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Have we learned nothing about Federal Funds Rates?

October 10, 2007 - Financial Digest

Just a few weeks ago, Federal Reserve chairman Ben Bernanke reduced the Federal Funds Rate. All this to avert a credit crisis, or worse, the potential for a worldwide economic collapse. Since then, federal, state and local governments, non-profit agencies and respectable credit providers have mobilized. Their aim is to find ways to protect homeowners while keeping the country's financial systems solvent. Some great programs have been proposed, and some are well on their way to being successfully implemented. Some progress appears to be moving forward to criminalize the practice of pressuring appraisers to provide inflated opinions of value.

Yet, just this week, I've been hearing from residential appraisers reporting that, despite the best intentions of the lending industry, the pressure continues. This time, the pressure takes the form that it typically took in the past, "Can you help us to help these homeowners? They were taken advantage of by an unscrupulous lender and are facing foreclosure. Can you help us out by appraising the property at 80% of the outstanding loan amount?"

In other words, the "unscrupulous" first lender cooked the books with the first loan and we're looking to cook them just one more time. Now I'm not saying that many of these homeowners don't deserve some help. What I am saying is that the risk should be assumed by the homeowner and the lender... not by the appraiser.

Too many appraisers see the homeowner as the ultimate beneficiary of their services; if the homeowner gets the loan, then the job has been done well. In fact, the client is the lender, and, by extension, the entire financial system. Too many appraisers have no idea of the risk they are assuming. If they understood that their signature means that they are on the hook for the excess valuation, it is likely that they would be much less likely to try to be "good guys" trying to make sure that the deal works. By the way, Errors and Omissions Insurance doesn't fully absolve the appraiser or the lender from a total collapse of the financial system.

Though it looks easy, appraising is a hard job in a rising market. Appraising in a stable market is slightly harder. But, appraising in a falling market is the toughest of all. If the opinion of value is too high, the market for homes and financial products is at risk; if it is too low, those markets face the same risks. The appraiser has the responsibility to honestly communicate what is happening in the market. That responsibility carries with it a high risk.

More than ever, those who purchase appraisal services need to make sure that the appraiser is ethical and competent. There is no better way to do that than to make sure that the appraiser has sufficient education and experience, and to make sure that the appraiser has been thoroughly vetted by a jury of his peers. The greatest danger is the appraiser who doesn't know that he doesn't know.

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