

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

C. Focus on Appraisal Reform

2. Communication with the Real Estate Industry

- b. Transcription of Graaskamp's testimony to the Subcommittee on Commerce, Consumer and Monetary Affairs, February 29, 1988. Also includes his handout to the committee and miscellaneous articles on the need for reform

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Congress of the United States
Committee on Government Operations
House of Representatives

2-29-88

(date)

For:

Prof. James A. Graaskamp

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HG0056050

HEARING ON H.R. 3675, THE REAL ESTATE

APPRAISAL REFORM ACT OF 1987

THURSDAY, FEBRUARY 25, 1988

House of Representatives

Subcommittee on Commerce, Consumer
and Monetary Affairs

Committee on Government Operations

Washington, D.C.

Committee Hearings
of the
U.S. HOUSE OF REPRESENTATIVES



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11 Committee on Government Operations
12 Washington, D.C.

13

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16 The subcommittee met, pursuant to notice, at 10:00 o'clock
17 a.m., in Room 2247, Rayburn House Office Building, the
18 Honorable Doug Barnard, Jr. [chairman of the subcommittee]
19 presiding.

20 Present: Representatives Barnard, Spratt, Craig, and
21 Inhofe.

22 Subcommittee Staff Present: Peter S. Barash, staff
23 director, Faye Ballard, clerk.

24 Full Committee Staff Present: Russell Mathews, minority
25 professional staff.

1123 recommendations that you are making are going to be very,
1124 very seriously considered.

1125 I have no personal objections to licensing corporations.
1126 Now I know that everybody that works for Price Waterhouse
1127 and Arthur Andersen and I could go on and on are not CPAs.

1128 They operate computers and they do a lot of other things
1129 but the material that they finally get to that proper
1130 individual in those corporations, when that signature goes
1131 on it, that is what makes the difference so I have no
1132 problem with that.


1133 We have a vote on the Floor and I think it would be a good
1134 time to recess just briefly. Thank you all very briefly for
1135 being with us this morning.

1136 Mr. BARBATELLI. Thank you.

1137 Mr. KERSLAKE. Thank you.

1138 Mr. BARNARD. The Committee stands in recess for ten
1139 minutes.

1140 [Recess taken.]

1141  Mr. BARNARD. The subcommittee will please come to order.
1142 Our next witness this morning, I think, in some circles
1143 could be better identified as Mr. Real Estate for he is
1144 Professor James Graaskamp who is Chairman of the Real Estate
1145 and Urban Land Economics at the University of Wisconsin, the
1146 Graduate School of Business.

1147 I had the pleasure of knowing Professor Graaskamp now for

1148 several years and I can certainly say that I admire him. I
1149 certainly respect his knowledge and understanding of the
1150 real estate field. He conducts seminars all over the
1151 country and recently I had the pleasure and honor of being
1152 with him in Atlanta, Georgia at a seminar that he conducted
1153 for the Georgia State University.

1154 So Professor Graaskamp, I certainly want to welcome you to
1155 these hearings and we look with interest in hearing from you
1156 as to your opinions of this legislation.

1157 STATEMENT OF JAMES GRAASKAMP, CHAIRMAN, REAL ESTATE AND
1158 URBAN LAND ECONOMICS, UNIVERSITY OF WISCONSIN, GRADUATE
1159 SCHOOL OF BUSINESS.

1160

1161

1162 Mr. GRAASKAMP. Thank you, sir, and I would like to welcome
1163 you to those of us who have been trying to reform appraisal
1164 for about 25 years. My mentor and my first Ph.D. was in
1165 real estate under Richard Radcliff who was regarded as the
1166 preeminent theorist in the last several decades in appraisal
1167 theory. My second Ph.D. is in risk management which seems
1168 to cover exactly the subject matter that we are talking
1169 about here.

1170 We come to this with whole hearted endorsement of your
1171 legislation. We feel that ultimately it should be extended
1172 to other aspects. A major area of government guaranty is in
1173 the pension area and that is, of course, involving more and
1174 more real estate where appraisal practices also need review.

1175 But that industry is attempting to review them on their
1176 own. We headed up the research for the Pension Real Estate
1177 Association on appraisal practice, policy and protocol for
1178 those who manage ~~and~~ ~~for~~ those funds as well as those who do
1179 the appraisal. ~~and~~ They are moving toward an industry
1180 standard via a letter of engagement since there are probably
1181 only approximately 200 appraisers who they feel are

1182 qualified to do large scale investment properties, which says
1183 something about the state-of-the-art.

1184 My credentials, in addition to being an academic, which in
1185 real estate circles one has to live down, ^{are} ~~is~~ that we run our
1186 own appraisal group called Landmark Research. We do
1187 litigation from coast to coast, ~~and we do that~~ and my wife
1188 tells me that probably we are not a profit making
1189 organization, we are simply an extension of the education
1190 process, ~~that~~ ^{to} get the attention of the major societies,
1191 we have to beat their leading people in court in order to
1192 establish methodology and practice.

1193 We have seen the quality of appraisals decline as
1194 sophistication of real estate has increased steadily over
1195 the last 20 years and only in the last two or three years
1196 has there been any significant response.

1197 For example, the American Institute of Real Estate
1198 Appraisers had not issued a single white paper on a single
1199 appraisal question from about 1951 when they did one on
1200 subdivisions until two years ago when they finally addressed
1201 the issue of how to appraise for securities prospect~~us~~ or a
1202 limited partnership and so forth.

1203 There simply has been no industry leadership for
1204 responding to the appraisal side of issues of financial
1205 information as there has been in the accounting side.

1206 Let me give you one very simple example. Appraisal is in

1207 the business of forecasting. They have no definition of
1208 forecasting nor what are the rules that would apply to that
1209 process.

1210 A very basic principle in accounting is that a forecast
1211 requires a range estimate in which all elements of the range
1212 be plausible and supported, ~~that~~ If, in fact, you are going
1213 to deal with hypotheticals, "'if then'" kinds of statements,
1214 you are doing a projection and a projection is only
1215 permitted to have limited circulation to a client where the
1216 accountant would be present to answer questions.

1217 If, on the other hand, the accountant is preparing a
1218 forecast which will have general circulation, where
1219 presumably those that may rely on it are not there to
1220 address questions directly to those that prepared it, he is
1221 not permitted to use hypothetical assumptions, ~~and~~ Yet
1222 virtually every appraisal we are talking about in terms of
1223 income properties that have gone awry for lenders have been
1224 based on appraisal projections in which hypothetical
1225 assumptions were used and the appraiser has always hidden
1226 behind the fact that "gee, if you bought my assumption on
1227 page one, then my conclusion is valid even if the assumption
1228 itself were insane".

1229 Now they are encouraged to do that by a lending fraternity
1230 that has always been anti-appraisal. Obviously, an
1231 appraisal chills the deal as far as the lending officer is

1232 concerned and there is a considerable bias against the
1233 appraisal unless it is a controllable appraiser.

1234 That is a word which the major bank lending officers use
1235 all the time. A major bank said that to me just the other
1236 day and I couldn't believe that they would use that word
1237 while I was around. An appraiser should be controllable.
1238 It is exactly the opposite of the function that he is
1239 supposed to perform.

