

Don't Shoot the Messenger Appraisers Not at Fault for 'Low' Home Values

Many in the real estate industry have tried to blame the market's distressed condition on appraisers, saying that appraisers are at fault for producing opinions of value that don't match a home's listing or contract price, delaying a recovery in the housing market. In fact, appraisers are undertaking the same thorough research and thoughtful analysis that they always have in order to continue producing reliable, credible opinions of value.

Appraisals aren't intended to confirm a home's sales price.

Appraisals completed for mortgage transactions are used to assist lenders in making lending decisions. Buyers and sellers often have emotional value attached to a home or are unaware of the market. They shouldn't assume an appraisal is somehow "wrong" if it doesn't match the listing or contract price. There's no reason to assume the contract price is the "correct" price simply because it's higher than the appraisal.

Appraisers don't set the real estate market; they reflect what's happening in the market.

Think of the appraiser as a mirror, reflecting the market – and the market is depressed as home prices have fallen far below values of a few years ago. Reliable, credible opinions of value help stabilize real estate loans and investments, promoting socially desirable real estate development.

Appraisers work not for buyers or sellers, but for lenders.

The appraiser's client for appraisals completed for mortgage transactions typically is the lender – not the buyer or seller. Lenders order appraisals to get a stronger understanding of risk relating to the underlying collateral offered in a mortgage. Neither the lender nor the consumer benefits by entering into a mortgage that is more than the value of the property.

Appraisers are independent, third-party experts with no motive to be biased.

Appraisers are particularly valuable because they are an objective and unbiased source of real estate information. Unlike some other real estate professionals, appraisers perform a professional service for a flat fee – rather than for a commission contingent on the value conclusion, the approval of a loan or the eventual sale of the property.

Appraisals sometimes are assigned to the least qualified, least competent appraisers.

Federal regulations and policies require a "firewall" between appraisers and lenders. To perform this "middleman" function, lenders often turn to appraisal management companies. AMCs' business models are based on keeping as much of the appraisal fee as possible and paying as little as possible to the appraiser performing the appraisal. This can lead to the least qualified, least competent appraisers – including those from other cities or even other states without sufficient knowledge of the local market – being hired to perform complex appraisals.

Especially in a distressed market, competent and qualified appraisers – such as designated members of the Appraisal Institute – should be hired for difficult assignments.

Designated members of the Appraisal Institute have achieved levels of education, experience, standards, ethics and peer review above those of licensed or state certified appraisers. Those qualifications are particularly valuable when facing challenging valuation assignments ... such as those found today.

Appraisers know how to use distressed sales as comparables.

Qualified, competent appraisers are capable of using their experience and education to determine when – and how – to use distressed sales (such as foreclosures) as comparable sales. These appraisers know what adjustments to make, if any, when using distressed sales as comparables. In some markets, distressed sales are so prevalent that it would be improper not to use them as comparables.