



# nerej

## **MBREAs plan to encourage the government to help the market**

May 07, 2008 - Appraisal & Consulting

"How do we scare them today," this seems to be the theme for all of the so-called news shows on television. Foreclosures rates are going to be the highest in history. Markets are going to be in turmoil for years to come. Real estate is going to devalue and people are going to lose everything they've worked hard for. The government has to do something.

Why? It is a shame that the people who are still buying real estate were not told about all these problems; or maybe they don't perceive them as such. Two separate real estate newsletters report that brokers are gearing up for the spring market. Statistics in one of the newsletters showed a 1.49% decline in single family median price over 12 months between January thru December for the years of 2006 and 2007. Are some people in trouble? Yes. Has the market crashed and burned? No. Markets are cyclical. They are like sinusoidal wave forms. They go up and they come down, and they have been doing this since time immemorial.

Lawmakers are debating a plan to stop foreclosures while large mortgage lending corporations are going out of business or are being bought for pennies on the dollar; but isn't this just the market at work? Consumers bought homes during an appreciating market with some paying more than the property was worth. Consumers took advantage of no documentation adjustable rate mortgages, with low starter rates, and loan to value ratios of 125%. Homes had equity and that meant purchasing power for new cars, trips to the Caribbean or to Europe, to buy jewelry, electrical appliances, big screen televisions and computers. Consumers decided to pay for this consumption over 30 years at 4.85% for the first few years, depending on the reset of their particular mortgage. A lot of people refinanced and took out equity more than once, some up to a half-dozen times, over the course of the last five years. Then the market stabilized and their mortgage rates reset at a higher level and these same folks realized that they couldn't pay their bills. In many cases there wasn't any equity left in their homes and banks started to foreclose. It is unfortunate, but it happens, and it has happened before. It seems we have these built in forgetters. Back in the 1980s they had a term, "conspicuous consumption." It was what triggered FIRREA, appraiser licensing and certification, USPAP, and the Appraisal Foundation. Government agencies like the Resolution Trust Company bought the REO properties from the banks and sold them at highly discounted prices. The market depreciated for a few years, and then stabilized for a few more before starting the next wave of appreciation in the late 1990s. This sinusoidal wave pattern will continue because that is what markets do.

However, the agents of change are at it again with a new, "Code of Conduct" and "oversight." The problem is that the Code of Conduct will sunset after 29 months, but the change and bureaucracy that is formed will go on forever. Meanwhile, H.R. 3915, that addresses the same issues in a superior fashion, sits stalled in the senate banking, housing and urban affairs committee. Rather

than a new code of conduct and new bureaucracy I would rather see real legislation with enforcement. The MBREA has sent a letter to the New York attorney general, Fannie Mae and Freddie Mac, stating the concerns we have about their settlement and how we believe it will impact our profession. It also appears that other organizations that first supported this self-policing are changing their minds with the help of their members.

My rant is about just one area, regulation, that professional appraisers must deal with daily. It is a task that is time consuming for any individual to stay on top of and understand.

Wayne Valliere is the 2008 president of the Mass. Board of Real Estate Appraisers, Dedham, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540