1240 Isn't it ironic that at the closing, the lender requires
1241 at least one percent of the loan fees for an insurance
1242 premium in case the collateral should burn down, but would
1243 never require that they spend one percent of the project to
1244 find out if it would rent up and yet the real collateral is^{that} is
1245 will it rent up.

1246 There is a total anti-appraisal bias. Indeed, the recent
1247 language in the collapse of R-41C, I think, is really
1248 significant. In the recent repudiation of R-41C based, of
1249 course, on the CEBA legislation, Chairman Dennis Wall made
1250 an incredible statement.

1251 In repudiating R-41C he said, "It wasn't cost effective
1252 and competitive with the bank's appraisal standards" and
1253 yet the banks have no appraisal standards and the President
1254 of the American Institute of Real Estate Appraisers said so
1255 directly.

1256 Now what is cost effective? If you have just lost \$25

1257 billion dollars and the FSLDIC is broke and they are going
1258 to lose another \$25 billion dollars because as Mr. Crawford
1259 pointed out so beautifully that each of those projects eats money
1260 while you sleep, what is cost effective if it doesn't mean
1261 spending adequate money to do a professional job of
1262 appraisal and using the appraisal as a legitimate portion of
1263 the underwriting process.

1264 Currently, it is used simply as a CYA document in case the
1265 auditor should ask if you had one. Neither are the auditors
1266 trained in the banking business to read an appraisal
1267 knowledgeably.

1268 Now I would submit that while many of you think that this
1269 legislation is punitive on the appraiser, I would suggest
1270 instead it is a curb on the banker. I would suggest that it
1271 would be the only defense of the appraiser against his
1272 client because he can go back and say, "I can't do it that
1273 way. My certification and my living depends upon me doing
1274 it this way and this way is going to take so many people
1275 hours to accomplish and is going to cost you so much to get
1276 the job done" and now the appraiser can be truly
1277 independent because he has a rock on which he ^{can} ~~ever~~ _{operate}
1278 professionally.

1279 Currently he can't do that. The minute he stands up to a
1280 lender, he loses the job, he doesn't get asked back, and very
1281 quickly he is out of that particular business. It is a

1282 Gresham's law going on which drives the good appraiser out
1283 of anything that has to do with lending and related
1284 enterprises thereto.

1285 That industry is not driven by market demand for space
1286 which is the specialty of the appraiser. It is driven by
1287 the fees and the commissions and profit centers of the short
1288 term owners of those properties and the risk is being borne
1289 by the Federal government and ultimately the taxpayer.

1290 The loan program approved by FSLDIC is a bandaid on a
1291 gaping wound and sooner or later you, in Congress, are going
1292 to have to find \$50 billion dollars to recapitalize FDIC and
1293 FSLDIC. It is as basic as that.

1294 Now I realize it is un-American to regulate from the
1295 Federal government, that risk is a part of doing ~~the~~
1296 ~~American~~ business, ^{the American way} but in this case the risk is being taken
1297 by the Federal government, by FSLDIC and FDIC.

1298 It ^{is} another basic tenet of business that I learned at my
1299 father's knee, that those who pay the piper get to call the
1300 tune. You are going to pay the piper for \$50 billion bucks
1301 and therefore, the Federal government gets to call the tune.

1302 It is basic.

1303 Now I would be happy to answer questions because I can go
1304 on ^{and on about} ~~on~~ appraisal reform for days.

1305 [The prepared statement of James Graaskamp follows:]

1306

1307 *****INSERT*****

1308 Mr. BARNARD. I appreciate that, Professor. In your
1309 outline which you have shared with us and you have covered a
1310 lot of this, you have covered most of it, I was interested
1311 in your response to the arguments in opposition to the
1312 legislation.

1313 I think you probably covered all that I had any questions
1314 on.

1315 Mr. GRAASKAMP. If I could, I would like to comment on
1316 several of those.

1317 Mr. BARNARD. All right. Let me ask you this question
1318 first. Professor, some have suggested that the appraisal
1319 abuse problem should be left to each of the 50 states and
1320 that because the Federal government does not certify
1321 doctors, lawyers or accountants that we should not have
1322 federal certification requirements for appraiser. How would
1323 you respond to that statement?

1324 Mr. GRAASKAMP. Well, there are multiple responses to that.
1325 First of all, I think it should be clear that almost all of
1326 the real estate organizations other than a few of the more
1327 enlightened appraisal organizations are opposed to this
1328 because it is going to impose on their commissions, fees and
1329 so forth.

1330 The American Bankers Association, the National Association
1331 of Realtors, the Mortgage Bankers Association, the National
1332 Association of Home Builders would all find their style

1333 curbed, as it should be, by this legislation. They are
1334 extremely effective at the state level.

1335 Almost all of them have direct access to the governor's
1336 office and the governor's office would be those appointing
1337 whatever agencies will implement this at the state level.
1338 They will gut this issue and delay it and dilute it at the
1339 state level and you are going to end up with 50 different
1340 rules.

1341 Now that is totally unrelated to the fact that real estate
1342 finance is now totally detached from the property. Real
1343 estate finance is a national and international market in
1344 which a standard set of financial data should be available
1345 and ^{for} which there is a standard way of doing business.

1346 This has made, of course, a tremendous difference in the
1347 residential area as we have already seen. The
1348 securitization of the commercial area is coming on us very
1349 quickly and I would suspect that most of the institutions
1350 which are regulated under this particular law will not keep
1351 any more than 25 percent of the loans that they make, that,
1352 in fact, they will be securitized and sold off across the
1353 country.

1354 ^{therefore it}
~~That~~ is absolutely critical that there be a standardized
1355 appraisal process underlying that securities market which
1356 moves across not only state lines but national boundaries as
1357 well.

1358 To leave that to a 50-state group in which the parochial
1359 interests of the small trade organizations in those states
1360 ^{that} ~~which~~ have embedded political organizations would be
1361 foolhardy. The appraisal industry has no political base, no
1362 political clout, no political sophistication which is one of
1363 the reasons they are where they are now.

1364 Mr. BARNARD. Mr. Craig.

1365 Mr. CRAIG. Thank you very much, Mr. Chairman. Mr.
1366 Graaskamp, I have not only appreciated your testimony, I
1367 have looked through your combined comments and it is always
1368 exciting for me to be with someone like you who obviously
1369 has a great grasp of the problem and the general issue.

1370 We just don't have any disagreement. I do have some
1371 concerns because I think we both see the problem. The
1372 extent to which this Committee has worked to expose the
1373 problem has been extensive and we know what the problem is.

1374 I think maybe we differ on how we arrive at a solution and
1375 we don't differ all that much because I recognize the
1376 responsibility of the Federal government as it relates to
1377 its own risk or the risk it assumes.

1378 I guess the difference comes in how you approach it. Let
1379 me ask you this question with this explanation. I think we
1380 all recognize the extent[?] is involved in finance or at some
1381 arm of finance in this country.

1382 We also, my Chairman and I tend to disagree on how we got

1383 the CPAs to where they are today. Be that as it may, we do
1384 recognize that the CPAs got to where they are because the
1385 Federal government or an entity of the Federal government
1386 set a standard or standards and said, "'If you want to play
1387 the game, you play to this standard or you don't play.'"

1388 Mr. GRAASKAMP. I think there is a good model there. In the
1389 securities area, the SEC came down on the standard because
1390 the CPAs were dilly-dallying.

