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DÃ©jÃ vu, appraisers under pressure and the return to dodginess

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Sign of the times we live in: I picked up the phone recently and there was a mortgage broker at the other end inquiring about my appraisal services. The broker and I had an enthusiastic conversation, discussing our mutual friend. After a pause the broker said, "Now, all this sounds good. Before I order the appraisal. I need to know what comps you are going to use so that we have an idea as to the value range you are likely to come up with."

My clever response, after a quick recovery from an increasingly incredulous pause, "that sounds great, let me get back to you." After putting down the phone, I began trying to understand what I had just heard. Did I just hear a request for a "comp check?" I think so. Because I did, and having experienced something akin to time travel, and just feeling like I was transported backwards, I think I have to write this column.

Prior to this somewhat out of body experience, I have spent some time over the past couple of weeks talking to appraisers about the kind of pressure being experienced by commercial and residential practitioners alike in today's lending environment.

Many valuation professionals barely tolerate AMCs, Fannie Mae, and dumb/devious lenders. Under it all, there is a feeling that FIRREA, HVCC, Dodd-Frank, and all the various rules and regulations - both sensible and nonsensical - that allow appraisers to function independently and without coercion are somehow, at their sources, unfair.

We may not have come that far from those wild and frothy days of 2005 as we think we have. In fact, my research suggests that appraisers may not be as free as they once were.

In this cleaner environment, appraisers presumably have been enabled to act freely and provide solid opinions of value without coercion and undue influence. But freedom comes at a price and that price may mean less work.

Lending clients have figured out that overt coercion is not necessary. There are other ways of achieving the same end. What typically happens when an appraisal comes in "under value" or an appraised value does not match the sales price? Nothing good.

In this context, questions arise about every aspect of an appraisal report. Dark forces begin their work. Meaningless errors become cause for discrediting the appraiser, the report, the value. Chance utterances are held against the appraiser. Locational competency is questioned. Replies by email are demanded and broadcast to the world. Reviewers and underwriters ask for more comps, better comps, additional listings, more data, explanations of why a dozen irrelevant sales were not used as comparables, contorted misinterpretations of USPAP, accusations of "not knowing the market" and endless request for report revisions and addenda. These lenders, wanting to extract their own measure of retribution will set appraisers free by giving them little or no further work.

It's a tough lending environment out there. Every deal is important because the next deal isn't

waiting outside the door. Consumers, both commercial and residential, have options. There are a lot of lenders out there chasing not so many borrowers. True on both the residential and commercial sides of the fence.

Appraisers for the most part have to rely on lending work. Those that don't have their own set of challenges. The lending environment is deal oriented. The appraisal is an essential part of the deal. More than one source has talked about the deterioration of underwriting standards. While this mostly applies to commercial work, it is not entirely inapplicable to residential practice. There is less wiggle room on that side but the appraiser's opinions are once again fair game.

However, it's not all about lenders. There are appraisers out there willing to play the game. A recent Wall Street Journal Article talks about "dodgy" appraisals making a comeback. Nothing new here, appraisers willing to make the deal work.

So, in the words sung by Janis Joplin: "Freedom's just another way to say nothing left to lose." An appraiser unwilling to play the game - some of us think we are playing a game where the rules are made up as we go along - might be free.

If you don't remember 2005 or weren't around then, it might be worth doing some studying up on it. Because, as Churchill said: "Those who fail to learn from history are doomed to repeat it." Consider that when you get the call for a comp check. Enjoy the holidays. Let's see about 2015: will the system work as revamped, will deal flow improve, will freedom win out, or will "dodginess" and dark forces prevail?

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