

**REPORT OF THE
VIRGINIA BOARD OF COMMERCE ON**

**The Study of the Desirability
of Regulating the Profession of
Real Estate Appraisers**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 5

**COMMONWEALTH OF VIRGINIA
RICHMOND
1988**



COMMONWEALTH of VIRGINIA

Department of Commerce

Board of Commerce

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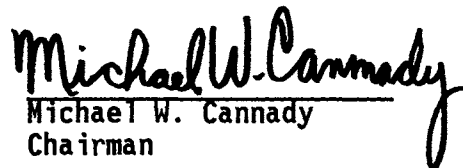
October 27, 1987

**TO: The Honorable Gerald L. Baliles
Governor of Virginia
and
The General Assembly of Virginia**

The report transmitted herewith is pursuant to House Joint Resolution No. 198 of the 1987 Session of the General Assembly of Virginia. Resolution 198 requested the Board of Commerce to study the desirability of regulating real estate appraisers in the Commonwealth of Virginia.

The Board of Commerce recommends that state regulation of real estate appraisers be deferred until the national professional associations have had an opportunity to enact a self-regulatory program and/or the U. S. Congress enacts legislation.

Respectfully submitted,


Michael W. Cannady
Chairman

MWC:djp

**VIRGINIA BOARD OF COMMERCE
REPORT ON THE REGULATION OF
REAL ESTATE APPRAISERS**

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I. EXECUTIVE SUMMARY

- A. Study Overview
- B. Key Findings
- C. Conclusions
- D. Recommendation

I. EXECUTIVE SUMMARY

A. Study Overview

This study attempts to determine the most appropriate level of regulation for real estate appraisers in the Commonwealth of Virginia.

Through survey data and public hearings, the Board of Commerce reviewed the nature of the occupation, its unregulated effect on the public, the public's need for assurance of competence, the alternatives to state regulation and the effectiveness of other state regulatory programs.

The level of regulation recommended by the Board is based on an extensive analysis of this information.

B. Key Findings

1. The complaint search revealed little evidence of complaints and abuses. The Better Business Bureaus responding to the Board of Commerce survey perceive problems as NONEXISTENT while the Consumer Affairs Offices described the seriousness of the problems as either NONEXISTENT OR MODERATE. Neither the hearing process nor the surveys documented excessive complaints and when improprieties did occur, misconduct of ethics was usually considered the cause.
2. The public is offered a means of selecting a competent real estate appraiser through the use of professional credentials granted by the national trade associations.
3. Legislation is expected to be introduced in the U.S. House of Representatives to establish regulatory standards for the real estate appraisal industry. As an alternative to this legislation, the eight major trade associations are recommending a self-regulatory system which would establish standards for national qualification and give states the responsibility for the voluntary certification program.
4. The Virginia Chapters of the major professional associations recognize potential problems in the appraisal industry, but urge the Board not to recommend state regulation until self-regulatory provisions can be adopted.
5. The states which now regulate real estate appraisers and/or appraisals have been successful only to the point of establishing requirements for licensure, but have done little to restrict or exclude fraudulent or incompetent appraisers from practicing.

C. Conclusions

Four major conclusions have been drawn as a result of this study:

- 1) There is not sufficient evidence of incompetent, fraudulent, and/or inflated real estate appraisals in the Commonwealth of Virginia to justify regulation to protect public health, safety and welfare.
- 2) Appraisal impropriety, or the potential for such impropriety, is more frequently attributed to a lack of ethics rather than a lack of skills.
- 3) A state regulatory program would be premature in light of the proposed federal legislation and the self-regulatory system proposed by the professional trade associations.
- 4) Other state regulatory programs have either (a) not been in effect long enough to judge their effectiveness or (b) ineffectual to the point that states are considering new stronger regulations for real estate appraisals/appraisers.

D. Recommendation

The Board of Commerce recommends that state regulatory action of real estate appraisers be deferred until the national professional associations have had an opportunity to enact a self-regulatory program and/or the U. S. Congress enacts legislation.

II. INTRODUCTION

- A. Background Information
- B. Introduction
- C. Purpose of Report
- D. Methodology
- E. Analytic Procedures

II. INTRODUCTION

A. Background Information

The Board of Commerce has the legislative mandate for evaluating the need for additional regulation of occupations and making recommendations to the General Assembly.

The guidelines for evaluating the need for this type of regulation were established by the General Assembly and are stated in Section 54-1.26 of the Code of Virginia, (1950, as amended). The levels of regulation and the order in which they are to be considered is as follows: (1) Private civil action and criminal prosecution, (2) Inspection, (3) Registration, (4) Certification and (5) Licensure.

B. Introduction

During the summer of 1986, the Commerce, Consumer and Monetary Affairs Subcommittee of the U.S. House of Representatives conducted a study on the real estate appraiser industry and its impact on the failure of major financial institutions throughout the country. Rep. Doug Barnard, Jr. (D-Ga.) is the Subcommittee Chairman.

The impact of the Subcommittee's report has been far reaching as the industry and state regulatory bodies react to its content and recommendations. Throughout this document the Subcommittee's Report shall be referred to as the Barnard Report.

In the 1986 Virginia General Assembly Session, legislation was introduced to require licensure of real estate appraisers. The bill was abandoned due to opposition forces. In 1987, House Joint Resolution 198 (HJR 198) was passed which set the mandate for this study. (See Appendix A for copy of HJR 198.)

C. Purpose of Report

In order to ascertain what level of regulation, if any, is required for real estate appraisers, the Board of Commerce devised a study to determine:

- 1) whether the unregulated practice of the occupation will harm or endanger the health, safety and welfare of the public;
- 2) whether the practice of the occupation requires a high degree of skill, knowledge, and training and the public therefore requires assurance of initial and continuing competence;

- 3) whether the functions and responsibilities of the practitioner require independent judgement and the members of the occupation practice autonomously;
- 4) whether there are alternatives to regulation that will protect the public; and
- 5) whether other states have found regulation of appraisers to be effective.

This report serves to outline the results of the study and after considering the findings, to recommend the most appropriate action.

D. Methodology

The data in this report was obtained from research, from public hearings and materials submitted from various sources.

A survey was sent to practitioners to identify education, experience and existing problems of current practitioners. In addition, users (salespersons, brokers, contractors/developers) were surveyed for problems in the appraisal industry.

In order to obtain information about licensure or regulation of real estate appraisers in other states, the Secretaries of State were surveyed and the Real Estate Commissions with an appraiser's licensure requirement were contacted through a telephone survey.

A search for complaints against real estate appraisers was undertaken through surveys sent to the Virginia Better Business Bureaus, all Consumer Affairs Offices, City/County Attorneys and Commonwealth Attorneys. In addition, public hearings were held on June 10, 1987, in Fairfax; on June 11, 1987, in Richmond; on June 22, 1987, in Roanoke and June 29, 1987, in Norfolk.

E. Analytic Procedures

The complaints gathered through the survey and hearing process were examined in terms of the cause of such impropriety and its impact on the public.

Other states' regulatory provisions for real estate appraisers were examined in detail to understand what led to the stated level of regulation, how effective the regulations have been in controlling problems and what additional requirements for appraisers are being considered.

Finally, an analysis of the education, training and experience of real estate appraisers in the Commonwealth was completed.