1391 Mr. CRAIG. That's right.

1392 Mr. GRAASKAMP. And embarrassed them, and rather than be
1393 embarrassed again, they got their act together and passed
1394 these rules.

1395 Mr. CRAIG. But they didn't license, did they? They just
1396 established a standard and said, "'Do you want to play in
1397 our ballpark and our ballpark happens to be so big and so
1398 powerful that you are not going to play unless you play
1399 there, you have to play by these standards.'"

1400 Mr. GRAASKAMP. In one small sector, right.

1401 Mr. CRAIG. Professor, I guess my concern is because the
1402 Federal government is so involved with a phenomenal
1403 liability to the tunes of the billions of dollars you have
1404 referred, if we are so all powerful, is it not possible for
1405 us to set a minimum standard for all of these entities
1406 involved and say, "'That is the way the game will be played
1407 if you want to play with us'" and is it not possible then

1408 that those 50 entities would have to at least establish that
1409 as a minimum standard?

1410 Mr. GRAASKAMP. Well, I am not sure that that is not what
1411 you are doing by creating this Federal interagency group
1412 with the two groups, one to establish the standards and one
1413 to establish the certification process.

1414 Mr. CRAIG. And one to conduct this certification process
1415 until such time.

1416 Mr. GRAASKAMP. Well, I think the certification process is
1417 that the states have a certain time to be responsible and if
1418 they don't, then the Federal Interagency has the power to go
1419 forward and impose that and I think that it is a very
1420 intelligent way to go about it.

1421 Mr. CRAIG. Well, that is where we disagree but I thank you
1422 for your testimony. It was very valuable.

1423 Mr. BARNARD. I believe you wanted to respond briefly on
1424 some of the other aspects of your testimony.

1425 Mr. GRAASKAMP. Yes. Your question was why appraisers if
1426 doctors, lawyers and accountants were not necessarily
1427 Federally licensed, I think there are several reasons for
1428 that.

1429 One, the damage that each of them can do at the individual
1430 level, there is a basic limit and currently there is an
1431 adequate malpractice or malfeasance insurance program
1432 available for which each of them pays huge fees, in many

1433 cases perhaps a third of their professional income going to
1434 malpractice insurance.

1435 There is no such insurance program for appraisers as
1436 underwriters have widely appreciated the fact that there is
1437 no professional standard as yet and secondly, the amount of
1438 damage that one appraiser can do financially is so much
1439 greater.

1440 Many of the institutions that you looked at in your
1441 investigation were put out of business by one appraiser and
1442 ironically, the appraisers who got the highest fees were the
1443 ones that did the most damage because it was the only time
1444 the client really appreciated the value added by the
1445 appraiser was when he got a fraudulent appraisal, he was
1446 willing to pay him for it. If he got an honest appraisal,
1447 he probably wasn't willing to pay him for it.

1448 So you have a complete different set of circumstances here
1449 in that the insurance is not available and the amount of
1450 damage that can be done is incredible in terms of the total
1451 dollar values that are involved.

1452 In this case, the Federal government does not insure
1453 doctors against their mistakes. The doctors are having to
1454 do that themselves and having a great deal of difficulty
1455 doing it I might add.

1456 But in this case, the Federal government does insure
1457 institutions and what we are really talking about is not

1458 just appraisal forms, we are talking about an entire change
1459 in the business culture which has gone for at least 40 years
1460 using appraisers as tools, as controllable misinformation
1461 sources in order to go ahead and justify what they wanted to
1462 do from a transaction standpoint and totally subverted the
1463 function of the appraiser as a check and balance on the
1464 judgment of the underwriter.

1465 So we are talking about a massive impact that has to be
1466 made on the lending fraternity here in terms of how they
1467 regard the appraisal as part of the lending underwriting
1468 process. That requires the clout that the Federal
1469 government has, not a group of volunteers that meet in
1470 Chicago or Washington twice a year to discuss how many
1471 angels on the head of a pin relative to appraisal theory.

1472 The volunteers have moved at a glacial pace and although
1473 many of them are ^{persons} ~~men~~ of good will and many of them ^{are persons} ~~are men~~
1474 of great competence, they have not been able to maintain
1475 their constituency and the dues paying power of their
1476 membership at a level where they can enforce their own
1477 standards.

1478 The appraiser that caused the damage to Beverly Hills
1479 Savings and Loan still has his designation. I was just
1480 recently ^{testifying} in a securities fraud case in which all of the
1481 appraisals had been altered and not only was the appraisal
1482 of the acquiring company on a roll-up exaggerated, every

1483 appraisal of the apartment projects being acquired was
1484 understated except one which happened to be owned by the
1485 syndicator's son which was appraised correctly and highly.

1486 In that case, there was an official from one of the
1487 appraisal organizations who condoned that and said that they
1488 were a little sloppy but that education would solve all of
1489 that. I can't believe that. Not one of the MAIs that had
1490 signed any of those appraisals have yet been called to task
1491 for that work.

1492 Mr. BARNARD. That is very contrary to what you see in the
1493 CPA industry when you find faulty audits as have occurred in
1494 several of the big, big bank failures, the agencies have
1495 actually brought litigation against those CPAs and have
1496 extracted large, large fines because the fact is that their
1497 audits or their certifications did not measure up.

1498 Mr. GRAASKAMP. I have been called in on at least a dozen
1499 cases of institutional financial ~~fraud~~ where the lawyers were
1500 going to sue the appraisers only to discover that their
1501 insurance is written on a discovery basis and as soon as
1502 there was a hint that there was a problem, the malpractice
1503 coverage had been cancelled before there was official
1504 discovery and as a result there was no coverage.

1505 Mr. BARNARD. Mr. Spratt, do you have any questions?

1506 Mr. SPRATT. We had testimony last week and I am sorry I am
1507 late and first let me apologize but I assure you I read your

1508 testimony and I appreciated your comments just then, we had
1509 testimony last week from MGIC and also testimony from a
1510 relocation service.

1511 The relocation service introduced the idea of quality
1512 control over the appraisers they retained by using a
1513 variance analysis on the appraisal results and granted, they
1514 are able to use such a variance analysis more easily than a
1515 lending institution would be able to implement such a
1516 program because they make a quick turnaround sale of the
1517 properties they take in for relocation purposes.

1518 But have you given any thought or study to some sort of
1519 system for variance analysis or quality control over the
1520 selection and use of appraisers which are lending
1521 institutions insured by the government might be required to
1522 maintain so that examiners could come in and check the
1523 quality control log to see if appraisers of recognized
1524 ability were being used?

1525 Mr. GRAASKAMP. Yes. There are all kinds of those studies
1526 that have been done. At the universities we have several
1527 different types of market comparison systems which are
1528 virtually automatic and much more reliable than the
1529 appraisal element but which have never been introduced.

1530 With the right data base, I can do a single family
1531 appraisal for about five bucks that is much more reliable
1532 than the one you can get from the guy in the field but the

1533 industry doesn't really want to hear about that for obvious
1534 reasons.

1535 There has been a good study just done down here at the
1536 University in Richmond, I am trying to think of the name,
1537 what is the major university in Richmond, Virginia?

1538 Mr. SPRATT. University of Richmond.

1539 Mr. GRAASKAMP. University of Richmond, okay.

1540 [Laughter.]

