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President's message: What a year for appraisers!

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As I write this article I have one day left in my term as president of the Mass. chapter of the Appraisal Institute. To say I picked an exciting year to be president would be a drastic understatement. Indeed we have seen a crash in the stock markets, a further depression of most real estate markets, credit markets at a near standstill, and predictions from many respected economists that we have seen the end of capitalism, as we know it. Other than that, pretty ordinary year.

The genesis of the current economic crisis according to many was the sub-prime mortgage meltdown and the toxic debt held by firms such as AIG, Merrill Lynch, Lehman Brothers, and Fannie Mae/Freddie Mac among others. The cause of this meltdown was loose credit standards, and in some opinions, poor appraisals.

Now, I will repeat myself. Appraisers have little to no responsibility for the current economic chaos. But that is my opinion, and in Washington D.C. and on Wall Street, my opinion matters little. The opinions that count suggest that changes are needed in the appraisal process.

There are 4-5 different pieces of legislation either being enacted or written regarding the appraisal process. Some are good, and call for increased professionalism and qualifications in the industry. A couple are disasters in the making and will lead to the end of the residential appraisal industry as we know it.

The HVCC or "Cuomo Agreement" is aimed at reducing lender pressure on residential appraisers. It will force all appraisals for residential lending purposes to be ordered through appraisal management companies or AMCs. It is expected to be enacted in 2009. It will not work as hoped. The pressure on appraisers to inflate values will only be shifted from the lenders to the AMCs. And the creation of these all-powerful AMCs will create further downward pressure on appraisal fees. Adjusted for inflation, residential appraisal fees are truly down about 25% from 20 years ago. Faster, cheaper is all that matters and as a result the quality of the appraisers left in the lender driven residential appraisal business will continue to decline. It is truly becoming more profitable to work at a fast food franchise than to be a residential appraiser in the lender driven segment of the market. But at least we won't have pressure from lenders. Yeah!

And if the HVCC isn't misguided enough, there is another piece of legislation being sponsored by Senator Dodd of Connecticut that calls for the bonding of appraisers. This is so consumers will have a private right of action against appraisers that commit fraudulent valuations. So after paying \$10,000 - \$15,000 annually for the bond, appraisers will be subjected to trial attorneys who will be able to scour through appraisals to see if their client was "wronged." This is great. Now if an appraiser says houses is worth \$400,000 today, and in three years they can only get \$380,000, guess whom Mr. Attorney is contacting? If this bill passes expect all of your favorite personal injury lawyers that advertise on radio to create "appraiser fraud" departments. "Has your home been under

or overvalued? Call me.

Not all of the proposed rule changes and legislation is misguided. Some are truly hitting the mark in their intent. In North Carolina there is a proposal to actually require that an appraiser have an office outside of the home. The intent here is getting the industry away from the trend of being a cottage, at-home industry.

Other rules, such as those enacted by the IRS put the onus of the quality of the appraisal on those who hire the appraiser. In other words, that deduction you are taking better be supported by a credible appraisal or you're in trouble. I like that one.

Next year is a real crossroads for the appraisal industry. Will pending legislation create further burden and drive quality appraisers out of the business? Or will the legislation finally address what is truly needed in the industry? And what is needed is a system in which faster/cheaper is not the criteria for hiring an appraiser, but rather who is most qualified. Make lenders and loan officers responsible for hiring the most qualified appraiser like the IRS is beginning to do. And then saving a few hundred dollars on an appraisal fee associated with a \$10 million-plus loan might not seem so important.

Happy Holidays to everyone and 2009 will be just fine.

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