III. KEY ISSUES

- A. Public Health, Safety and Welfare
- B. Nature of the Appraisal Industry
- C. Public's Need for Appraiser Competence
- D. Autonomous Nature of the Industry
- E. Alternatives to State Regulation
- F. Other State Regulatory Action

III. KEY ISSUES

A. Public Health, Safety and Welfare

The survey data and public testimony provided no documented cases of incompetent, fraudulent, and/or inflated real estate appraisals in Virginia. The potential for harm does exist with pressures from the marketplace for biased appraisals and the reliance of the public on real estate appraisals.

Data from the practitioners responding to the survey indicated that potential: 60.2% receiving pressure from or being requested by a client to provide a biased appraisal (37.8% no). When asked whether they were aware of any improprieties engaged in by fellow appraisers that were deceptive, fraudulent or inflationary, 50.0% replied yes; 46.9% replied no.

B. Nature of the Appraisal Industry

Professional real estate appraisers provide an analysis, opinion or conclusion relating to the nature, quality, value or utility of specified interests in, or aspects of, identified real estate.

According to the Barnard Report, the appraisal function is neither an art nor wholly scientific. It consists of a dynamic blend of subjective judgement and objective methodology, depending on the assignment involved. However, notwithstanding the inherent subjectivity involved, objective appraisal approaches and techniques have reached a state of development and sophistication that affords considerable accuracy in determining value estimates.

Real estate appraisals provide banks, thrift institutions and other real estate lenders with value conclusions and other important data which is required for loan underwriting decisions. The appraisal also serves as an essential part of the process by which public (i.e., VA and FHA) and private sector mortgage insurers attempt to assure themselves that their risk of loss will not exceed pre-established, acceptable levels. In addition, the appraisal serves as one of the principal means by which public and private investors (e.g. Fannie Mae, Freddie Mac, banks and thrifts) evaluate the quality of the loans they purchase.

C. Public's Need for Appraiser Competence

An appraisal affects investment choices and insurance decisions in addition to the primary area of loan origination. For these reasons, the public seeks to rely on a level of competence by a real estate appraiser which is sometimes thwarted by the fact that an individual can become a real estate appraiser without appropriate education, experience or ethical standards.

There are eight reputable national real estate appraiser organizations to which one-third of the nation's estimated 150,000 to 250,000 real estate appraisers belong. These associations have recently formulated Uniform Standards of Professional Practice and are attempting to implement these standards in each of the associations. Differences still remain in their membership requirements, their professional credentials or designations granted, and their continuing education requirements.

Unfortunately, there are also numerous "diploma mills" which accommodate "would be appraisers" for a fee and require little in continuing education. Such education is essential in the appraisal industry due to the changes in the cost and manner of developing, financing and marketing of commercial, industrial and residential real estate. Likewise, as changes are made in the legal framework in which real property rights are created, conveyed and mortgaged, corresponding changes must be made in appraisal theory and practice.

The Department of Commerce survey of practitioners showed that over 60% of the respondents had one to four years of college education and 94% had completed a formal study course(s) in real estate appraising (75.9% with 1-5 courses; 14.7% with 6-25 courses).

Respondents to the survey also had considerable experience as a real estate appraiser; 10.2% with 1-10 years; 50% with 10-20 years and 33.3% with over 20 years.

It should also be noted that in answering the question "have you ever been licensed as a real estate broker/associate broker", 42.6% said yes; "real estate salesperson", 60.2% responded yes.

Survey data also showed that of responding users (salespersons, brokers, contractors/developers) 57% used real estate appraisers with credentials (36% did not know whether the appraiser had credentials).

In summary, the public relies heavily on a real estate appraisal made by an educated and experienced practitioner. Means of ascertaining such competence do exist through the professional trade associations, however, despite education and experience a fraudulent appraisal can be performed due to ethical misconduct.

D. Autonomous Nature of the Industry

The Barnard Study found that many lending institutions regard appraisals as an obstacle to overcome or a necessary rubberstamp. Most lending institutions have little, if any appraisal review capability and in many cases the review is suspect since it involves individuals with vested interests in seeing a loan transaction through to completion.

While the very function of appraising is defined as an "opinion" it can be influenced by various factors. A report submitted to the Board of Commerce by The Housing Opportunity Group argues that "the appraiser's establishment of fair market value can, and often does, affect the stability of housing markets, resulting in fostering or maintaining racially segregated housing patterns." According to the report, very low appraisals can lead to disinvestment, deterioration and racial transition while high appraisals can and often do lead to oppressive property tax assessments. (See Appendix B for copy of report.)

The only recourse for the public is to appeal the appraisal. According to some users responding to the Department's survey this is an extremely lengthy process. Appraisers responding to the practitioners' survey had not had their appraisals contested that often - 31.7% having appraisal contested in court; 20.8% contested by another appraiser; 5.0% by an appraiser association.

E. Alternatives to State Regulation

1. Federal Legislative Alternative

The Barnard Subcommittee's one year investigation prompted some promising actions to combat the various appraisal problems identified by the Subcommittee. Some of these activities include:

- 1) A common appraisal form used by the VA, FHA, Fannie Mae and Freddie Mac;
- 2) Public and private mortgage insurance companies have attempted to tighten their appraisal related underwriting procedures and monitoring requirements;
- 3) Federal Home Loan Bank Board has established expanded and more definitive procedures regarding appropriate appraisal practice; and
- 4) Fannie Mae and Freddie Mac adopted a stricter definition of market value.

While Rep. Barnard viewed these actions as positive steps, he is seeking further remedies through legislation. As of this writing, Rep. Barnard is expected to introduce legislation which would:

- 1) create a federally chartered appraisal regulatory agency, "Appraisal Industry Foundation", charged with setting tough professional standards for real estate appraisals and the people who make them. The agency would specify certification requirements necessary for any appraiser to be licensed to provide valuation on real estate financing with any form of federally related capital.

The foundation would draw its members from highly regarded appraisal associations.

- 2) create licensing and disciplinary bodies at the state level. The state professional boards would investigate any complaints and could suspend or terminate the license.
- 3) charter a new federal government interagency appraisal oversight council to watch the foundation and state licensing boards.

As of this writing, Congressman Barnard's staff indicated that no companion legislation is being introduced in the Senate. The Senate Banking Committee's Housing Subcommittee which would most likely have jurisdiction for such legislation has not conducted any investigations on this issue nor scheduled any hearings.

2. Industry Alternative

Seeking to avert forced federal regulation, a coalition of eight major appraisal groups has been formed to promote the requirement of a uniform level of knowledge in appraisal work through the adoption of a self-regulatory system.

The proposed system would have two tiers:

- 1) A national real estate appraisal foundation comprised of members from professional associations, academic associations, real estate industry associations and regulatory associations. The foundation would appoint a standards board (responsible for issuing formal statements and interpretations) and a qualifications board (to develop minimum requirements for certification and re-certification and assist the states in establishing and maintaining the certification process).

- 2) States would have primary responsibility for the certification and re-certification of qualified real estate appraisers and for enforcement of appraisal standards. No grandfathering would occur.

This self-regulatory system does not require appraisers to be certified in order to practice. However, state and federal regulatory agencies could require that state certified real estate appraisers be used for certain types of appraisal assignments.

