

# real estate

Sun., July 19, 1987

## Nation's Housing



**Kenneth Harney**

## Congress Is Preparing To Regulate Appraisers

**W**ASHINGTON — A key financial practice affecting the market value of your home is about to get new attention on Capitol Hill.

After months of drafting, landmark legislation will be introduced before the August congressional recess to police real estate appraisals nationwide. The bill is sponsored by Rep. Doug Barnard Jr., D-Ga., chairman of the House commerce, consumer and monetary affairs subcommittee. The bill will be the first federal attempt ever to force appraisers in every state to conform to at least minimal professional standards.

"The appraisal system today (in U.S. real estate) is lousy, to be blunt about it," said Peter Barash, staff director of Barnard's subcommittee. "If appraisers don't come up with the 'right numbers' for the client who hires them" — usually a lender, a builder, real estate owner or investor — "they're scared they'll never get repeat business again (from the client)."

"That's wrong. And that's what the bill will help correct."

**Barnard's bill** is the product of a one-year federal investigation of the U.S. real estate appraisal industry and its role in the financial difficulties of savings and loan institutions and banks. The inquiry found dishonesty, incompetence and outright fraud in appraisals across the country. It documented \$3 billion worth of inflated property appraisals alone in a sample of ailing S&Ls insured by the Federal Savings and Loan Insurance Corp. The FSLIC is now deeply in the red because of heavy payouts to depositors in bankrupt thrifts.

From rows of unsold condos in Texas to see-through, unleased office buildings in the downtowns of major cities, faulty appraisals often have been at the root of real estate deals that went belly-up, the subcommittee found. Had appraisers been unwilling to inflate or manipulate the values of the land or buildings involved, corrupt officers of lending institutions would have been deterred from at least some of their high-flying transactions.

Incompetence and sheer laziness are also commonplace in the unregulated home-appraisal field, the subcommittee study demonstrated. Home appraisers sometimes look at little more than the sales price on the buyer's contract — not at comparable sales prices actually closed on for similar homes in the area.

In markets where values are rising steadily from year to year, short-cut, no-eyes appraisals do little apparent harm. Inflation papers over the errors. But in markets where values grind to a halt periodically — or go backwards — slipshod appraisals on homes can leave lenders with billions of dollars worth of losses.

To remedy this problem, Barnard and his subcommittee have devised a multipronged approach. Their bill would:

■ **First**, create a federally chartered appraisal regulatory agency, charged with setting tough professional standards for real-estate appraisals and the people who make them.

The new "Appraisal Industry Foundation" would specify certification requirements necessary for any appraiser to be licensed to provide valuations on real estate financing with any form of federally related capital. That includes homes and other properties using federally chartered lending institutions or federally chartered mortgage-capital investors (such as Fannie Mae, the Federal National Mortgage Association) as lending sources for a sale or refinancing.

Since federally related financings dominate the real estate landscape, any appraiser who wished to conduct business on any significant scale would need to employ the certification-licensing and professional-training standards.

The foundation is patterned after a successful regulatory board chartered for the accounting profession. It would draw a majority of its membership from highly regarded appraisal associations, such as the Society of Real Estate Appraisers and the American Institute of Real Estate Appraisers. Top appraisal societies have endorsed the concept and welcomed the opportunity to weed out dishonest appraisers from the ranks of the profession.

■ **Second**, create licensing and disciplinary bodies at the state level. The Barnard bill would give sharp teeth to a network of state professional boards. When a complaint is lodged against a particular appraiser, the state regulatory group would investigate. If warranted, the regulators could suspend or terminate the license of an appraiser. They also could institute other legal action, including taking the offender to court.

By contrast today, according to subcommittee director Barash, "If you file a complaint about an appraiser, who handles it? What happens to it? It sits on a desk (at an appraisal association) and no one does a thing."

■ **Third**, charter a new federal government interagency appraisal oversight council. The new council would watch the foundation and state licensing boards, insuring that the "federal interest" in high-quality appraisals is being met.

The Barnard bill is likely to generate widespread support on Capitol Hill and help clean up one of the most fouled segments of American real estate. Who could stand up and oppose truth-in-values legislation? We'll see when hearings get under way later this session.