

We Can Get Around Anything

Auditors, Pressure, Greed, and the Economy

The current collapse of our economy will be the fourth time I've been to this rodeo. You'd think we would have learned the lesson by now. The last time the entire United States went through the same issues and problems was back in the mid 80's, and here we are again, but this time it's bigger.

Prior to 1990 lenders and appraisers didn't have a cohesive set of rules and regulations to follow, so with the help of Congress they set up "the new world order" a law called the Financial Institutions Reform Recovery and Enforcement Act (FIRREA). Out of thirteen sections, only one applied to real estate appraisers, and we begged for inclusion. Very few times in the history of the U. S. does a group of professionals beg for inclusion in the Federal Act. **Why?** We knew we needed a set of laws that would unify, provide guidance and just maybe... prevent the next economic melt-down.

Way back when... appraisers were given a very interesting job, we were made the **auditors** of **every** real estate purchase that required a loan. An independent third-party with no financial connection to the purchase - that for the cost of \$400 plus - would review the purchase of a real estate transaction.

The appraiser has three primary tasks during a real estate purchase:

1. Review the purchase and sale agreement between the buyer and seller.
2. Inspect the property that's being purchased and accurately describe its condition.
3. Provide an opinion of value, based upon facts.

This simple job description (the appraiser is the auditor of the transaction) was backed up by Federal and State Law, Regulation, Rules and Guidelines and this body of law was provided to every banker, lender, appraisers and quasi-government agency dealing with mortgages (Fannie Mae). Extensive classes were provided throughout the land. And for a while.... it worked.

Then with budget cutbacks resulting in fewer bank auditors, and new instructions from a variety of places, including the White House of the 90's, the body of law started to fade. (Anything to make housing affordable, even if people couldn't afford it was the goal of Congress and White House)

We're clever Americans. Need light? We figured out how to harness electricity. Our forefathers wanted freedom from oppressive laws, so they left the old countries and traveled to this continent and wrote new laws. Give us a law and we figure out how to get around it, as long as there's profit of course. We operate almost like Jello - squeeze us on the sides and we squish

out at the top, squeeze on the top and we squish out someplace else. In other words, we find a way around any attempt to restrict us. Appraiser/auditors were looked upon as “killjoys” people that messed up real estate lending or sales. Of course as long as the appraiser/auditor came in with a value the lender, AMC or real estate agent desired..... we were “OK” and in our right place in the corner. However, if we dared come in an anything other than the “desired value”.... all Hell breaks loose and the imaginations of clever Americans kicks into high gear.

Following this path the “banking system” started to figure out how to work around the appraiser/auditor problem.

Banks and real estate agents started by “failing” to provide a copy of the purchase and sale agreement to the appraiser. For some reason they didn’t want appraisers to know about the inflated purchase price and \$100,000 kick-back to the buyer. **Huh! Really!.... Go figure!** Then they had the appraiser pick up his pay check from the mortgage broker or at the front door from the borrower. More chances for someone to Atalk@ to the auditor/appraiser. One more chance to make sure the appraiser came in at the “right” figure.

Now with lenders **forcibly** injecting appraisal management companies (AMC) into the middle of things, the “lending system” has hired a third party to..... “**manage**” the appraiser. **Manage!** - I bet the appraiser didn’t ask for a portion of their fee to be diverted to a third-party and this interloper to force their “**management point of views**” on them.

Appraisers were pressured.... **no, downright threatened** to over value property and only use positive descriptions of a property. I was once told not to describe the massive water leak in the bathroom ceiling and mold growing out of the carpet. We were told, by banking and mortgage people that we were only allowed to describe a property as being “Average.” Doubt me? Ask around, I bet that almost every appraisal you read indicates the property’s “condition” as “Average.”

In the past, if an appraiser accurately describes a negative issue, the mortgage loan office would make sure the appraiser wouldn’t get paid. Now in the “new world order” the AMC is likely to use a person from another country to “guide” and “instruct” the appraiser to a “better conclusion” or “description.”

I was giving a real estate fraud class to law enforcement officers in Arizona. During the break a Sargent received an urgent phone call about an appraiser’s car being firebombed. True story... and it happened because the appraiser wouldn’t value the house at the inflated, bogus, over the top value. You know - the house where the buyer got \$100,000 back at closing.

A loan officer in Enumclaw (a town near Seattle), by the name of Tim M. offered me a \$1,000 bribe, if I’d state a higher value in my appraisal. And when I wouldn’t accept the bribe, his sister called my office and started yelling at how “**I was a bad appraiser.**” She ranted about how: “you appraisers are supposed to fill out the form the way we, [the loan officers] tell you.”

While appraisers all across the U.S. would complain about the issue, due to a variety of reasons, most State agencies could not follow up on these cases. So the spoiled brats of the world would go on yelling at the appraiser/auditor, threatening nonpayment and/or threats of "We'll run you out of the business" all because the auditor/appraiser wouldn't "conform" to their demands. Imagine the gall..... threatening a state licensed auditor (appraiser).

I'll also say that far too many poorly trained appraisers came into this business and were willing to say anything on an appraisal form.... as long as they got paid. As Bill King, an appraiser friend of mine says, "we have way too many form-filling monkeys in this business."

AMCs and lenders often seek these people out. Why? Because an appraisal, even when filled out by a "form-filling monkey" will help grease the path toward loan approval, lender profit and a smiling real estate agent.

Gasp! You mean the appraiser might actually nix the deal because the house value isn't there? How dare he! Hire someone else, said the loan officer from WAMU. (We have hundreds if not thousands of examples from around the nation.)

- So we have appraiser/auditors that are cut off from the facts, by the very people that hire them.
- Threats and pressure from the people that hire and pay us.
- Poorly educated appraisers that do not understand the federal definition of "market value."
- Appraisers that can't figure out how to handle a \$100,000 kick-back to the buyer.
- Psst, subtract it from the value conclusion.
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And yes, we have a system that has failed.

Where in this land do bankers have the gall sufficient to call up and yell at an auditor? They don't call the Office of the Comptroller of the Currency or the Federal Deposit Insurance Corporation..... but they do call up the appraiser/auditor and give him a lashing.

The reality is - we don't need a lot of new laws or regulation. Enforcing what we currently have would be a great leap forward. Banks, lenders, mortgage brokers, loan originators, AMCs all need education and the feeling the pressure of an auditor breathing down their neck and enforcing the existing rules. It's the failure to follow the existing regulations that has allowed lenders to make stupid loans to people that could not afford them, for values that were not really there.

We're clever Americans, we can figure out how to get around any regulatory system that restricts us. Why? For the money! Hmmm, and how's that working for ya' in this failing economy?

Solution: License, audit, educate and, convict the ones that don't listen.