F. Other State Regulatory Action

1. Salesperson's/Broker's License

At this time, ten states require a real estate salesperson's license and/or a real estate broker's license in order to perform appraisals in the state. A telephone survey of these ten states indicated that there had not been specific problems that led to the regulation, but that the licensing law had always required a real estate broker's and/or salesperson license to appraise real estate.

The education and experience requirements for a real estate salesperson's or broker's license vary among the states and very few cases were reported of proceedings to revoke a license due to appraisal impropriety. However, almost all of the ten states are considering proposals to either require additional education for appraisers and/or a separate licensing program.

The Barnard Report found the salesperson's/broker's format fraught with potential problems since:

- 1) real estate sales stress wholly different legal, contractual, and client-agent relationships than those involved in an appraisal assignment; and,
- 2) unlike the appraiser, a real estate agent or broker has a vested interest in seeing that a sale/loan transaction is consummated.

Responding to the latter argument of the Barnard Report, the surveyed Real Estate Commissions said no such problems had occurred, to their knowledge, because most appraisers specialize in providing only that service. (See Appendix C for copy of telephone survey.)

2. Appraiser License

Oregon and Nebraska enacted an appraiser licensing program in the early 1970's. The Oregon program is based on a point system with various points given for education, experience, etc., while Nebraska offers four options of education and experience combined before qualifying for the examination. Neither state reported frequent proceedings to revoke a license. Nebraska, as of September, 1987, implemented a minimum standards of conduct similar to those proposed by the national professional associations.

3. Voluntary Certification/Appraisal Certification

During the 1987 Session of the Louisiana State Legislature, legislation was passed to establish a voluntary certification program for real estate appraisers. The act establishes two classes of real estate appraisers (residential and general) and requires all appraisers seeking to be certified to pass an examination and meet education requirements. Renewal of the two year certification also requires continuing education.

California's legislature rejected regulation of real estate appraisers, but passed an appraisal certification bill which requires certain information on each appraisal report.

IV. RESEARCH AND COMPLAINTS

- A. Methodology
- B. Practitioners Survey
- C. User Survey
- D. Financial Institutions
- E. City/County Attorneys
- F. Commonwealth Attorneys
- G. Better Business Bureaus and Consumer Affairs Offices
- H. Highway Departments/Commissioners of Revenue
- I. Secretaries of State
- J. Public Hearings
- K. Written Comments

IV. RESEARCH AND COMPLAINTS

A. Methodology

Due to the high direct and indirect costs inherent in regulation, it was necessary to conduct an extensive search and analysis of complaints and abuses to ensure that any problems are properly addressed at minimal cost and in the most efficient and effective manner possible.

The following section will analyze data compiled from the Board of Commerce surveys in addressing the issues set forth in the purpose of this report (page 2).

B. Practitioners Survey

Interviews were conducted and questionnaires were distributed to the Virginia Chapters of the major professional associations to identify problems in the industry and positions on the regulation of the profession. The data collected is reflected throughout the report and outlined in the Public Hearings Section. (See Appendix D for copy of questionnaire and Appendix E for copy of interview questions.)

The Department of Commerce surveyed 403 real estate appraisers with 108 responding. As outlined earlier in the report, 94% had completed a formal study course(s) in real estate appraising with 75.9% completing 1-5 courses and 14.7% completing 6-25 courses.

The practitioners responding believed that, if regulated, the maximum level of regulation should be CERTIFICATION (45.5%); LICENSURE (34.7%); REGISTRATION (10.9%); INSPECTION (5.0%). Approximately 94% held memberships in professional appraisal organizations with 75.2% having a level of certification from the organization and 68.3% completing an exam for that credential. (See Appendix F for copy of the survey.)

C. User Survey

Over one thousand salespersons, brokers and contractors/developers responded to the Department's survey. When asked to describe the frequency of problems with appraisers, 41.8% responded OCCASIONALLY; 37.7% RARELY; 10.9% REGULARLY; 6.7% NEVER. Approximately 34% indicated that they had been injured as a result of poor real estate appraiser services (59% NO).

Users identified real estate appraisers 62% of the time through personal associations or by reference while 25% had been contacted by the appraiser. (See Appendix G for copy of User Survey.)

D. Financial Institutions

Of the 84 respondents, problems with real estate appraisers were identified as 47.6% MINOR; 33.3% MODERATE; 13.1% NONEXISTENT; 3.6% SEVERE; 1.2% VERY SEVERE.

Approximately 45% of the real estate appraisers used or hired on staff of financial institutions do not hold credentials or designations issued by a private professional organization (46% do hold such a credential).

When asked whether regulation would significantly improve the quality and accuracy of appraisal reports, 31.7% replied yes; 63.4% no; however, 56.1% did feel regulation would provide for greater reliance, by the public, on real estate appraisals (39% no). (See Appendix H for copy of survey.)

E. City/County Attorneys

Forty responses were received from city/county attorneys with 50% describing problems with real estate appraisals as NEVER; 32.5% RARELY; 15.0% OCCASIONALLY; 2.5% REGULARLY. (See Appendix I for copy of survey.)

F. Commonwealth Attorneys

Likewise, the majority (53.1%) of the 32 Commonwealth Attorneys responding said they NEVER have problems with real estate appraisers, 46.9% said RARELY. (See Appendix J for copy of survey.)

G. Better Business Bureaus and Consumer Affairs Offices

The two Better Business Bureaus responding to the survey described the seriousness of problems with real estate appraisers as NONEXISTENT while the five Consumer Affairs Offices which responded described the seriousness of problems as 40% NONEXISTENT; 20% MINOR; 40% MODERATE. None of the respondents identified types of complaints received. (See Appendix K for copy of surveys.)

H. Highway Department/Commissioners of Revenue

The 44 respondents described problems with real estate appraisers as 15.9% NONEXISTENT; 50% MINOR; 29.5% MODERATE; 4.5% SEVERE. When asked whether state regulation of real estate appraisers would significantly improve the protection of public health, safety and welfare, improve valuation considerations and provide a greater assurance of professional organizations, 43-50% replied yes while 29-34% replied no. (See Appendix L for copy of survey.)

I. Secretaries of State

Thirty-five states responded to the Department's survey with 17.1% regulating real estate appraisals through regulation characterized as "licensure". (See Appendix M for copy of survey and Section III, F for information secured from Real Estate Commissions through a telephone survey.)

J. Public Hearings

Four public hearings were conducted by the Board of Commerce to gather information about the nature of appraisal industry and complaints relating to the occupation. The hearings were held in Fairfax on June 10, 1987; in Richmond on June 11, 1987; in Roanoke on June 22, 1987 and in Norfolk on June 29, 1987.

Approximately ten individuals who did not represent the views of an association testified regarding such issues as conflict of interest with real estate brokers doing appraisals, the need for appraisal education programs within the Commonwealth, the ethics of real estate appraisers, and the failure of lending institutions to understand an appraiser's role.

Testimony was also provided by the Virginia Chapters of the following associations:

1) American Institute of Real Estate Appraisers

While the Virginia chapters support the national position of a self-regulatory structure, the Roanoke Chapter spokesperson urged strong representation of professional appraisers on the enforcement board and the inclusion of all appraisers.

