



Appraisers and public trust: Why are professions concerned about public trust? - by John Rynne

January 23, 2018 - Spotlights

The real estate appraisal profession in the late 1980's went through a major transformation. Many of us remember the Savings & Loan (S & L) crisis which was created by out of control lending due to fraudulent loans and appraisal practices. Appraisers during that time were in two categories:

A. Those affiliated with an appraisal organization which had a formal Standards of Professional Practice (SPP) and Code of Ethics (COE); and

B. Those who had no affiliation with an appraisal organization.

The type A appraisers who were affiliated with appraisal organizations such as the American Institute of Real Estate Appraisers (AIREA), Society of Real Estate Appraisers (SREA), American Society of Real Estate Appraisers (ASA), New York Society of Real Estate Appraisers, etc. had to follow SPP and COE or could be disciplined through sanctions, suspension or dismissal from these organizations. This oversight was a safety valve against incompetent or unethical appraisals.

In 1991, the AIREA and SREA merged to form the Appraisal Institute(AI). However, the type B appraisers not affiliated with any appraisal organization were more apt to produce either poor work product and/or questionable ethical behavior. Because of the S & L crisis, the federal government put together a system to require a certification or licensing process for each state for submitting appraisals to most financial institutions in the U.S. The document was the Uniform Standards of Professional Appraisal Practice (USPAP) which was implemented in 1989.

Why are professions concerned about the public trust? The public relies upon a professional's services because many professions are essential to the well being of society and the global economy. If a profession does not have the public trust, the public will not rely upon that profession in the long run. Eventually the profession will cease to exist because there will be lack of demand for its services. The vacuum will then be filled by government or other professions. If that doesn't happen the society and the global economy will be worse off. The public relies upon a profession's ethical behavior or the intent to have the right mind set. Also, competent ability and the right skill set is important.

Both work hand-in-hand. The public expects that the profession will have an independent body(s) which will:

A. Educate and train;

B. Confer professional membership recognition of meeting some minimum professional standards; and

C. Conduct peer review which will make the quality of work consistent and promote ethical conduct. This is why the professions are concerned about the public trust.

When discussing public trust, who is “the public?” Anyone who is a direct or indirect user of the professional’s service. That would be a client, intended user, and/or all who are affected by the service including but not limited to all in the general society. As an example, the public on a micro level could be a lender; a property owner; a seller, a buyer; an attorney; a husband/wife in a matrimonial action; a local, state, and federal government; a court; a corporation, a citizen group, etc. This micro level of the public would either be directly or indirectly affected by various appraisals completed for a variety of reasons including but not limited to mortgage financing; all types of litigation including tax certiorari, condemnation, matrimonial, partnership buyouts, etc. However, on a macro level, all of society could be directly or indirectly affected. As an example, in a condemnation case involving a bridge expansion on an international border (i.e. United States and Canada), the results of the appraisal could have a large effect on the award of damages to the property owner(s), what the government(s) pay and even the scope of the project. Ultimately, it could affect local, state, federal tax rates which affect all levels of taxpayers of both countries. It will also affect low income people who even though don’t pay taxes may have services cut because of budget constraints due to the international bridge example. Thus, all of society could be considered the public.

Narrower examples would include a bank who depended upon a market value appraisal for mortgage collateral purposes but because of overvaluation by the appraiser using undocumented, unethical or SPP breaches could result in the loan going into default. This could result in a substantial loss of the banks mortgage principal and property owners loss of all equity because of heavy debt service. Another example could be a real estate holding corporation dissolution in which each shareholder depends upon an appraisal which will result in a fair equitable distribution to each shareholder.

In summary, today’s appraisal profession does a good job in maintaining public trust.

John Rynne, MAI, SRA is the president and owner of Rynne, Murphy & Associates, Inc., Rochester, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540