1541 Mr. SPRATT. Is it VPI, Virginia Tech?

1542 Mr. GRAASKAMP. No, University of Richmond and they
1543 analyzed 350 appraisals and appraisers and so forth in terms
1544 of the bias and it was incredible. Statistically they
1545 obviously knew what the transaction price of the single
1546 family home was before they did their appraisal because they
1547 never came under it. You can't do that *by accident*.

1548 Theoretically, you should be above or below it 50 percent
1549 of the time. The chi square showed that that almost never
1550 happened. There was a distinct bias in the appraisal. So
1551 those methods exist and the industry doesn't want to hear
1552 about them nor do they want to try them.

1553 I have worked with MGIC from the outset. I wrote the
1554 original briefs as a graduate student for Max ^Karl as we
1555 went into the various states so I have tracked on that very
1556 closely.

1557 Mr. SPRATT. Have you been retained by any savings and loan

1558 associations, banks or other lenders or purchasers of real
1559 estate mortgages to develop systematic appraisals?

1560 Mr. GRAASKAMP. Not before the fact. I am working for
1561 First Republic currently but in general, lenders don't want
1562 to see honest appraisers coming along the track. You can
1563 kill an awful lot of good deals that way.

1564 Mr. BARNARD. He is a former banker. I am glad for that
1565 reason.

1566 [Laughter.]

1567 Mr. GRAASKAMP. The only time our firm gets called in is
1568 when one of the major banks has a proposal before them from
1569 a good customer, a relationship as they say, and they don't
1570 want to tell them "no" so they let me do it for them.

1571 Mr. SPRATT. One of my continuing concerns has been the
1572 examiner coming into an institution for an examination cold
1573 on the facts, opens a loan file and if that loan is not
1574 delinquent, if it is not manifestly under collateralized, if
1575 it is not made to somebody who has defaulted in the bank or
1576 other nearby banks in the past, it is likely to be approved
1577 even though it is grossly under collateralized, even though
1578 the interest may have been packaged into the principal and
1579 loaned up front to the borrower and the appraisal if it is
1580 well done, if the brochuremanship is there, if it is on a
1581 nice letterhead and if there are apparent comparables to
1582 support it will only lead the examiner to put the file back

1583 in the cabinet and go on to other files that are red
1584 flagged.

1585 What can we do to give the examiner better insight into
1586 where there are incipient loan problems and that there is
1587 under collateralization despite, notwithstanding, an
1588 apparent appraisal? What can we give him externally in the
1589 bank or the S&L that would allow him to detect those
1590 appraisals that are not reliable and likely won't pan out if
1591 the loan goes bad?

1592 Mr. GRAASKAMP. I think that the reason R41-C died was
1593 internal pressure in the Home Loan Bank because the loan
1594 officer had to sign the appraisal and say that he had read
1595 it, for one thing, and that he agreed with the assumptions
1596 and conclusions for another. ~~and~~ I think that made R41-C
1597 totally unacceptable to the lending officer because he now
1598 would be accountable along with the appraiser for the
1599 product and if you wanted to do one thing, it would be to
1600 make somebody accountable in the bank for the appraisal.

1601 Mr. SPRATT. Well, if that accountability breaks down
1602 though, if somebody bets on the come and believes that real
1603 estate will keep inflating and they will be bailed out of
1604 another appraisal, you still have the problem and I am
1605 trying to bolster the roll of the third party which comes in
1606 and makes an objective appraisal of the situation and is
1607 able to tell when somebody hasn't been accountable, somebody

1608 has fudged the appraisal.

1609 Let me give you one idea and ask you if it is practical
1610 since you have worked on developing systems. I used to try
1611 condemnation cases for the State Highway Department, also,
1612 and when we did an interstate appraisal or a major road
1613 appraisal, major road condemnation, we would obviously
1614 retain certain appraisers.

1615 The Highway Department was pretty scrupulous about whom
1616 they retained and the Federal government was pretty
1617 scrupulous. They review appraisers, demanded that we obtain
1618 quality appraisers, that their work be of a high quality and
1619 there was a lot of variance analysis involved.

1620 One of the first things we required was a sales brochure
1621 and extensive documentation of all relevant comparable sales
1622 within a certain period of time. We had criteria for what
1623 was relevant and comparable, but we catalogued any kind of
1624 comparable sale in the vicinity of a certain stretch of that
1625 interstate before we undertook to do any work and then we
1626 drew off those catalogues, the appraisers drew off that data
1627 bank and referenced those documented, demonstrated
1628 comparables in defending the values that they derived for
1629 various parcels of property.

1630 Would it be impractical today to require lenders to
1631 maintain a data bank of comparables so that the examiner
1632 could go and check the comparables to see if the appraiser

1633 had chosen the right comparables or had chosen all the
1634 comparables and considered all comparable sales relevant to
1635 a particular piece of property?

1636 Mr. GRAASKAMP. I think that is a part of it. The problem
1637 today is that comparable sales are no longer a really good
1638 reliable tool. Theoretically we would all like to use that
1639 as a base but most of the prices as reported are now
1640 engineered prices where the CPAs on both the buyer and the
1641 seller's standpoint have come to terms as to how to
1642 structure it most favorably for corporate accounting
1643 purposes, for the Internal Revenue Service, for partnership
1644 purposes, et cetera and therefore, ^{excepting} very few of the major
1645 transactions, the price as reported is not a reliable price.

1646 In fact, what often is reported is the price on the offer
1647 to purchase and those of us who are in the business know the
1648 real deal gets negotiated sometime between the offer to
1649 purchase and the closing and the closing price is not
1650 reported and quite often today, you really make up the
1651 difference on the adjustments on the closing price for
1652 everything from toxic waste to other attributes in the deal.

1653 So the only problem with that is that the gross comparable
1654 sales price can be very misleading and therefore, judicial
1655 selection, shall we say, by the bank or by the appraisers
1656 would continue.

1657 Mr. SPRATT. Well, a good comparable data sheet includes

1658 the information as to how the appraiser established the
1659 actual purchase price.

1660 Mr. GRAASKAMP. The adjustments are really tough. The
1661 theory relies on cash equivalent price but it is getting
1662 tougher and tougher to figure out what the cash equivalent
1663 price was.

1664 Mr. SPRATT. Because there are so many exogenous factors.

1665 Mr. GRAASKAMP. Too many other variables going on. The
1666 other thing is that there are so many intangibles being
1667 traded. For example, one of my major cases right now is the
1668 Boca Raton Hotel case being assessed by the Boca Raton
1669 assessor at the gross sales price and yet ^{VMS} ~~you~~ bought a going
1670 business that had all kinds of personalty, which had a book
1671 of business of future conventions, which had in this case
1672 the Boca Raton club in which people pay exorbitant fees per
1673 year just for the right to go and spend money there and so
1674 forth and a lot of that is intangible personal property.
1675 How much was really for the real estate in that transaction
1676 is really hard to pin down.

1677 Basic case just before the Supreme Court in New Jersey
1678 which we ^{testified} ~~tried~~, a regional shopping center, how much of the
1679 value of the regional shopping center is in the operating
1680 agreement which creates special monopolistic advantages for
1681 the majors in exchange for their participating for 30 years,
1682 providing parking, chipping into the merchants association

1683 and so forth and so the brick and mortar is worth maybe
1684 \$15.00, triple net a month, but people pay \$22.00 to be in
1685 essentially what is a joint marketing effort which under the
1686 laws in New Jersey is clearly a franchise marketing scheme
1687 in which the developer is selling entree to this joint
1688 marketing effort rather than a piece of real estate.