2) American Society of Appraisers

The Richmond Chapter urged more study of this issue while the Roanoke and Fairfax representatives stressed public education of the existing designations provided by professional associations and the need to dovetail with Federal legislation.

3) Society of Real Estate Appraisers

The Metro D.C. and Richmond Chapters encouraged a "hands off" attitude until after federal legislative action. The Roanoke Chapter favored certification over licensure.

4) National Association of Independent Fee Appraisers

The Virginia Chapter supports regulation.

5) Northern Virginia Board of Realtors

The position presented was in opposition to federal regulation, but endorsed state standards.

6) Virginia Association of Assessment Officers

The Association believes that regulation is not needed at this time.

7) Virginia Citizen Consumer Council

The Consumer Council supports reform first through the Barnard Report and would prefer the least restrictive form of regulation with oversight by the Bureau of Financial Institutions as well as some form of recourse for the consumer. (See Appendix N for cumulative list of public hearing participants.)

K. Written Comments

Approximately thirty-five written comments were submitted for the purpose of being placed in the official record of this study. (Appendix O is a Cumulative List of Written Comments.)

Opposing comments were received from ten community banks arguing that there are already limited appraisers available in some areas and that state certification could increase the cost of appraisals and could eliminate those practitioners who really know the community. In addition to the arguments that it is impossible to regulate honesty, that banks should also be regulated and that state regulation would be premature in light of self-regulatory action by associations, there was concern that property tax assessors should be exempt from regulations.

Supporting opinions included the preference of state versus federal regulation, the conflict of interest by real estate brokers, and the concern by one real estate broker that all brokers be included under a grandfather clause. The American Association of Certified Appraisers and the Credit Union Mortgage Association issued supporting positions. A Commissioner of Revenue suggested that the skills and knowledge of appraisers be tested before being allowed to bid on jobs in cities and counties to satisfy General Assembly requirements of assessments for such areas.

V. SUMMARY

A. Findings

B. Conclusions

V. SUMMARY

A. Findings

Virginia law states that it is the policy of the Commonwealth to regulate certain professions only when the public interest is clearly at stake and only if certain conditions are met.

In determining the proper degree of regulation, if any, Code of Virginia, (1950, as amended), Section 54-1.26 (B.1-10) directs the Board of Commerce to determine the following:

B.1 Whether the practitioner performs a service for individuals involving a hazard to the public health, safety or welfare, if unregulated.

As evidenced by the survey data and public testimony, there have not been documented cases of incompetent, fraudulent, and/or inflated real estate appraisals in Virginia that have resulted in the collapse of many financial and lending institutions in other parts of the country. The Board recognizes the potential for harm due to pressures from the marketplace for biased appraisals and the reliance of the public on real estate appraisers.

B.2 The view of a substantial portion of the people who do not practice the particular profession, trade or occupation.

Approximately 65% of the 1022 users responding to the survey indicated support for regulating real estate appraisers in protecting public welfare (27% indicated opposition). Other research data did not provide overwhelming support for regulation from outside the occupation.

B.3 The number of states which have regulatory provisions similar to those proposed.

At this time, ten states require a salesperson's and/or broker's license to perform appraisals in that state. Oregon and Nebraska require a separate appraisal license while the Louisiana State Legislature just approved a voluntary certification program. California has enacted a certified appraisal bill. Many states are currently considering various regulatory programs.

B.4 Whether there is sufficient demand for the service for which there is no substitute not likewise regulated and this service is required by a substantial portion of the population.

The real estate appraiser provides a service which affects investment choices, insurance decisions and regulatory activities, in addition to the primary area of loan origination. There is no substitute for this service.

B.5 Whether the profession, trade or occupation requires high standards of public responsibility, character and performance of each individual engaged in the profession, trade or occupation, as evidenced by established and published codes of ethics.

The eight reputable professional organizations have recently formulated Uniform Standards of Professional Practice and are attempting to implement these standards in each of the organizations.

B.6 Whether the profession, trade or occupation requires such skill that the public generally is not qualified to select a competent practitioner without some assurance that he has met minimum qualifications.

A level of education and experience is necessary in making a proper appraisal. The eight major real estate appraisal associations grant credentials to appraisers who have completed a level of experience, education and examinations. Problems may occur when the public is unaware of such credentials in seeking an appraiser's services.

B.7 Whether the professional, trade or occupational associations do not adequately protect the public from incompetent, unscrupulous or irresponsible members of the profession, trade or occupation.

According to the Barnard Report, only one-third of the nation's estimated 150,000 to 250,000 appraisers are affiliated with a highly regarded professional trade organization. Even these organizations, however, are not able to successfully discipline their members according to the Barnard Report. Data from four of the largest associations for 1983-1985 showed that out of 1,600 complaints against appraisers, only 40 resulted in suspension or expulsion and another 125 resulted in lesser sanctions such as admonishment or censure.

The Department of Commerce survey data indicated that 17.8% of the responding practitioners had reported an appraiser member of an association for observed or detected impropriety. Of the 17.8% who had reported a problem, 13.9% said the organization had acted on the problem and 10.9% considered the action to be appropriate.

B.8 Whether current laws which pertain to public health, safety and welfare generally are ineffective or inadequate.

There are no state or federal regulations setting standards for appraisals nor are there policies requiring financial institutions to use appraisers who have earned designations from professional organizations.

B.9 Whether the characteristics of the profession, trade or occupation make it impractical or impossible to prohibit those practices of the profession, trade or occupation which are detrimental to the public health, safety and welfare.

During the hearing process, the issue of ethics was addressed by the Board of Commerce. Responses indicated that a two dimensional problem exists: impropriety due to lack of education and/or experience and impropriety due to ethical misconduct.

B.10 Whether the practitioner performs a service for others which may have a detrimental effect on third parties relying on the expert knowledge of the practitioner. (1979, c. 408.)

The majority of financial institutions repsonding to the Board of Commerce survey indicated that they had not been injured in any way as a result of poor or incompetent services by a real estate appraiser (76.2% no; 20.2% yes).

B. Conclusions

After considering the research, the following conclusions have been made:

- 1) There are not documented cases of incompetent, fraudulent, and/or inflated real estate appraisals which would justify regulation in order to protect the public health, safety and welfare.
- 2) Appraisal impropriety, or the potential for such impropriety, is primarily that of ethics rather than skill.
- 3) A state regulatory program would be premature in light of proposed federal legislation and the self-regulatory mechanism proposed by the professional trade associations. Implementation of a regulatory program would be costly if revision is required after a national mechanism is adopted.
- 4) State licensure or certification of real estate appraisers could threaten the supply of appraisers in small communities where shortages already occur.

- 5) Other state regulatory programs have either a)not been in effect long enough to judge their effectiveness or b) ineffectual to the point that states are considering new stronger regulations for appraisals/appraisers.

VI. ALTERNATIVES AND RECOMMENDATION

- A. General Considerations
- B. Statutory Changes
- C. Status Quo
- D. Certification
- E. Licensure
- F. Board of Commerce Recommendation

VI. ALTERNATIVES AND RECOMMENDATIONS

A. General Considerations

In many cases, regulation can be an effective means of dealing with problems in the marketplace. The concept implied behind a regulatory scheme is that regulation will be more effective than the free market systems and civil remedies in weeding out incompetent and dishonest practitioners.

