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Some Things Never Change

A Blast from the Past

November 17, 2012 by William L. Pittenger, MAI, SRA

While sorting through some old books and articles, I came across an article entitled “*The Residential Appraiser / Underwriter Relationship: A Deregulation Casualty.*” It was published in the professional journal of the former Society of Real Estate Appraisers (now part of the Appraisal Institute) in early 1985. It also won the SREA Foundation award that year for Best Article by a Practitioner published in that journal. Perhaps the biggest blast from the past was that I wrote it. As I re-read the article for the first time in 27 years, I was struck by how some things never change.

Ronald Reagan was President. During his first term, he appointed the private sector “Grace Commission” in 1982 to look into government waste and inefficiency including the cost of regulation in the U.S. The commission examined ways to reduce the regulatory burden for businesses and professional service providers.

I pointed out in the article that a few years earlier (1981), Fannie Mae had delegated, to mortgage lenders, the responsibility for selecting both appraisers and underwriters. Fannie did that under the theory that lenders had adequate underwriting expertise and that they would act responsibly in originating loans for subsequent sale to Fannie Mae.

A key point in that 27 year old article was Fannie also published appraisal *guidelines* which contained abundant use of the words “should,” “generally” and others intended to convey that appraisers provided a professional service and were ready and able to think, to analyze and to render appropriately developed and supportable conclusions.

In the hands of thousands of processors and underwriters, many of whom were not as skilled as Fannie might have thought and many of whom did not want to make judgments, those “guidelines” quickly morphed into absolute requirements. A requirement by one lender, triggered another by someone else and the list of requirements for appraisers grew. It wasn’t long before appraisers were forced to simply meet the requirements and often forego truly meaningful analysis. The residential appraisal process degenerated into a rule based form filling exercise rather than a process of data gathering, substantive analysis and unbiased reporting.

You’ve seen most of the guidelines turned absolute requirements. Bizarre requirements such as *the market value must always be less than the cost approach*. That one flies in the face of economic feasibility with proposed construction. It begs the question “why would someone build something that, when finished, would be worth less than its cost to create.” *The subject’s value must be within \$3,000 of the predominant neighborhood value*. Another good idea gone bad. What if it isn’t? There is an important story in the absence of conformity that should be considered in valuation and underwriting. Instead of telling the story and appropriately analyzing the risk of non conformance, appraisers were pushed to expand the neighborhood search parameters to meet the requirement and not the realities of the marketplace. Another guideline turned requirement, *comparable sales older than six months are unacceptable*. Again, what if they don’t exist? Absence of recent sales should tell us something important about the market and its condition. Indeed, all of these conditions tell important stories but appraisers were implicitly no longer able to tell them. Some things never change.



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