't been closely following the controversy over "customary and reasonable" fees for appraisals, as referenced in the Dodd-Frank Act. This seems to be entirely a residential appraisal issue. Since our firm does no residential "form work," I beg your indulgence if I sound both ignorant and somewhat indifferent. But could someone bring me up to speed as to why congress should be setting fees for appraisals?

My limited understanding of the issue is that appraisers convinced congress that setting "customary and reasonable" fees was necessary to prevent appraisal management companies from taking too much of the appraisal fee, thereby leaving only unqualified appraisers willing to accept assignments at uneconomic fees.

Hello! If the appraiser holds a license for the type of property to be valued and he/she complies with the Competency Rule in USPAP, then the government has no business interfering in the appraisal services market. Fixing prices through artificial schedules does not guarantee better appraisals. It seems to me that this is more of a lack of enforcement issue, rather than an insufficient fee issue. If an appraiser is found to produce substandard work, then the state board of registration needs to take appropriate action. If the appraisal profession got rid of the dead wood, fees would seek a level sufficient to support competent and ethical appraisers.

While we're on Dodd-Frank, the regulatory agencies charged with writing rules to oversee the derivatives market have had to request extensions, at least partly due to the size of the market and complexity of the issues. Did you know that the derivatives market is roughly $600 trillion (that's trillion, with a "t")? Do you even know what a derivative is? I don't, and I suspect that other than the relatively few people that trade these things (and even fewer within the Commodity Futures Trading Commission), most of us have no clue.

My pocket dictionary defines derivative as "1. adj. derived from something else; 2 n. something derived." Good. That clears that up. So we know that a derivative is derived from something else. Does this mean that there is an even bigger market out there, maybe much larger than $600 trillion, from which the derivatives market is derived? Kind of like the solar system within the Milky Way galaxy. These are probably known as super-derivatives. Where would one purchase a super-derivative? I suspect that any number of Wall Street investment banks would be glad to sell me a super-derivative. And the ratings agencies would be more than happy to stamp it AAA for the right fee. Intuitively I know I couldn't afford a super-derivative, but maybe I could afford a part of a derivative; maybe a sub-derivative; more likely, a mini-sub-derivative. Maybe if Dodd-Frank had extended its authority to include commercial appraisal fees, I could afford to buy a few mini-sub-derivatives that I could put away for retirement. That and a few sovereign Greek bonds and I'd be all set!

Closing thought...If nurses and doctors are care givers, what is a caretaker? Accordingly, we should change our valediction from "take care" to "give care."

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