In order for regulation to be effective, occurrences of abuses have to be recognizable, of a significant magnitude, and occur often enough for the regulation to have any impact.

The following are the degrees of regulation in the order in which they must be considered as specified by Title 54, Va. Code Section 1.26:

1. Private civil actions and criminal prosecutions - Whenever the Board finds that existing common law and statutory causes of civil action or criminal prohibitions are not sufficient to eradicate existing harm or prevent potential harm, it may first consider the recommendation of statutory change to provide more strict causes for civil action and criminal prosecution.
2. Inspection and injunction - Whenever the board finds that current inspection and injunction procedures are not sufficient to eradicate existing harm, it may promulgate rules consistent with the intent of this chapter to impose more adequate inspection procedures and to specify procedures whereby the appropriate regulatory board may enjoin an activity which is detrimental to the public well-being, it may consider recommending to an appropriate agency of the Commonwealth that such procedure be strengthened or it may recommend statutory changes in order to grant to an appropriate state agency the power to impose sufficient inspection and injunction procedure.
3. Registration - Whenever the Board finds it necessary to determine the impact sustained by the public from the operation of a profession or occupation, it may implement a system of registration.
4. Certification - Whenever the public interest might well be protected by the Board's granting a designation of professional competence in order that persons may have a substantial basis for relying on the services of a practitioner, then it may implement a system of certification.

5. Licensing - Whenever it is apparent to the Board that adequate regulation cannot be achieved by other means than licensing, it may establish licensing procedures for any particular profession or occupation.

The alternatives set forth herein are provided to assist the Board of Commerce in determining the appropriate level of regulation for real estate appraisers.

B. Statutory Changes

The Board of Commerce could recommend that the statutory requirements for a real estate salesperson's license and/or a real estate broker's license be amended to require such licensing to appraise real estate.

PROS:

1. Ten states have used this mechanism to regulate real estate appraisers with varied degrees of success.

CONS:

1. The Barnard Report found this format fraught with potential problems since real estate sales stress different legal, contractual and client-agent relationships and conflicts of interests also occur.

C. Status Quo

The Board of Commerce could recommend that regulation of real estate appraisers is unnecessary at this time and that action should be deferred until federal legislation is enacted or self-regulation by the trade associations is implemented.

PROS:

1. No expense to the public or the profession would be incurred due to the establishment of a regulatory program which would have to be altered after federal action.

CONS:

1. The lengthy legislative process and agenda of the U.S. Congress could unreasonably delay passage of legislation. The fragmentation and recognized differences which still exist among the national trade associations could likewise prevent the expedient adoption of a self-regulatory program.

D. Certification

A recommendation to implement a system of certification would allow the Board of Commerce to grant a designation of professional competence in order that consumers may have a substantial basis for relying upon the services of an appraiser. The certification could include minimum requirements for education and experience and/or an examination of competency.

PROS:

1. Since certification would be voluntary, small communities with existing shortages of real estate appraisers would not be threatened by a loss of appraisers due to state regulation.

CONS:

1. The voluntary nature of certification means enforcement would have little effect on protecting the public.
2. The cost of certification would most likely be passed on to the consumer.

E. Licensure

A recommendation for licensure would require all individuals who wish to perform real estate appraisals to qualify for a license. As determined by the Board of Commerce, the requirements for licensure could include minimum education and experience and/or an examination of competency.

PROS:

1. Licensure provides a mechanism for enforcement which would include a centralized clearinghouse for consumer complaints.
2. This alternative would be the only regulatory mechanism available to implement the ordering of restitution and damages.

CONS:

1. An increased expense to the practitioner (and to the consumer of the services) would be inherent in this alternative.
2. The licensure alternative would test skill and education, but do little to prevent ethical misconduct nor prevent pressure from financial institutions to overvalue the property.

F. Board of Commerce Recommendation

It is the conclusion of the Board of Commerce that documented cases of incompetent, fraudulent and/or inflated real estate appraisals are not frequent enough to justify the imposition of a restrictive form of occupational regulation.

The Board also believes that state regulation at this time could be premature in light of the pending federal legislation and the proposed self-regulatory program by the national professional organizations. Thirdly, the Board found that impropriety occurs primarily because of ethical misconduct rather than lack of education and/or training.

Therefore, the Board of Commerce recommends that state regulatory action be deferred until the national professional associations have had an opportunity to enact a self-regulatory program and/or the U.S. Congress enacts legislation.

VII. APPENDICES

- A. House Joint Resolution 198
- B. The Housing Opportunity Group Report on the Desirability of Regulating Real Estate Appraisers
- C. Real Estate Commission Telephone Survey
- D. Questionnaire for Professional Associations
- E. Interview Questions for Associations
- F. Practitioners Survey and Results
- G. User Survey and Results
- H. Financial Institutions Survey and Results
- I. City/County Attorney Survey and Results
- J. Commonwealth Attorney Survey and Results
- K. Better Business Bureaus and Consumer Affairs Offices Survey and Results
- L. Highway Department/Commissioners of Revenue Survey and Results
- M. Secretaries of State Survey and Results
- N. Cumulative List of Public Hearing Participants
- O. Cumulative List of Written Comments

GENERAL ASSEMBLY OF VIRGINIA -- 1987 SESSION

HOUSE JOINT RESOLUTION NO. 198

Requesting the Board of Commerce to study the desirability of regulating the profession of real estate appraisers.

Agreed to by the House of Delegates, February 8, 1987

Agreed to by the Senate, February 19, 1987

WHEREAS, the practice of real estate appraisal involves estimating the value of property, forecasting the gross or net earnings of property, estimating the cost of production of a new property and reproduction or replacement of an existing property and determining the nonmonetary benefits of characteristics that contribute to value; and

WHEREAS, the practice of real estate appraisal requires a great deal of technical and highly specialized knowledge; and

WHEREAS, real estate appraisals have a wide field of application which includes business, finance, urban development, forecasts of rentals and earnings, investment decisions, accounting, litigation, utility rates, taxation and insurance; and

WHEREAS, the public must rely on real estate appraisers, and incompetent or unscrupulous appraisers can substantially harm the public; and

WHEREAS, the profession of real estate appraisers is completely unregulated, and no standards of competence, education or integrity exist; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Board of Commerce is requested to study the desirability of regulating the profession of real estate appraisers as provided in § 54-1.25 A 6. The Board shall conclude this study and recommend any legislation it deems appropriate to the 1988 Session of the General Assembly.

The Housing Opportunity Group
Open Housing — Lending Consultants

P. O. Box 13140
Richmond, Virginia 23225

Ron C. Claiborne
General Managing Consultant

A REPORT

Submitted to
Dr. George W. Rimler
Vice Chairman
Virginia Board of Commerce

Concerning the
Desirability of Regulating
Real Estate Appraisers
as Required by
House Joint Resolution 198
1987 General Assembly

Copyright July 1987, Ron C. Claiborne

PREFACE

This report is intended to contribute to the Virginia Board of Commerce and its Subcommittee studying the need to regulate real estate appraisers, of the compelling necessity for enacting appropriate legislation for regulation and certification of real estate appraisers.

The real estate appraisal industry has never been regulated, and appraisers generally are not required by law to have special training or certification by state boards or regulatory licensing agencies.

