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The blame game: Appraisers blamed for housing market

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It hit on August 18th. Now known as "The Article" in appraisal organization circles, the AP piece written by Mitch Weiss was the first article to hit the mainstream media that put a good share of the blame for the current housing crisis on the residential appraiser. The article was carried in the Boston Globe, New York Times, and MSN among others. "The Article" carried various titles including "Rogue Appraisers Went Unpunished" and "Regulations Affecting Appraisers Largely Useless."

I have said it before and I will continue to say it; residential appraisers played virtually no role in the current housing market downturn. Mostly a cyclical "bursting of the balloon" caused the current downturn, the inflation of which was made quite large by lax lending standards and easy credit. In other words, too many people who shouldn't have qualified for loans, or loans of a certain size, were approved, which in turn put many more people in the market for a home. This in turn drove prices past where they would have gone if traditional lending standards were in play, creating a larger bubble to burst. An appraiser saying a home was worth \$410,000 in 2005 when it was probably only worth \$400,000 is hardly the cause of today's down market.

"The Article," however, is a good opportunity to discuss the role of the appraisal in the residential lending process. First, the appraisal is simply a snapshot in time. If an appraiser said a home was worth \$400,000 on January 1, 2005 and there was solid data and evidence to support that conclusion then that is fine. But it means nothing for the value as of September 2008. Markets change and so do values. That sounds pretty self evident but many of the arrows being slung at appraisers today use examples of properties being appraised and sold in 2004 or 2005 for "X" and now being re-sold at auctions for prices far less than "X" as solid evidence that the appraiser must have committed fraud. The appraisal does not come with a 15 or 30 year "value guarantee".

Second, the residential appraiser should not be considered the mortgage "gatekeeper." What do I mean by this? If typical buyers in the market are paying \$400,000+ for homes in a neighborhood that traditionally saw prices in the \$300,000 range then that is what the appraiser should report. It is not up to the appraiser to regulate prices. It is not the appraisers' role to tell the potential buyer "they are crazy for paying that price in this neighborhood." Again the appraiser simply must mirror the market and support all projections with verified market evidence.

Regardless of my opinion that the residential appraiser played virtually no role in the current housing market downturn, government is getting involved to "fix" the appraisal process. Initiated by New York attorney general Andrew Cuomo, the "Independent Valuation Protection Institute" will take effect in

2009 as part of legislation aimed at reducing pressure on appraisers from lenders.

Now, reducing coercion of appraisers is certainly a good idea. It is the common theme of most of the new legislation aimed at "fixing" the appraisal process. However, virtually none of the new appraisal legislation being proposed addresses the true and needed solution - increasing professionalism among appraisers. A true professional; one with extended time and money invested in education is more likely to deliver accurate and unbiased opinions than an appraiser who, because of continued downward pressure on fees, is making a salary that is not much more than minimum wage. The latter has limited stake in continuing in the profession and is less likely to deliver professional results.

In short, stop the blame game and address the real solution to the problems in the appraisal process by requiring higher standards and increased professionalism among appraisers. Stop making low fees and quick turn around times the priority in the appraisal process.

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