



KENNETH HARNEY

Bill Could Turn Appraisers On Ear

WASHINGTON — Capitol Hill took its first peek at a far-reaching new proposal this week — a bill that could affect the appraised market value of your house, condominium, second home and other real estate.

It's called the Real Estate Appraisal Reform Act of 1987, sponsored by an influential House subcommittee chairman, Rep. Doug Barnard Jr., D-Ga. The end product of more than a year's worth of congressional investigation and hearings, Barnard's bill would turn the current American system of real-estate appraisal on its ear. In the process, it would also seek to save taxpayers and federally insured lenders billions of dollars of unnecessary expenditures.

Here's what the bill would do — to appraisers and to you — and why:

If you're like most homeowners or buyers, you have probably only had contact with appraisers when you go to sell, refinance or purchase a piece of property. Somebody comes to the property, walks around jotting notes, takes a few photos and disappears. At settlement, a charge for \$100 to \$250 shows up on the settlement sheet, paid for by either the buyer or the seller.

You've probably assumed — if you've given it any thought at all — that appraisers are like other professionals in the real-estate process. They're regulated in some way by the government, and they have minimal training requirements to fulfill before hanging out their shingle and telling people what real estate is worth.

Not so. Barnard's subcommittee's investigation found that:

In 48 of 50 states, anyone can hang out a sign and do business as an appraiser, almost overnight. There is no state, local or federal oversight or regulation of the field, with limited exceptions.

As Barnard put it last week: "I find it more than strange that if an individual wants to be a barber or a beautician — let alone a doctor, lawyer, architect, engineer or accountant — in any of our 50 states, he or she must meet certain qualification requirements, demonstrate competency by passing an exam, and be licensed and supervised by a state authority. And yet real-estate appraisers, whose market-value estimates are crucial to lending and investment decisions in projects often worth hundreds of millions of dollars, are untested and essentially unregulated."

The financial significance of appraisers' role was brought home dramatically by the Barnard subcommittee's year-long investigation of the nation's ailing savings and loans and banks. The probe found dishonest appraisals and outright fraud rampant across the country. It documented \$3 billion worth of inflated property appraisals alone in a sample of distressed S&Ls insured by the Federal Savings and Loan Insurance Corporation. FSLIC has run deeply into the red because of heavy payouts to depositors in bankrupt thrifts.

The investigation also spotlighted what it called the core problem of the American real-estate appraisal system. Since appraisers need not fear state or federal reviews of their work, their principal concern too often has been to please clients by turning in valuations at the price level they suspect the client wants. Rather than displeasing a loan officer who's already decided to make a loan — and doesn't want to hear that the property really isn't worth the inflated sales price — many appraisers simply "go with the flow," and hope the property never ends up in foreclosure.

Appraisers who have refused to tailor reports to their clients' desires, investigators found, have been blacklisted by certain real estate firms. They have been cut out of the business, in effect, simply because they insisted on doing their jobs in an ethical manner.

Barnard's conclusion is that the core problem itself has to be removed. His bill would force appraisers for the first time to look to a nationally uniform set of appraisal standards, established by a new federal council and enforced by state licensing boards. During the first two to three years after enactment of the legislation, appraisers involved with most loan transactions would merely have to be registered with the council.

Following that grace period, however, any appraiser who wanted to work with any "federally covered" transaction — such as a run-of-the-mill home mortgage from a federally insured S&L or bank — would have to be state-licensed or would have to fulfill federal competency standards. If they weren't certified,

they couldn't collect fees on the vast bulk of realty purchases and sales, both residential and commercial.

The bottom line of the legislation, in Barnard's view, would be to provide a sort of double-edged protection for the entire American real-estate appraisal industry. On the one hand, the direct consumers of appraisal services — the public as a whole plus lenders, realty brokers and developers — could again begin to trust the validity of appraisals. On the other hand, the appraisers would gain by discarding their traditional "handmaiden" image. If a client pressured an appraiser to inflate — or deflate — a property valuation, the appraiser could now refuse on the grounds that state and federal fines and disciplinary action await dishonest appraisers.

Appraisal and related realty lobbies are now studying the Barnard bill. They may not relish the prospect of federal and state regulation. But they'll be hard-pressed to explain to Congress or the taxpaying public how the status quo could possibly be preferable.