This report contains facts and sources of authority which can serve to educate both the citizenry and Virginia Board of Commerce of the inseparable relationship between the following: (1) regulation of real estate appraisers; (2) maintaining safe, sound and economical home financing; (3) protecting financial institutions from undue risk; and (4) fostering open, nondiscriminatory housing finance opportunities.

The Housing Opportunity Group

July 1987

THE DESIRABILITY OF REGULATING REAL ESTATE APPRAISERS —
A PUBLIC INTEREST PERSPECTIVE

Ron C. Claiborne
General Managing Consultant
The Housing Opportunity Group

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This report is occasioned by the Virginia Board of Commerce's current study on "The Need to Regulate Real Estate Appraisers". This report is intended to, and provides facts and sources of authority which can serve to educate both the Virginia Board of Commerce and citizenry of the inseparable nexus between regulation of real estate appraisers; maintaining safe, sound and economical home financing; and fostering in the public interest, open, nondiscriminatory housing finance opportunities.

The soundness of mortgage loans and real estate investments made by lending institutions is dependent upon the adequacy of the appraisals used to support real estate finance transactions. Real estate appraisals are related to maintaining safe, sound and economical home financing, as well as protecting financial institutions from undue risk. Appraisers, their ethics and competence, are important in real estate transactions because savings and loan institutions and banks use appraisals to establish property values before deciding how much, and whether to lend to buyers. When property is overvalued and property owners default on their mortgages, lending institutions and federal insurance funds are faced with the losses.

Despite their importance in real estate transactions, appraisers have never been regulated, and generally are not required by law to have special training or certification. In September 1986, a Congressional report¹ revealed that faulty and fraudulent real estate appraisals have cost taxpayers, lenders and insurers billions of dollars. The Congressional subcommittee reported that at least 10 percent to 15 percent of the \$1.3 billion in losses suffered by private mortgage insurance companies in 1984 and 1985 were caused by inaccurate and fraudulent appraisals.

The very able United State Attorney for the District of Columbia recently obtained the conviction of a real estate appraiser and others, involving a federally insured mortgage scheme utilizing fraudulent appraisals to defraud the federal government. The conviction was obtained under the Racketeer Influenced Corrupt Organization Act, among other federal statutory authorities. See United States v. Jakey Madery, et al. During the late 1960s and 1970s, the appraisals of the Federal Housing Administration were known for being excessive and not reflecting

¹House Report 99-891, Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market.

the major renovation necessary for a family to live decently.² The Veterans Administration has also been accused of negligent appraisals.³ Experience has proven that imposition of mandatory appraisal standards can be made a part of the remedy in civil lending discrimination lawsuits.⁴

In an attempt to combat appraiser/appraisal abuses described in preceding paragraphs as said conduct apply to the thrift industry, the Federal Home Loan Bank Board has proposed rules for appraisers/appraisals. The proposed rule is located at 12 Code of Federal Regulations, Part 563 and 571. This is the **only** current proposed rule governing real estate appraisal standards and practices in the thrift industry.⁵

The Federal Home Loan Bank Board's⁶ proposed rule is predicated on, among others, the following significant factors:

1. The proposal is part of the Board's comprehensive review of its procedures related to classification and appraisal of insured institutions' assets (p. 2).
2. The Board is proposing to incorporate in its regulations appraisal standards to be used by insured institutions and service corporations in complying with regulatory requirements (p. 4).
3. The appraisal policies and practices proposal is designated to maintain safe, sound and economical home financing, as well as protect the FSLIC fund from undue risk, (and) further the purposes of the National Housing Act (p. 5).
4. . . . carefully documented appraisals are essential to accurate evaluation of the asset portfolio of an insured institution or service corporation.

Among other considerations, the proposed rule would encompass the following: (1) an insured institution should be able to demonstrate that appraisers approved by its board of directors possess the requisite experience, education, and

²Note Federal Compensation for Victims of the "Homeownership for the Poor" Program, 84 Yale Law Journal 294 (1974).

³Hanson v. Veterans Administration, H-78-09, 5 Housing and Development Reporter (BNA) 801 (SD Texas filed January 4, 1978).

⁴Mingo v. Secretary of HUD, Equal Opportunity Housing, (P-H) Paragraph 18.029 (SD Texas, April 30, 1980).

⁵June 29, 1987 letter to author from Johnnie B. Booker, Director, Division of Consumer Affairs and Civil Rights, Federal Home Loan Bank Board.

⁶12 CFR 563 and 571.

facilities to perform acceptably, (2) encourage fee and staff appraisers to join professional appraisal organizations and to undergo continual professional development, (3) periodically review the performance of all approved appraisers and take necessary action to eliminate substandard work.

Further, according to the proposed rule, an appraisal should be based upon market value and should analyze and disclose the following information: the listing or agreement of sale of the property being appraised; prior sales of the property within one year of the date of the appraisal for one-to-four family residential property or within three years of the date of the appraisal for all other property; and in a speculative market, a sales history of comparable properties. Also, it requires that an appraisal contain an estimate of the highest and best use of the property appraised, based upon consideration of factors, including existing land use regulations, economic demand, physical adaptability of the property, neighborhood trends, optimal use of the property, and anticipated public and private improvements, on- or off-site, to the extent that market activity reflects such improvements.

The proposed rule includes the propitious "warning to appraisers that they will be subject to criminal prosecution under the provisions of Title 18 of the United States Code if they knowingly make false statements or willfully overvalue land, property or security in appraisal reports for the purpose of influencing in any way the action of a Federal Home Loan Bank, the Federal Home Loan Bank Board, a Federal Savings and Loan Association, any institution the accounts of which are insured by the FSLIC, any member of the Federal Home Loan Bank System, or the Federal Savings and Loan Insurance Corporation". The foregoing overview is instructive and not dispositive.

In addition to the Federal Home Loan Bank Board's proposed rule, there is also legislation pending in Congress that would establish federal regulatory procedures for appraisers. This legislation would establish a federally chartered foundation to promulgate standards and certification requirements for appraisers, and create state boards to certify appraisers and to regulate the industry.

The proposed "Appraisal Industry Foundation" would specify requirements necessary for any appraiser to be licensed to provide valuations on real estate financing with any form of federally related capital. That includes homes and other properties using federally chartered lending institutions or federally charter mortgage-capital investors (such as Fannie Mae, the Federal National Mortgage Association) as lending sources for a sale or refinancing. Any appraiser who wishes to conduct business on any significant scale would need to meet the certification/licensing and professional training standards.

According to a national housing expert, the foundation, patterned after a successful regulatory board chartered for the accounting profession, would draw a majority of its membership from the Society of Real Estate Appraisers and American Institute of Real Estate Appraisers. The proposed bill includes provisions to create licensing and disciplinary bodies at the state level, and state regulators could suspend or terminate the license of an appraiser, or institute other legal action, including litigation.

