



nerej

Sign up, get involved, be heard - It's your profession

July 08, 2009 - Appraisal & Consulting

Appraisers are happy to hear that, this time, the bank failures and the consequent collapse in housing prices is not being blamed on the appraisal profession. This time, long before the rest of the world realized that values had topped and were heading down, the appraisal profession was complaining about being pressured to report inflated values.

Most of us knew the market would be correcting, but few had any idea it would drop so dramatically and so quickly. And today, most of us are thinking that the market is oversold. But, until the rest of the market agrees, the panic continues. Until the banks and the investors are certain that the market has bottomed, few will lend, and few will take even "normal" risk. So, as long as mortgage money is unavailable, the number of transactions will decline, and sales prices will continue to fall.

Appraisers were slightly slow to react to the market changes, and were perhaps feeble in reporting the change. The lending community was slower to react, but has been much more forceful in its reaction. The government - the entity that turned out to be the insurer of last resort - was even slower to react, but boy did they react. They pumped billions of dollars into the banking system in order to keep it afloat.

The government also reacted by pursuing increased regulation. The most notable regulation to date - but probably not the last or the most forceful - is the Home Valuation Code of Conduct (the HVCC). It has caused uproar in the lending community, the appraisal profession and the consumer advocacy environment.

As usual, with the HVCC, the devil is in the details. When originally proposed, the HVCC had the right set of objectives - use governmental power to enforce standards regarding the relationship between lenders and appraisers - so that the government won't have to bail out the lenders again. The objective was clear - "don't pressure appraisers for inflated values." The final rules (fortunately not yet laws) created a lot of froth, but didn't necessarily address the underlying problem.

The honest lenders probably said "let's find an honest, competent Appraisal Management Company (AMC), and hire them to manage the administrative issues associated with the appraiser/lender relationship. Let the AMC find honest competent appraisers and let the AMC provide some level of quality control. That's a reasonable business model, and a reasonable business decision.

For the patently dishonest lenders, the solution was to hire an equally dishonest AMC...and let them pressure the appraiser. And there's the rub.

The rules have to be written so that the dishonest people and companies can be prosecuted. That requires specific rules, specific definitions, and specific penalties. Often, when writing these rules, one size doesn't fit all, but there needs to be some kind of check and balance in place to identify and discourage dishonest practice.

The solution is out there. And it looks like by the time it becomes law - not just regulation - all parties will have an opportunity to provide input.

As I've commented frequently before, the best way for appraisers to have their voices heard is through professional appraisal organizations.

Sign up, get involved, be heard. Its your profession.

Shaun Fitzgerald is president of Fitzgerald Appraisal, Easton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540