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## **Appraisal regulation: A brief history - by William Pastuszek**

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With the issuance of a new edition of USPAP, after a four-year hiatus, this is a good time to review some aspects of appraisal history and appraisal regulation.

According to The Appraisal Foundation website, The Uniform Standards of Professional Appraisal Practice (USPAP) is the generally recognized ethical and performance standards for the appraisal profession in the United States. USPAP was adopted by Congress in 1989, and contains standards for all types of appraisal services, including real estate, personal property, business and mass appraisal. Compliance is required for state-licensed and state-certified appraisers involved in federally-related real estate transactions.

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). FIRREA is a law that revised the federal government agency structure and rules governing the U.S. savings and loan banking system and the real estate appraisal industry, passed in 1989 in response to the savings and loan crisis of the 1980s.

Major changes affecting real estate appraisers as result of enacting the law included regulations to ensure that real estate appraisals are performed appropriately. Included are requirements for adequate documentation, for training of appraisers and their supervisors, and requiring appraisals to conform with USPAP.

Some other historical curiosities included creation – temporarily – of the Resolution Trust Corp. to resolve the assets the nation's failed savings and loan institutions. Work from the Resolution Trust Corp. and a couple of other entities provided many appraisers – present company included – with much work during a period when real estate markets were in dire straits. It was a great training ground for a generation of appraisers. Also, the Federal Savings and Loan Insurance Corp. was abolished – savings and loan deregulation was one of the contributing causes to the real estate crises of the 1980's and the 1990's. Out of that came the creation of the Federal Deposit Insurance Corporation's funds. Further, FIRREA abolished the Federal Home Loan Bank Board and created two agencies: the Federal Housing Finance Board (FHFB) and the Office of Thrift Supervision (OTS). The solutions worked pretty well but refinements were necessary to promote appraisal independence as a result of the Great Real Estate Recession in the first decade of the 2000's.

FIRREA, legislation created in a time of great crisis, continues to remain relevant today. Its creation formed the regulatory framework that, while having undergone change and refinement to adapt to changing conditions, continues to guide the financial system, particularly in terms of appraisal work for lending purposes. Anecdotal evidence suggests that with USPAP and regulatory oversight, commercial appraisal practice benefits from FIRREA and USPAP requirements, resulting in accurate valuations providing effective risk mitigation.

FIRREA also created licensing requirements for appraisers performing work for Federally Related Transactions. Licensing in Massachusetts began in 1993. Prior to FIRREA, there was no effective regulation of appraisers. Appraisals, teamed with witless and devious lending practices, largely

contributed to the rolling commercial real estate woes of the 1980's and 90's. Despite complaints about licensing requirements, enforcement, and a shortage of appraisers, the system works reasonably well.

USPAP was originally written in 1986-87 by an ad hoc committee consisting of various U.S. and Canadian appraisal organizations. [The ad hoc committee was first created to provide a market value definition which is still in force.] The USPAP copyright was donated to The Appraisal Foundation (TAF) in 1987; TAF continues to publish USPAP to this day. USPAP has been adopted throughout the world.

Further, Wikipedia notes that USPAP provides appraisal performance standards that represent minimum requirements that allow appraisers and appraisal users to use to measure appraiser performance. USPAP does not prescribe specific methods to be used but requires that appraisers be familiar with and correctly utilize those methods which would be acceptable to other appraisers undertaking the same assignment and to the users – intended users - of the appraisal.

Real estate appraiser licensing was developed to provide education, experience, and performance requirements for initial licensing and for continuing education. Appraisal licensing is administered on a state-by-state basis, creating a patchwork of regulatory fiefdoms – licensing boards – and requirements. The siloed regulatory system still makes it difficult to get credentials in some states.

Initially, critics of licensing thought appraisal organizations were better equipped to provide credentialing, education, and oversight than creating another layer of regulation. However, barely one third of appraisers at the time were members of organizations. Rather than perpetuate the Wild West appraisal system in place in the financial system, practical wisdom prevailed, and appraiser licensing was put into place and continues to this day. Despite reforms being considered, the system will likely continue in much the same manner going forward.

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