

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /  
Or Sponsoring Organization Is Missing

2. Appraisal Topics

aa. "Appraisal and Social Equity", no date

- I. Several trends are reestablishing public recognition that appraisal is a pivotal profession for social equity, safety of consumer capital, and efficient allocation capital. These forces include:
  - A. Terrible losses to the banking system as a result of accomadating appraisers who supported decisions of the lenders motivated by short term, non-real estate concerns.
  - B. Rising standards of fiduciary responsibility as a result of ERISA and a shift of pension funds toward real estate.
  - C. Recognition that too much venture capital was allocated to real estate, producing over supply, reducing tax collections, and undermining useful life of existing stock.
- II. As a result new methods of private and public control for the procurement of quality appraisal are being instituted or discussed.
  - A. At the transaction level institutions are using letters <sup>of</sup> ~~ed~~ engagement to specify appraisal methods, standards, responsibilities, and the purpose for which the appraisal is required.
  - B. Letters of engagement reflect specific policies written down by boards of directors, trustees, or policy groups who fear both liability and bad decisions as a result of purchasing poor appraisal work.
  - C. The Internal Revenue Service and the Securities Exchange Commission have each instituted sanctions and legal actions against appraisers determined not to be independent and exaggerate values.
  - D. The Federal Home Loan Bank Board has attempted to provide explicit guidelines to loan officers where institutions are insured by FSLDIC. The best known components are Administrative Rule 41-A, B, C, and D.
    1. D simply clarifies C, and C was revolutionary for developing a specific set of instructions for those who acquire and evaluate appraisals which support credit and investment decisions. The failure of the lender to obtain acceptable appraisals makes the board od directors and the loan officers personally accountable for violating a fiduciary duty.
    2. The appraisal must contain a certificate from the perosn at the instituion who has reviewed the appraisal, that person's title, and the date of approval.
  - E.. Appraisal shall be based upon the following definition of market value:
    1. The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- E. 1. a. buyer and seller are typically motivated;
- b. both parties are well informed or well advised, and each acts in what he considers his own best interest;
- c. a reasonable time is allowed for exposure in the open market;
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

F. Because of appraisal fraud and incompetence as a major factor in the failure of 400-500 S&I's, Congressman Douglas Barnard, Democrat from Georgia, as Chairman of the House Oversight Committee on Consumer and Banking Affairs conducted a national investigation and is proposing federal legislation on appraisal standards to be followed by any federally insured deposit institution. He recommends

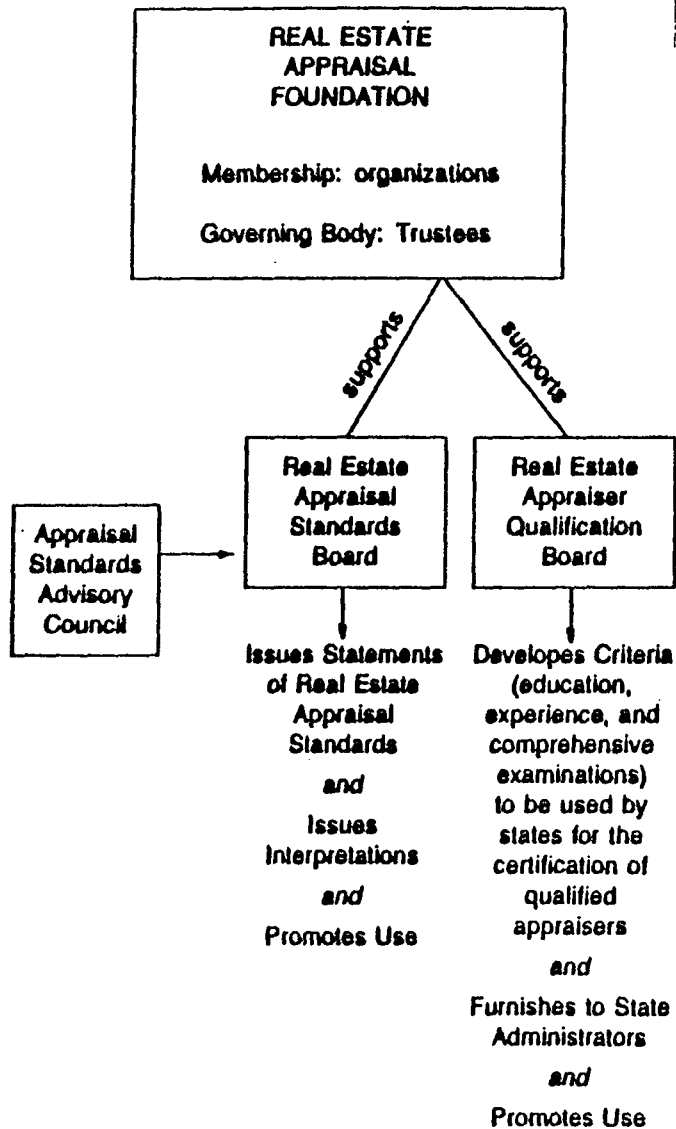
- 1. Bank regulatory agencies with express authority to discipline appraisers who willfully or negligently misrepresent value, including black listing and civil penalties.
- 2. Establishing appraisal standards for all federally insured lenders (See page 13)
- 3. Lender accountability
- 4. Public/Private sector coordination of appraiser certification and review
- 5. Standard appraisal policies and procedures for government insurers and secondary marketing institutions.
- 6. Data collection and information sharing of appraisals and appraiser performance;
- 7. Laws requiring public disclosure of sales transaction data and loan origination.

III. The private response to the Barnard proposals is not surprising but it may be too little too late.

- A. Eight major appraisal associations organized into a select committee to produce a watered down statement of appraisal ethics and standards. The confederation is shaky since the SREA and MAI groups don't agree as to whether the federal government has any role in appraisal standards.
- B. Both the federal proposals and the MAI private sector proposal are modeled on the Accounting Industry format
  - 1. Real Estate Appraisal Foundation of Trustees representing appraisal organizations and the general public, which would raise money and appoint two groups.
  - 2. A real estate Appraisers Standards Board to define standards, interpret issues and promote application through various sanctions

- 2.. It would be advised by a new appraisal standards advisory council.
  3. Real Estate Appraisal Qualification Board to develop criteria in terms of education, experience, and examinations to be used by states for certification.
- C. The issue is should the federal government appoint the majority of trustees and provide the legal muscle to decertify appraisers-- that is finance the high cost of adequate enforcement.
1. The industry is moving quickly to establish a foundation and a standards board to argue that the federal government need not do it. Three years ago it panned the need for a standards board, and Barnard has forced it to reverse its position.
  2. Barnard was hoping to get consent and cooperation from the appraisers, who could avoid heavy funding of the aparatus so that the strong real estate lobbies would support, rather than oppose his legislation.
  3. Instead the lines of confrontation have been drawn, and Mr. Barnard will rely on additional scandals to line up Congress and use the Congressional necessity to fund 25 billion in FSLDIC losses to motivate Congress to prevent that disaster form happeneing again.

**CHART A**



**State Administrators**

Use Criteria Developed by the Real Estate Appraiser Qualification Board to:

1. Check education and experience and administer examination (before issuing certificates for state certified real estate appraisers)
2. Supervise continuing education program for renewal of certificates

and

Enforce the Standards developed by the Real Estate Appraisal Standards Board (with penalties for violation)

**State and Federal Regulators**

Adopt (when appropriate) the Standards Developed by the Real Estate Appraisal Standards Board

and

Restrict Certain Types of Appraisal Services to State Certified Real Estate Appraisers (certified by states that use the criteria developed by the Real Estate Appraiser Qualification Board)