Appraisers and Nondiscriminatory Housing Finance Opportunities

Appraisers and the appraisal process is indispensable to nondiscriminatory housing financing opportunities. The appraiser's establishment of fair market value can, and often does, affect the stability of housing markets, resulting in fostering or maintaining racially segregated housing patterns. Often appraisers consider the racial composition of a neighborhood as a variable in establishing value. More often than not, minority populated neighborhoods are characterized as being of lower values, and racially integrated neighborhoods can have their stability of racial balance destroyed if housing prices are depressed, or mortgages lending is denied because lowered appraisals predicated upon racial composition require higher downpayments. Oftimes, appraisal reports reflect the racial composition of the neighborhood and may denote the integrated areas as being in transition or changing, implying a lowered value be assigned. Very low appraisals can lead to disinvestment, deterioration and racial transition. Conversely, high appraisals can and often does lead to oppressive property tax assessments.⁷

A nationally recognized fair housing and real estate law authority has argued very persuasively that higher taxes may add to the failure or inability of owners to perform necessary rehabilitation prior to sale and the inability of buyers to make major repairs and renovations as housing cost increases are generated by the higher appraisal.⁸ Discrimination by appraisers in valuing property according to, or in consideration of the racial or ethnic composition of a neighborhood contravenes Title VIII, Federal Fair Housing Act.⁹

Discriminatory appraisals reduces the opportunity for minority equity accumulation. Purchasing a home is the largest single investment most Americans ever make, and home equity remains the principal source and repository of individual wealth. Mounting evidence indicates that housing discrimination significantly limits the ability of many blacks to accumulate home equity and thus wealth.¹⁰

⁷Baar, Property Tax Assessment Discrimination Against Low Income Neighborhoods, 13 Urban Lawyer 333 (1981).

⁸Hood and Kushner, Real Estate Finance: The Discount Point System and Its Effects on Federally Insured Home Loans, 40 University of Missouri at Kansas City Law Review (1971).

⁹42 USC Section 3604(a), 3617. U.S. vs. American Institute of Real Estate Appraisers, 442 F Supp 1072 (ND Ill. 1977); U.S. v. Jefferson Mortgage Co., P-H EOH Paragraph 18,020 (DNT February 28, 1978).

¹⁰Suggs, Antitrust Law: A New Weapon Against Housing Bias, Focus, March 1984.

In 1980, the U.S. Department of Housing and Urban Development issued proposed regulations to articulate standards under Title VIII for appraisers.¹¹ However, President Reagan imposed a regulation moratorium under a deregulation initiative, and the proposed regulations were never finalized.

The Real Estate Board of the Virginia Department of Commerce is responsible for administration and enforcement of the Virginia Fair Housing Law, and the "Board" has never issued interpretative or proposed regulations to cover real estate appraisers.

The author has not been able to identify any occupation or so denominated profession so essential to the economic system of the nation, that has never been regulated, and are not required by law to have either special training or certification, as is the case with the nation's real estate appraisers.

The facts and sources of authority provided in this report illustrates that under existing arrangements, unregulated, noncertified real estate appraisers can, and have contributed via inaccurate and fraudulent appraisals, to the loss of billions of dollars affecting taxpayers, lenders, and insurers. Further, the authoritative facts point out real estate appraisers can, and more often than not, contribute to disinvestment, deterioration and racial transition of the nation's neighborhoods. Neighborhoods in Virginia have not escaped this phenomena. A 1979 study¹² of lending patterns within the City of Richmond concluded that three-fourths of the City was "redlined" by lending institutions, the "redlined" areas inhabited by the City's racial and ethnic minorities. Redlining by lending institutions does not occur in a vacuum. Redlining decisions are, more often than not, made on the basis of the racial composition of the geographic area where the collateral property is located. It is appraisal reports which often reflect the racial composition of the geographic area where the collateral property is located as being in transition or changing, thereby suggesting a lowered value. The proposed amendments to the Federal Fair Housing Act specifically addressed the deleterious impact of appraisal practices.

According to the House report:¹³

There are several sound reasons for covering each link in the real estate chain. Discrimination by one participant can itself lead to the outright denial of housing, and also can provide the impetus for adverse or discriminatory decision by others and subsequent participants in the process. For example, with respect to appraisals, reliance upon racial or ethnic factors may produce an under-valuation

¹¹45 Federal Register 12265 (February 25, 1980).

¹²Housing Investment Patterns in Richmond, Virginia (1979), A Report of the Richmond Urban Institute.

¹³Fair Housing Amendments of 1980, HR Report No. 865, 96th Congress, 2nd Session (1980).

that prompts a financial institution to deny a loan, or to offer financing on less advantageous terms, thereby providing the primary desire by which redlining is accomplished.

It should be noted, the 1987 Session of the Virginia General Assembly proceeded in a propitious manner to attempt to combat abuses¹⁴ in the mortgage broker and lending industry by enacting into law the "Mortgage Lender and Broker Act", Chapter 16 of Title 6.1 of the Code of Virginia. The Act became effective July 1, 1987, and, among other things, requires (1) licensure, (2) surety bond or (3) letter of credit, and (4) current balance sheet showing at least \$200,000 in cash or cash and other liquid current assets. Further, doing business as a mortgage lender or mortgage broker without having obtained a license is a Class 6 felony. Each violation constitutes a separate offense.

The "Mortgage Lender and Broker Act" was, in part, a response to the Landbank¹⁵ scandal which adversely affected mortgagees throughout the Commonwealth of Virginia.

Appraisal skills and technology are not static; and if appraisers are to operate efficiently and lawfully in the economic system, appraisers must possess the requisite expertise, experience, education, ethics and facilities to perform in an acceptable manner. All available information reveals the previously mentioned objectives can only be achieved by enacting legislation mandating, among other things, licensure and regulation of real estate appraisers.

The principal unanswered question at this time is: Will the Virginia Board of Commerce recommend that the Virginia General Assembly proceed to enact legislation to protect both the public interest and financial institutions from being victim of incompetent and fraudulent schemes, devices and services by real estate appraisers; or will the existing dysfunctional system be permitted to be perpetuated to the detriment of the economy and the public interest?

Conclusion

This report provides sufficient facts and sources of authority for the Virginia Board of Commerce to give very, very important consideration to recommending appropriate legislation for the regulation and certification of real estate appraisers. Both the public interests and health of Virginia's economy warrants such considerations.

¹⁴For insight into the phenomenon of abuses in the mortgage broker and lending industry, see: Bayer, Cities Destroyed for Cash; Downie, Mortgage on American; Meyer, The Builders.

¹⁵Landbank of Virginia Beach, Virginia.

Recommendation

The Virginia Board of Commerce recommend that appropriate legislation be introduced during the 1988 Session of the Virginia General Assembly for the express purpose of regulation and certification of real estate appraisers. Such prospective legislation would be companion to the Mortgage Lender and Broker Act, given the inseparable nexus between mortgage brokers/lenders and appraisers in real estate transactions.

Note: As a courtesy, the author has supplemented this report with a copy of his 1985 report entitled Housing and Lending Discrimination. The 1985 report was submitted to the Virginia General Assembly's Human Rights Study Commission.

* * * * *

The author, general managing consultant of Housing Opportunity Group, is available to make presentations pertaining to this report and consultations pertaining to other open housing and lending issues.

APPENDIX C

**Telephone Survey of Real Estate
Commissions in States with
Real Estate Appraiser Regulation**

State _____

1. Please outline the specific requirements for conducting real estate appraisals in your state. If a real estate salesperson's or real estate broker's license is required, have there been cases of conflict of interest?
2. Were regulations instituted in response to specific problems caused by fraudulent and/or incompetent real estate appraisals?
3. What means of enforcement are available? Has the Commission conducted proceedings to revoke a license? If so, how often?
4. Does the real estate appraiser's licensure authority rest with the Real Estate Commission or a separate commission?
5. If a separate real estate appraiser's license is not required in your state, are there discussions regarding such regulatory authority?