1689 Now what is the real estate price, land and building that
1690 should be taxed, or what is the collateral value of that? We
1691 are getting into some really messy issues on income property
1692 which make cash equivalent comparable prices a tough game
1693 and therefore, we are much more into lease-by-lease cash
1694 flow analysis of the properties which by the way originated
1695 at the University of Wisconsin. We, 25 years ago built
1696 those first cash flow models which are the precedent today.

1697 So what you have is a sophistication which means
1698 essentially more income property ^{appraisals} for the accountants. The
1699 fastest growing appraisal firms in the country right now are
1700 the Big Eight accounting firms.

1701 Mr. BARNARD. Mr. Craig.

1702 Mr. CRAIG. Thank you very much, Mr. Chairman. Mr.
1703 Graaskamp, the discussion has been fascinating to me and I
1704 go back to some of your comments in your opening statement
1705 about the lender really being the person calling the tune
1706 currently.

1707 Now under this proposed law with the changes going on in

1708 the establishment of standards and certification, I assume,
1709 no, I don't assume, let me ask these questions of you. As
1710 you read the law do you see this as a minimum standard?

1711 Mr. GRAASKAMP. I don't see it as any standard at all.
1712 What you have set up was a board that would establish
1713 standards. That is a critical element. I guess I would
1714 question the membership of the board. I would see that
1715 there should be more outside talent than just the Big Eight
1716 appraisal firms or appraisal agencies. The accountants
1717 should have a major role in it because we are really talking
1718 about financial information and the appraisal has become a
1719 fine art of financial dis-information.

1720 Mr. CRAIG. All right. You are talking about tremendous
1721 sophistication and all of the variables that exist.

1722 Mr. GRAASKAMP. There are multiple user groups.

1723 Mr. CRAIG. Go ahead.

1724 Mr. GRAASKAMP. You are talking about multiple user groups.
1725 Certainly Fannie Mae, Freddie Mac, with their uniform
1726 residential appraisal form are coming a long way. Where you
1727 go from there, you really have either incompetence or fraud.
1728 So that is one user group that has an interest in one
1729 sector of the area.

1730 But the really big losses to your major institutions have
1731 been on the side of development loans, construction lending
1732 and arbitraging really from an apartment house to a

1733 condominium conversion, ~~a company of that sort.~~

1734 Mr. CRAIG. Can you approach that problem through this law?

1735 Mr. GRAASKAMP. Yes. The advisory board properly

1736 constituted could go a long way to establishing the

1737 standards for that and it is not that difficult. Most of

1738 the stuff is out there if they would follow some of the

1739 models.

1740 Mr. CRAIG. Can all of that fit in appraisal standards or

1741 are we talking about financial institutions' practices?

1742 Mr. GRAASKAMP. Well, financial institution's practices is

1743 another problem.

1744 Mr. CRAIG. Yes. What I am hearing from you--

1745 Mr. BARNARD. I think that is covered by the agencies

1746 though.

1747 Mr. GRAASKAMP. I think what we really need is--

1748 Mr. CRAIG. But fraud still goes on.

1749 Mr. BARNARD. But management practices are determined by

1750 the Federal agencies, OCC, Home Loan Bank Board, Federal

1751 Reserve.

1752 Mr. CRAIG. Mr. Chairman, I understand that. I guess what

1753 I am trying to get at here in understanding your comments

1754 which have been very valuable to me and the sophistication

1755 of the problem we are dealing with, I think I know a little

1756 bit about that is that this--well, what I am hearing from you

1757 is that to the extent of the problem, this may be an effort

1758 in the right direction, it takes out a certain portion of
1759 the problem but it is not a cure all to the situation you
1760 are referring to.

1761 Mr. GRAASKAMP. Let me put it this way. We have a
1762 relatively unique situation. Ordinarily, quality and
1763 getting your money's worth, a professional fee, should be a
1764 demand pull kind of thing. People would want to buy that.
1765 In the case of the loan officers, they don't want to buy
1766 that. In fact, they would tend to suppress the appraiser
1767 that provided that kind of objectivity and criticism.

1768 Mr. CRAIG. And this will change that?

1769 Mr. GRAASKAMP. What you are really doing is giving the
1770 appraiser something that he can push off from and push back
1771 against the lender whom we can't push back from now. He has
1772 no basis. He can't say, "Hey, I can't do that because I am
1773 going to lose my license. I can't make that assumption
1774 because here are the standard rules that I am working on."
1775 The guy in the field wants a standard that he can defend
1776 himself with against the other guy that is willing to write
1777 anything the lender tells him to write.

1778 Mr. CRAIG. So in other words you are saying that this is
1779 going to build a little more backbone?

1780 Mr. GRAASKAMP. It builds backbone.

1781 Mr. CRAIG. But fraud will continue to exist where fraud
1782 has always existed.

1783 Mr. GRAASKAMP. That has always been the case at any place.

1784 Mr. CRAIG. All right.

1785 Mr. GRAASKAMP. What I am saying is what we have here is an
1786 institutional counter incentive and what we are trying to do
1787 is change that institutional counter incentive so that the
1788 appraiser can truly be independent and I don't think that
1789 the professional organizations that have spoken here with
1790 the possible exception of the Society of Real Appraisers
1791 have really represented the folks in the field.

1792 I talk to hundreds of them. I teach the American Bankers
1793 Associations' real estate finance school. In fact, I am the
1794 dean of it. I have taught appraisers from coast to coast.
1795 Our school developed the computer system that they are
1796 using.

1797 I listen to them every day and most of the appraisers in
1798 the field want this legislation and they feel that the
1799 institutional organizations that are speaking for them have
1800 other agendas. They are concerned about their power, their
1801 political stature. They are being embarrassed by the fact
1802 that this is going on.

1803 What is more is they think that, wow, if there is a
1804 certification by the Federal government that says this
1805 particular individual has passed certain examinations, has
1806 met standards, has been working for several years and
1807 continues to meet those standards and so forth, maybe they

1808 don't need us as an MAI or an SREA, that a certification by
1809 the Federal government would be a higher standard and
1810 suddenly, their membership starts to wane.

1811 There are many people out there who will not hire a
1812 certified appraiser because they don't want the somewhat
1813 obsolete dogmatic methodology which is still being taught by
1814 those organizations.

1815 So I don't think you have heard from the guy in the field,
1816 the honest, competent individual who would like a fair shot
1817 at a lending business as well as all the other types of
1818 appraisal businesses that there are is in favor of this kind
1819 of legislation.

1820 He liked R41-C. He could finally push back against the
1821 lender and say, "Hey, you know, this is the way it should
1822 be done and this is the way I am going to do it and your own
1823 people say this is the way it should be done" and he had a
1824 lever that he could be professional and that is what we are
1825 trying to provide here.

1826 Mr. CRAIG. Thank you.

1827 Mr. BARNARD. Professor Graaskamp, I appreciate very much
1828 your being here today. It has been very enlightening
1829 hearing your testimony. I think it has been well
1830 appreciated and certainly we understand the credibility of
1831 it because of your profession and your experience in it.
1832 Thank you very much and I hope that you will feel free to

1833 give us any suggestions and advice as this legislation goes
1834 forward.

