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CELEBRATING 55 YEARS

A message to appraisers: Should we be mad about the state of the economy? Part 2

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Part one appeared in the September 12th edition of the NEREJ in the Appraisal and Consulting section.

Some of the participants to share the blame: unknowledgeable buyers and homeowners, greedy homeowners, speculators and investors, the lenders and brokers who helped to create the unmanageable debt burdens, lenders, appraisers, real estate agents, investors and their brokers, and regulators, to name but a few. Virtually no one gets away clean in this tale of greed and stupidity.

Now, this has all come to a government bailout on a massive scale with the lender of last resort involved in propping up investment banks, residential lenders, and even Freddie Mac and Fannie Mae. The solution has all been sold to the taxpayers very quietly and not like before, since no one wants to see the sort of fear and trembling that resulted from the large bank failures last time. But this is a bailout at the taxpayers' expense again. Any of us who managed our affairs prudently and conservatively now get to help pay for everyone else's excesses.

Is blame constructive? Is there hope for a turnaround? Yes and yes. The markets will turn around, some more slowly than others; lessons will be learned. The fallout is far from over. There will be no shortage of litigation over the next years as the blame game commences.

And the bad news is not over. Here's one for instance. Lenders, many of which are smaller banks, are struggling with underperforming and nonperforming residential development loans. These have the potential to seriously damage many institutions. Further, in the credit market meltdown of last summer, many major real estate lenders withdrew from the market. This gap was filled by smaller local banks which, in the face of lower loan volume from traditional sources, eagerly jumped in to book loans with attractive returns with unfamiliar borrowers and property types. Thus, the outcomes from this mess will be with us for a while and how quickly will we forget!

The next step in the blame game is the finger pointing and litigation. Rating agencies will come in for their fair share of blame, lenders will be embroiled in suits, banking agencies will descend on institutions and deal harshly with them, some institutions will not make the "cut." Investors (including many banks) will write off debt, the bailout will continue, and regulators will come up with yet another way to deal with a problem that already took place.

To sum up, the mess of the latter part of the decade is part of a great economic experiment played out in real time with real people and real money. The experiment appears to have consisted of seeing how little regulation (and what kind) is necessary for markets to be self-regulating. Sometimes it takes a scientist many experiments - many of which can be termed as inconclusive or failures to get a final answer. This experiment indicates there was not enough regulation of the right kind and the experiment in terms of its effect on the affected population's financial affairs and lives can be judged a failure. Onto the next great experiment!

In the words of Howard Beele, "I want you to get up right now, sit up, go to your windows, open them and stick your head out and yell - 'I'm as mad as hell and I'm not going to take this anymore!" Such an act is unlikely to do much good but might serve metaphorically to build memory for the next time before we put our money and futures at such risk again.

If history can guide us going forward, we won't be any better seeing future problems, but we can build into the system ways to limit their severity. We said that after the 1990s debacle: never again. This time we thought we had adequate controls in place to prevent something like this from happening. However, the cracks took place in an unwatched part of the dam so this time around is bad in a different way.

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