

THE WALL STREET JOURNAL

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REAL ESTATE

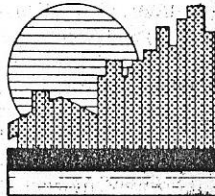
Embattled Appraisal Industry Faces Stiffening of Standards

By WILLIAM CELIS III

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PEOPLE CRACK A LOT of jokes about real-estate appraisers and their qualifications. At a bar in Washington where thrift executives recently gathered, for example, talk turned to the skills appraisers need. In response, one of the thrift executives leaned over to a colleague, put two fingers on the man's wrist and felt for a pulse.

To people in the industry and in Congress, however, the qualifications of those who are supposed to be expert in determining the value of property are no joking matter. Recent instances of faulty or fraudulent appraisals that have contributed to the failures of some thrift institutions have put the spotlight on the shortcomings of the highly fragmented real-estate appraisal business and have spurred efforts to improve standards and control. Congress will be considering a solution soon; the appraisal industry is working on one of its own.



For agencies such as the Federal Savings and Loan Insurance Corp., any improvement in the system will be none too soon. In April, for example, the FSLIC sued a Lubbock, Texas, appraisal company after an audit revealed that it had inflated values of certain properties in the portfolio of State Savings and Loan Association, a Lubbock thrift that collapsed two years ago. The faulty appraisals contributed to State Savings' failure, says the FSLIC, which has found itself taking appraisers to court more frequently. Since 1983 it has sued a dozen or so appraisers in thrift failure cases. Before 1983, says Jack D. Smith, deputy general counsel, suits naming appraisers were rare.

IN CONGRESS, Rep. Doug Barnard Jr. (D., Ga.), a former banker, is putting together a bill, expected to be introduced after Labor Day, that would affect the appraisal industry greatly. It would establish a private foundation that, among other things, would set minimum education and competency levels for real-estate appraisers. Appraisers with a minimum of five years experience would be given two years to comply with education and testing requirements; those with less than five years in the business wouldn't have a grace period.

The bill would also create a federal council comprised of regulatory agencies, such as the FSLIC, to oversee the quality of appraisals in federal projects.

Peter S. Barash, staff director for the House Commerce, Consumer and Monetary Affairs Subcommittee, says that part of the legislation is designed to give regulators more authority early on to do something about the problem of inflated appraisals, caused by incompetence or fraud, that result in bad real-estate loans that, in turn, put thrifts in trouble. "As it now stands, unless the institution fails, the regulators have no authority to stop this practice," he says.

The legislation would authorize states to set up independent licensing boards. They would have up to three years to do it.

Several states already have addressed the issue. Oregon, California and Nebraska have among the most comprehensive laws that force appraisers to satisfy minimum requirements for licensing. Louisiana passed a law regulating real-estate appraisers three weeks ago; 14 other states are considering such legislation.

THE REAL-ESTATE appraisal industry, meanwhile, has taken steps to correct its problems, hoping to avoid federal intervention on the scale proposed by Mr. Barnard. Two weeks ago, eight of the largest 25 groups that represent appraisers agreed to form a new group, the Appraisal Foundation. The foundation, which would represent about 76,000 of the 200,000 to 250,000 appraisers nationwide, would require a college degree and five years experience for certification. In addition, certification applicants would have to pass six exams and submit an appraisal for scrutiny in much the same way a doctoral candidate presents a dissertation to a faculty board.

The foundation would also help states establish boards to regulate appraisers if they don't have them already.

Predictably, government and industry officials don't agree on certain aspects of the competing proposals. Appraisal groups, for instance, oppose mandatory licensing as proposed by Rep. Barnard. "There is no reason for every appraiser to be licensed," says Richard C. Wolcott, president of the American Institute of Real Estate Appraisers, one of the eight groups that proposed the new Appraisal Foundation. Mr. Wolcott maintains that the industry group's proposal has enough teeth to police membership. But Mr. Barash, the House Commerce subcommittee director, says the industry needs an independent licensing board to give it distance from groups such as real-estate boards that have in the past certified appraisers. "There's an inherent conflict of interest in that arrangement," says Mr. Barash.

The odds, meanwhile, look good for Rep. Barnard's bill. "Given the role of fraudulent appraisals and the failure of some thrifts, we stand a good chance of getting favorable and speedy action in Congress," Mr. Barash says.

PROFITS PLUMMETED 40% in 1986 for the nation's mortgage bankers, the largest decline ever, reports the Mortgage Bankers Association. Mounting losses from delinquencies and foreclosures, as well as a rush of refinancings, squeezed profits, said the association, which based its conclusion on a survey of 124 lenders who represent 40% of mortgage companies' \$120 billion in mortgage originations last year.