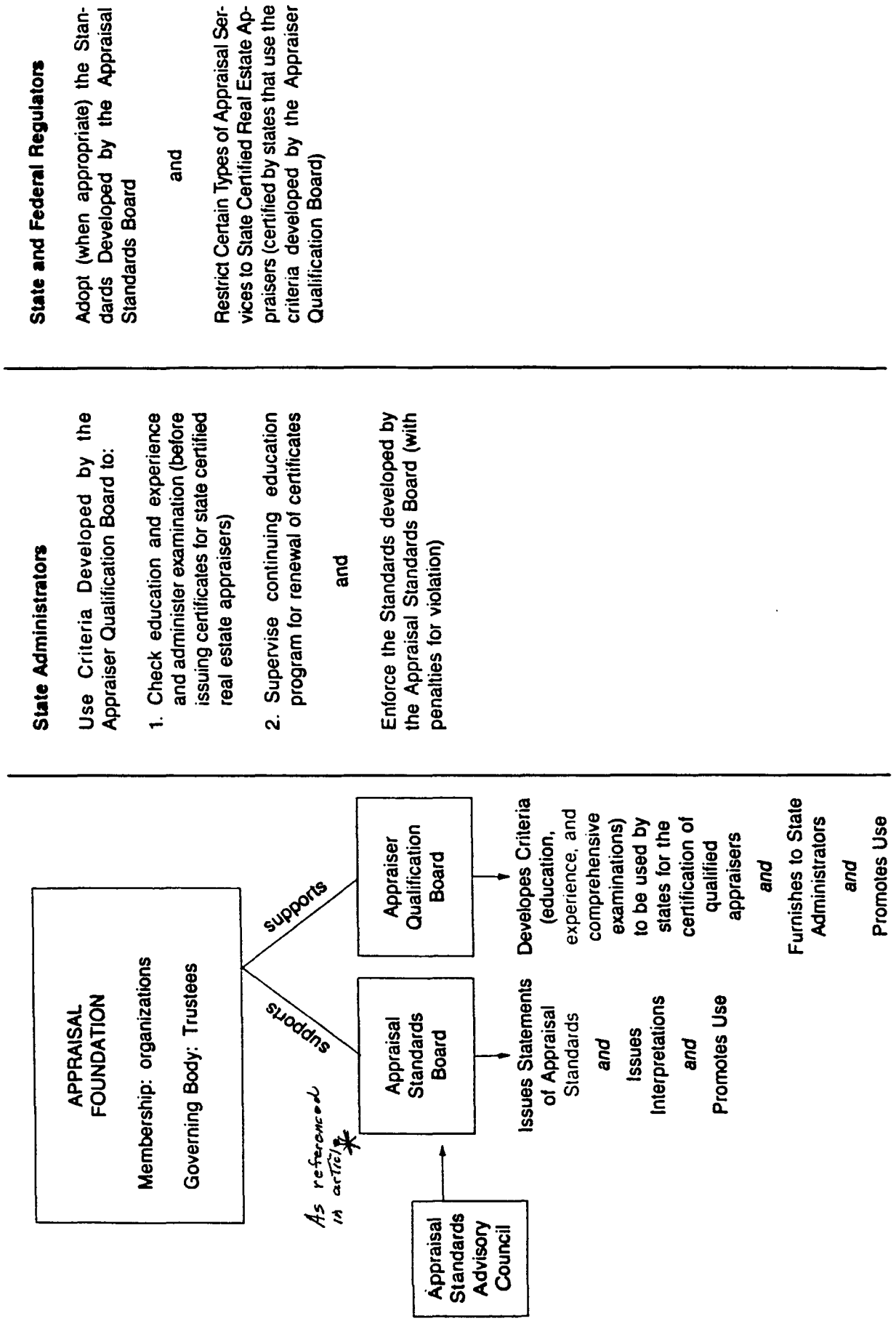
1835 Mr. GRAASKAMP. Thank you, sir.

1836 Mr. BARNARD. Our last panel today will consist of Mr.
1837 Walter Bohorfoush, vice president and chief appraiser of the
1838 Chevy Chase Savings Bank and Mr. Dominick S. Pompeo who is a
1839 real estate appraiser and consultant in Brooklyn, New York,
1840 if you gentlemen will take the witness stand.

1841 Gentlemen, we appreciate very much your being here today.
1842 We also appreciate your patience in waiting so attentively
1843 but we can't hear from everybody at the same time. That is
1844 one of the problems we have so we have to take them in some
1845 order but we do appreciate your being here. Without
1846 objection, your entire testimony will be included in the
1847 record and if possible, we would like for you to summarize
1848 within say ten, 12 or 15 minutes. We will first hear from
1849 Mr. Bohorfoush.

EXHIBIT A

CHART A



March 7, 1988

Peter Barash
Subcommittee on Commerce,
Consumer and Monetary Affairs
B-377 Rayburn House Office Building
Washington, D.C. 20515

RE: HEARING ON H.R. 3675, THE REAL ESTATE APPRAISAL REFORM ACT OF 1987

Dear Mr. Barash:

Thank you for the opportunity to testify in support of Congressman Barnard's Appraisal Reform Bill. On reading the transcript I wish I had talked in succinct bullets rather than a rambling commentary.

However, I did want to comment on the major request of the gentlemen from Marshall and Stevens and Valuation Associates. More appraisal is moving toward large firms, particularly accounting firms and full service real estate firms that operate regionally or nationally, because they can send a large number of personnel into a given area to do a project quickly or scatter personnel to multiple properties of a client throughout the country. They are correct on their request for company licensing because States will use their licensing laws to protect their local appraisers from national competition.

Florida already prohibits appraisals by those who are not licensed in Florida and the license requires three years of prior residency. The alternative is to share the fee with a local appraiser who signs the report as though it were his. Ultimately there should be a provision whereby the Federal Interagency Board can certify a limited number of executives in the private sector and government employees in the public sector to operate in all fifty states without State certification. That will prevent States from being used by local trade associations to restrict competition or fight back against the loss of most high ticket appraisal business to Big Eight accounting firms. Cancellation of a national license will also give the Federal Certification Board an opportunity to punish the national firm that continually prostitutes its good name to pander to investment banking, syndication, or securitization prospecti. Believe me, some of the worst appraisals are being done by some of the old line national firms.

Thank you for the opportunity to comment.

James A. Graaskamp, Chairman
Real Estate and Urban Land Economics

February 25, 1988

TO: The Committee on Government Operations, 100th Congress
First Session

FROM: Professor James A. Graaskamp, Ph.D., SREA, CRE
Chairman, Real Estate and Urban Land Economics
University of Wisconsin, School of Business
Madison, Wisconsin

RE: IN SUPPORT OF H.R. 3675 TO ORGANIZE AND CONSOLIDATE FEDERAL MATTERS
RELATING TO APPRAISALS IN LEGISLATION TO BE CITED AS REAL ESTATE
APPRAISAL REFORM ACT OF 1987.

