

Oral Testimony

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“The Real Estate Appraisal Industry”**

Thank you Senator and members of the Subcommittee.

A good appraisal is important to consumers and our economy. The S&L scandal led Congress to pass FIRREA, recognizing the importance of reliable and honest appraisals in real estate financing.

Today the appraisal is being swept to the sidelines, treated as a nuisance rather than essential. Some lenders propose to bundle the appraisal with other services in cut-rate financing packages; others intend to off-shore that function. No matter how good a computer whiz, a kid in Calcutta cannot provide insightful evaluations on par with professional appraisers who intimately know our communities. Whether you are buying a ranch in Durango or moving to Macon, you want someone who knows the territory.

So, fifteen years after FIRREA, how are we doing? Only 28% of the users we surveyed saw improvement, while fully half say that appraisal quality has declined. Before state licensing, 84% selected appraisers based on professional designations and experience. Now, almost 90% of users find state-certified appraisers less qualified than those with professional designations—yet they assign them more and more of the business.

I’m afraid that the system’s report card rates five “D’s” and an “F.”

DIRECTION is the first D. We don’t have it. Our chart depicting the regulatory structure resembles a circular perpetual-motion machine. Who, individually, is responsible for setting direction? Who, in this rotating bureaucratic chairmanship, is the stakeholder in charge? Is it any wonder that the states routinely ignore this flailing machinery?

DISCLOSURE is the second D, and again we don’t have it. The Appraisal Subcommittee’s (ASC) civil servants hold secret meetings, with neither input from nor access for professionals working in the industry. Their tardy reports to Congress are mere financial summaries. They don’t tell us what they do; only how much they’re billing us. They resemble the Wizard of Oz, warning us not to look behind the curtain.

DISCRIMINATION is a third D. By favoring less-credentialed newcomers, FIRREA bizarrely discriminates against seasoned professionals, discouraging advanced career development. The professional organizations foster superior training and ethics, yet without incentive to excel, appraisers have been dropping out. Fewer than 40% now belong. This is like an employer snubbing college graduates to hire dropouts. Under FIRREA, ignorance is bliss.

DISCIPLINE also fails. Left alone, the states can disregard appraiser discipline as a pointless federal mandate. Take New York, which reinstated an appraiser convicted of fraudulently scamming millions. At the very time the ASC was approving New York's program, *Newsday* was reporting that the state routinely neglected or dismissed complaints. We note similar scandals around the country.

DURESS, our fifth D, flourishes. Without effective enforcement, financiers still pressure appraisers to come up with the "right" numbers for their deals—just as they did in the freewheeling '80s.

The ASC's worst grade is "F," for FEDERAL-STATE relations. The ASC has no one in charge or accountable. The Federal entity lacks practical input from the field and effective contact with the states. It does nothing to foster interstate reciprocity and little toward temporary practice licensing, an appropriate Federal role. Finally, the ASC has no real leverage to encourage state compliance. Its only inducement for states to police bad appraisal practices has been dubbed the "atomic bomb" that would effectively blow up all federally-financed mortgages in a state. Nobody is going to use that, and everybody knows it.

What happens to a fifteen-year-old with a flunking report card? We might pack the kid off to military school to get some discipline. But better, how can we help him earn some "A's:" ASSETS enough to do the job; ACCESS to agency proceedings; ADVANCEMENT of appraisers' professional qualifications; AGGRESSIVENESS in disciplining bad appraisers while protecting the independence of good ones; AUTHORITY to do its job, and most of all, ACCOUNTABILITY of state and Federal oversight to the public.

Since 1935, the Appraisal Institute has advanced the standards of our industry—saving buyers, sellers, and taxpayers millions. We are ready to work with you to craft simple, cost-effective and transparent legislative remedies so FIRREA can earn straight A's.

Our system is floundering. Discipline and direction can help it make the grade.