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Compliance virus: Doing our job while looking over our shoulders

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I have witnessed some interesting behavior from appraisers recently. It is due to a malady which has become as pervasive as the common cold: The Compliance Virus. After a decade of free-wheeling lending and appraising practices, it seems we appraisers are doing our job while looking over our collective shoulders.

In past years there were fewer regulations, and failure to meet the existing regulations did not carry the threat of cessation of your livelihood. This does not mean to imply that sound lending did not occur at that time, only that it was not driven by credible enforcement. Frank/Dodd and the Consumer Financial Protection Bureau have changed all that.

State Boards have become more active in investigating and prosecuting appraisal complaints, and appraisals are facing scrutiny from underwriters on all levels of the lending process. While it could be argued that this level of review is warranted based on the housing crisis, the subsequent effect on current appraisal quality has me concerned.

Fed chairman Ben Bernanke reflected this concern in January 2012, when he stated in his White Paper to Congress:

"...extraordinary tight standards that currently prevail reflect, in part, obstacles that limit or prevent lending to credit worthy borrowers. Tight standards can take many forms...stricter appraisal standards..."

I see conscientious appraisers influenced by the desire to be compliant to such an degree that it potentially damages the quality of their work. Two examples: I heard of an appraisal company whose policy is NOT to measure the subject dwelling, but instead to use town hall reported GLA. (Is this to prevent a question from underwriters as to why their GLA may differ from town records?) Secondly, a well-meaning appraiser was questioned as to why a comparable located on the subject street was not used, replied that "the comparable was over six months old, and I didn't want to get an addendum for this reason..."

The temptation may be to provide compliant appraisal reports at the expense of credible appraisal reports. This is akin to playing a sport not to lose as opposed to playing to win. You will have vastly different results.

As we weather this transition time in appraising, we need to be USPAP compliant. But we cannot sacrifice solid valuation results on the altar of technical compliance. Use the "out of the box" data if necessary for a sound report, but take a few moments to explain your reasoning. Preventative medicine may prevent this common cold from becoming something far more serious.

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