- I. Credentials and Bias of the Commentator.
- II. Statement in Support of Legislation as Drafted.
- III. Response to Arguments in Opposition to Legislation as Drafted.
 - A. Fragmentation of Appraisal Profession undermines capacity to define standards, certify appraisers, to enforce sanctions, and to finance reform.
 - B. The historical weakness of appraisal organization has been and will be exploited by the powerful political organizations who represent primary customers for appraisal services and who have a vested interest in preserving a compliant appraisal trade with the trappings of independence.
 - C. There is a traditional, pervading anti-appraisal bias of mortgage loan officers who are represented by the powerful alliance of significant lobby groups including the ABA, USS&L, MBA, NAR, and NAHB at both Federal and State levels.
 - D. Real estate transactions and developments are driven by the commissions and fees of the deal makers rather than effective demand for space, which is the subject matter of appraisal. If accounting could trace the source and application of mortgage funds, it is probable that the losses of FDIC and FSLDIC represent the fees paid those who would oppose rigorous appraisal.
 - E. Citizens can sue doctors, lawyers, and accountants, who must finance malpractice claims with huge private insurance premiums and lose their licenses. However, the federal taxpayer will fund the deficits of FDIC and FSLDIC caused by negligent loan officers and compliant appraisers. Who will pay the employees of the defunct lender or the property owner whose net worth is crushed by an over supply of unneeded, newly built, competitive space?
 - F. The need for efficient allocation of capital, safety of the depositor and established real estate investor, as well as protection against insider profits in the banking industry, require congressional action on H.R. 3675 as drafted.

I. Credentials and Bias of the Commentator.

Our presentation to the committee is prompted by a career in developing appraisal theory, practice, and education, and not as a member of any professional group. We are here at our own expense other than travel monies provided by the University outside funds as the Dean of the University of Wisconsin Business School felt that educators have a significant vested interest in advancing contemporary methods and education for the appraisal process.

The resume in Appendix A will speak for itself, but it should be noted that we have received the highest awards for appraisal education and improvements to appraisal theory from the Society of Real Estate Appraisers, the American Institute of Real Estate Appraisers, and Lambda Alpha, the national honorary fraternity for urban land economics. Much of our consulting activity involves the use of appraisal in litigation, securities fraud, pension real estate, and bank lending on commercial investment properties. We have read hundreds of appraisals for investment properties by all the major appraisal firms on properties located from coast to coast. The general quality is from poor to average. Our conclusion has been that the majority of clients find appraisal mysterious, manipulative, and hopefully a tool for advocacy. The fees are too low for a professional piece of work because the clients seldom perceive the value added by careful research of the real estate market and the property. The lender will require at least one percent (1%) of loan proceeds for fire insurance in case the collateral should burn down but would never spend one percent (1%) of project cost to be reasonably certain the project would rent up. But the rental market is the true source of collateral value; many lenders today can only hope that their real estate interest burns down.

Our bias is that appraisal reform must be brought about by demand pull so that major clients for appraisal services, such as lenders, pension funds, and public agencies acquiring properties by eminent domain must be forced to recognize their own economic self-interest and to purchase responsible appraisal services at prices that justify responsible, professional appraisal work.

II. Statement of Support for H.R. 3675 of Real Estate Appraisal Reform Act of 1987.

Sound appraisal practices are critical to the security of our financial institutions and pension programs as well as the efficient allocation of capital in our economy. Sound appraisal practice is a fulcrum of social equity in matters of real estate taxation, eminent domain compensation, and allocation of costs and benefits of public infrastructure. Nevertheless, the appraisal process is controlled by 19th century economic theory, regulatory anarchy, and self-serving clients who desire

advocacy rather than objectivity from presumably independent appraisers. To talk of appraisal reform is to expect massive business culture reform and social engineering of mind sets, economic interests, and juvenile concepts of enterprise that can only be accomplished by Federal intervention. With time, the Federal role of creating objective review of appraisal standards and certification requirements could be returned to the private sector once the real estate industry had learned it could survive with truly independent, professional appraisal services.

The creation of a Federal Interagency Appraisal Council is a timely and critical catalyst for much needed reform of the appraisal process, which has become parochial, paralyzed by internal, self-serving political struggles, and subverted by the investment industry to protect the fees of loan officers rather than the funds of savers. None of the Federal regulators as individual agencies have been able to withstand the internal political pressures created by the regulated in order to establish meaningful reforms of appraisal methods, the appraisal role in the lending process, and the independent role of the appraiser as a check on counterproductive incentives to make marginal loans. The diverse interests of the Council would prevent a travesty such as the recent repudiation of R-41C by the Federal Home Loan Bank Board. The arguments presented by Chairperson Dennis Wall were that appraisals performed to the standards required of R-41C were not cost effective in terms of competitive costs relative to the banking system, a statement which is no less astonishing when you consider that the lenders expect a Federal Agency and Congress to pay the \$25-50 billion loss which can be attributed to the implicit conspiracy of loan officers/developers/appraisers. These forces would have more difficulty subverting a Council of diverse interests and constituencies. In the future, the Council can be expanded to include the Internal Revenue Service, the Federal Highway Department, and other agencies involved in eminent domain acquisitions.

Of critical importance for implementation is the time pressure applied in the proposed legislation to provide appraisal standards and certification standards for review within twelve months of enactment and for installation within eighteen months. Any effort by the private industry will be deliberately stalled and extended for reasons to be discussed below. The enormous funding required for putting an adequate system in place is covered by a Federal loan for \$19 million which could never be assembled by the private sector in a timely fashion. The historical volunteer efforts of the private professional appraisal groups have worked at a glacial pace and is a significant factor in the current vacuum of appraisal standards and enforcement. Where would the appraisal industry raise \$19 million to fund a huge two-year effort? How soon could the private industry have an effective program without the money to employ full-time professionals to inaugurate the program? Only a Federal Council can enforce collections of fees and charges to

support long-term funding of the program as contemplated by the legislation. The industry admits the cost to penalize abusers with existing designations has been a prime factor in the breakdown of private enforcement sanctions, so where would the money be found to install and to impose regulation if States fail to act as required by the industry proposal? It is important that a centralized Federal Council can operate to certify and to sanction those who abuse if the States fail to act since most States will fail to act for reasons discussed below. Nevertheless, States should be given the opportunity to be responsible legislators.

III. Response to Arguments in Opposition to Legislation as Drafted.

The appraisal profession is fragmented and lacks the institutional capacity to define standards, to certify appraisers, or to enforce sanctions on those who abuse designations. The current effort of eight appraisal organizations to create a foundation and model of self-discipline in the image of the certified public accountant is doomed to delay, dilution, and defeat for lack of funds to pay full-time staff, lack of consensus within a profession that has fought merger for years, and lack of legal clout to control its customers or designated members.

Appraisal reform is a Legislative issue that will generate significant resistance from a variety of trade organizations who have a vested interest in the status quo as stated above. None of these professional groups speak for the practicing appraisers in the field who have integrity and competence and who need and desire Federal Assistance to protect their independence and objectivity from mortgage lenders, real estate brokers, builders, and developers. Congress should recall that the Independent Society of Real Estate Appraisers has testified in favor of H.R. 3675 because these appraisers recognize that the professional organizations cannot impose sanctions without a power of subpoena, disclosure, and freedom from counter suits against those appraisers who pander to those parts of the industry that make their living from fees, commissions, and salaried bonuses based on volume. The position of the American Institute of Real Estate Appraisers (AIREA) is totally compromised because it is dominated by its parent organization, The National Association of Realtors, and because many designated members of AIREA are loan officers rather than independent appraisers.

We submit that the goals of most professional appraisal organizations to maintain their prestige, control of standards, and cash income from membership is in conflict with the goals of its competent individual members who are unable or unwilling to do appraisals for mortgage lenders at the cost of objectivity and independence. We have talked to dozens of designated members who believe that Federal involvement is the only hope for realistic reform and for public sanctions against tractable appraisers. Appraisers who think for themselves recognize the platitudes of the professional societies as the conditioned response of American business to any suggestion of government regulation.

There are natural institutional disincentives for thorough and objective appraisals which have been discussed in a symposium conducted by the Lincoln Institute in Cambridge, and a monograph on that subject, which we prepared for that symposium, is provided in Appendix B. There is a deep anti-appraisal bias among mortgage loan officers who state that appraisals are a necessary evil for regulatory purposes. The appraisal guidelines issued in January, 1988 by the FDIC, Federal Reserve and Controller of Currency reveal this bias blatantly in the statement

"...undue reliance should not be placed upon the collateral value in lieu of an adequate assessment of the borrower's repayment ability..."

The lenders issue non-recourse loans on commercial properties and yet disregard the reliability of cash flow from the property as the source of repayment. Even the President of the American Institute, Terrell R. Oetzel, commented editorially in the December, 1987 issue of The Appraiser, as follows:

On August 10, 1987, the Competitive Equality Banking Act of 1987 was signed into law. This act directed the Federal Home Loan Bank Board to implement appraisal standards consistent with the appraisal standards of the federal banking agencies. Quite frankly, the federal banking agencies do not have any appraisal standards. Therefore, the Federal Home Loan Bank had to withdraw their proposed rule (R41-C).

If the bankers and mortgage bankers sincerely wanted to improve mortgage loss ratios, they could have moved toward competitive equality by adopting the standards set by R41-C. Training of auditors to look for standardized appraisal methods that were the same for all members in all states would facilitate audit efficiency, appraiser understanding of his assignment, and consistent documentation for mortgage finance in the national capital markets. Instead bankers forced a rule that allows every institution to have their own definition of a prudent appraisal policy - the same rule that will cost the Federal Government \$25-50 billion dollars to refinance FDIC and FSLDIC.

Defeat of rigorous appraisal standards is a major policy, albeit unwritten, of The American Bankers Association (ABA), U.S. Savings and Loan League (USSLL), The Mortgage Bankers Association of America (MBA), The National Association of Realtors (NAR), and the National Association of Home Builders (NAHB). We have taught hundreds of their members over the years and we are currently the Nominal Dean of Real Estate Finance courses for the ABA on the University of Wisconsin Campus each July. Few of these students are interested in learning how to critique an appraisal and they all know how to shop an appraisal for the right value commitment by the appraiser.

These same professional real estate associations control state legislative committees and generally have great influence in the Office of the Governor of each state, so that if they are unable to frustrate H.R. 3675 by crippling amendments or outright defeat, they will dilute and delay state legislation necessary to put permanent certification and enforcement into operation at the state level. We would suggest to you that if it were possible to retrace the source and application of all mortgage funds that have gone awry, that brokerage commissions, lender fees, developer profits and leasing commissions, and other profit centers would represent the \$25-50 billion that will be funded eventually by the Federal Government Agency insuring the lending institution. No wonder so many sectors of the real estate industry fear rigorous appraisals and objective market studies as a test of any transaction.

The sanctimonious defenders of American tradition argue that lawyers, doctors, and accountants are not regulated by the Federal Government, but then those who are hurt by the negligence of lawyers, doctors, and accountants can sue for damages, sue to withdraw their licenses, and collect from insurance resources that do not include billions of federal dollars. Who does the depositor or the out-of-work employee of a bankrupt financial institution sue for damages done by an appraiser? How often does an appraisal organization successfully remove the designation of its own member? Who but the Federal Government provides significant insurance for the damages of malpractice by the loan officer and his implicit conspiracy with the borrower and the appraiser?

The conventional wisdom is that economic progress requires risk taking and the real estate industry lenders want Congress to take all the risks. At the moment the Federal Government lacks the laws and administrative powers to punish even the most fraudulent judgments by loan officers, appraisers, and borrowers. Another conventional wisdom of American business culture is that those who pay the piper get to call the tune and in real estate mortgage lending Congress and the tax payers are expected to pay the piper. Therefore, the taxpayer has every right to require real estate appraisal reform by H.R. 3675. The citizen has every right to impose banking rules which promote efficient allocation of scarce capital, which provide safety incentives for savers, and which prevent insider profits more blatant than those in the stock market.

APPENDIX A

JAMES A. GRAASKAMP

PROFESSIONAL DESIGNATIONS

SREA, Senior Real Estate Analyst, Society of Real Estate Appraisers

CRE, Counselor of Real Estate, American Society of Real Estate Counselors

CPOU, Certified Property Casualty Underwriter, College of Property Underwriters

EDUCATION

Ph.D., Urban Land Economics and Risk Management - University of Wisconsin

Master of Business Administration, Security Analysis - Marquette University

Bachelor of Arts - Rollins College

ACADEMIC AND PROFESSIONAL HONORS

Chairman, Department of Real Estate and Urban Land Economics,
School of Business, University of Wisconsin

Urban Land Institute Research Fellow

University of Wisconsin Fellow

Omicron Delta Kappa

Lambda Alpha - Ely Chapter

Beta Gamma Sigma

William Kiekhofer Teaching Award (1966)

Larson Teaching Award (1985)

Alfred E. Reinman, Jr. Award - Society of Real Estate Appraisers (1986)

Charles B. Shattuck Memorial Award, AIREA (1987)

Urban Land Institute Trustee

Research Committee - Pension Real Estate Association (PREA)

Richard T. Ely Real Estate Educator Award from Lambda Alpha

Homer Hoyt Foundation Fellow

PROFESSIONAL EXPERIENCE

Dr. Graaskamp is the President and founder of Landmark Research, Inc., which was established in 1968. He is also cofounder of a general contracting firm, a land development company, and a farm investment corporation. He is formerly a member of the Board of Directors and treasurer of the Wisconsin Housing Finance Agency. He is currently a member of the Board and Executive Committee of First Asset Realty Advisors, Inc., a subsidiary of First Bank Minneapolis. He is the designer and instructor of the Urban Land Institute (ULI) School of Real Estate Development and the American Bankers Association (ABA) National School of Real Estate Finance. His work includes substantial and varied consulting and valuation assignments such as investment counseling to insurance companies and banks, court testimony as an expert witness and the market/financial analysis of various projects, both nationally and locally, for private and corporate investors and municipalities. Currently is a member of Salomon Brothers Real Estate Advisory Board.

APPENDIX B

See James A. Graaskamp Collection of
Teaching Materials

I. Manuscripts

A. Published Books

12. 1984 Real Estate Valuation
Colloquium:

A Redefinition of Real Estate
Appraisal Precepts and Practices

Chapters 3 and 14 by
James A. Graaskamp

"The Need for Redefinition
and Reform of the Appraisal
Process" (Chap. 3)
and

"Industrial Constraints on
Redefinition and Reform of
The Appraisal Process"
(Chap. 14)