Organization _____
Representative _____
Position _____

Return to:
Laster G. Thompson, Jr.
Deputy Director of
Operations
Department of Commerce
3600 West Broad St.
Richmond, VA 23230

ORGANIZATIONAL QUESTIONNAIRE

1. Are you able to speak for the organization? _____

2. What do you perceive to be the major problem(s) facing real estate appraisers?

3. What do you see as major issues regarding the question of regulation of the profession?

4. What segment of the public do you think possesses the greatest potential for harm as a result of actions by real estate appraisers?

5. What means are there already, that could minimize such potential harm?

6. To what extent is the individual citizen impacted by appraiser services?

7. Do you have knowledge of instances where an individual citizen or institution was injured due to an appraiser's action? ____ yes ____ no
If yes, please explain:

8. Why is regulation of appraisers desirable or not desirable?

9. What is the potential for harm which would result if appraisers continue to be unregulated?

10. How could regulation provide protection against such harm?

11. Do you have knowledge of any major economic losses experienced by any of your members or member's clients that resulted from improper appraiser services?

12. What level of regulation of appraisers, if any, do you feel is justified? What are your reasons?

13. What is the membership of your organization?
Number of members _____. What percentage of the total professional population does this represent? _____
14. Does your organization maintain a listing of real estate appraisers who are acceptable to you? ____ yes ____ no
- If so, what is the total number of names on the list? _____
- How many hold credentials from a professional organization? _____
15. How would you describe the frequency of use of the services of non-credentialed real estate appraisers by members of your organization?
- ____ never ____ rarely ____ seldom ____ often ____ very often
____ always
16. How would you describe the frequency that your members use the services of real estate appraisers who are members in good standing of a professional appraisers organization?
- ____ never ____ rarely ____ seldom ____ often ____ very often
____ always

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE-YOUR INPUT IS IMPORTANT

Interview

Organization _____

Representative _____ Position _____

1. What do you perceive to be the major problem(s) facing real estate appraisers?

2. What do you see as major issues regarding the question of regulation of the profession?

3. Are you able to speak for the organization? _____

4. What segment of the public do you think possess the greatest potential for harm as a result of actions by appraisers?

5. What means are there already, that could minimize such potential harm?

6. To what extent is the individual citizen impacted by appraiser services?

7. Do you have knowledge of instances where an individual citizen was injured due to an appraiser's actions?

12. What level of regulation of appraisers do you feel is justified? What are your reasons?

13. Does your organization operate a credentialing program?

_____ Is an examination involved? _____

If so, what is the average expected pass rate?

14. How many appraisers are estimated to operate in Virginia who reside in some other state?

STATE _____
 CONTACT PERSON _____
 PHONE # () _____

Return To:
 Laster G. Thompson, Jr.
 Department of Commerce
 3600 West Broad St.
 Richmond, VA 23230

BACKGROUND
 AGE _____

Number of Responses = 108
 Total sent = 403

REAL ESTATE APPRAISERS STUDY

1. Do you operate your own real estate appraiser business (sole proprietor/partnership, etc.)? 67.6% Yes 32.4% No
 If Yes:
 - A. How many real estate appraisers do you employ in addition to yourself/partners? 1 -10 appraisers = 33.5% Missing = 62.0%
 10 - 30 appraisers = 4.6%
 - B. How many apprentice real estate appraisers do you employ?
 1 -3 apprentices - 27.8% Missing 72.2%
 - C. How many of your employees (1a & 1b) are: High School Graduate? 1 -14 employees = 14.8% missing 85.2% Post High School? 1 - 100 = 16.6% missing 83.3% College Graduate? 1 - 11 employees 35.3% missing 64.8%
 - D. Did you serve a period of apprenticeship prior to opening your own business? 53.7% yes 12.9% No 33.3% missing (circle the number of years as an apprentice)

<u>0.5</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6+</u>	<u>missing</u>
3.7%	5.6%	9.3%	4.6%	4.6%	9.3%	21.3%	41.7%
2. Did you complete high school or GED? 97.2% Yes .9% No 1.9% missing
3. Enter the number of years post high school education:
 1 -4 years = 61.1% Over 4 years = 28.6% missing = 10.2%
 Major area(s) of study: Math 13.0% Science 11.1% Economics 24.7%
 Liberal Arts 13.0% Other (Please list) 31.5% 6.8% missing
4. Did you graduate from a college or university with a degree in an appraisal related major? 29.6% Yes 66.7% No 3.7% missing
 If yes:
 - A. List your major:
5. How many years of experience as a real estate appraiser do you have? 1- 10 years = 10.2% Over 20 years = 33.3%
 10-20 years = 50.0% Missing = 5.6%

6. Approximately how many real estate appraisals do you perform each year?
- | | |
|--------------------------------|------------------------------|
| 1 -100 appraisals = 28.8% | Over 1,000 appraisals = 7.4% |
| 100 - 1,000 appraisals = 48.0% | Missing = 15.7% |

If operating a business:

A. How many does the company perform each year?

1 - 500 = 35%	Over 1,000 = 16.7%
500 - 1,000 = 9.3%	Missing = 38.9%

7. What type(s) of real estate appraisals do you perform? [Please indicate as a percentage(%) of total reported in item #5]

A. Single family residence (Marketable, Non-Investment):

1 - 50% = 18.3%	50 - 100% = 55.6%	missing = 25.9%
-----------------	-------------------	-----------------

B. Commercial and Multi-family Apartments (Marketable, Investment)

1 - 50% = 47.2%	50-100% = 15.8%	Missing = 37.0%
-----------------	-----------------	-----------------

C. Special purpose (Non Marketable, Non-Investment) Includes Schools, Churches, etc.:

1 - 50% = 36.0%	50 - 100% = .9%	Missing = 63.0%
-----------------	-----------------	-----------------

D. Farm and Rural: 1 - 50% = 8.9% 50 -100% = 1.8% Missing = 60.2%

E. Other (please list):

8. Have you ever been licensed as:

A. A real estate broker/associate broker? 42.6% Yes 47.2% No 10.2% missing

B. A real estate salesperson? 60.2% Yes 34.3% No 5.6% missing

C. A contractor? 13.0% Yes 69.4% No 17.6% missing

D. A real estate developer? 8.3% Yes 72.2% No 19.4% missing

9. Did you ever complete a formal study course(s) in real estate appraising? 94.4% Yes 4.6% No .9% missing

If yes:

A. Total number of hours: 1 - 100 hours = 18.6%
Over 100 hours = 34.9% Missing = 46.3%

B. Total number of courses: 1 - 5 courses = 75.9%
Over 5 courses = 14.7% Missing = 9.3%

10. What would you estimate your total cost per year for specialized training to be? (Check only one)
- 3.1% \$0 - 100 7.1% 101 - 200 10.2% 201 - 350 17.3% 351-500
27.6% \$501 - 1,000 21.4% 1,001 - 2,000 8.2% 2,001 - 5,000 5.1% 5,001+
11. What would you estimate your gross income from appraising real estate to be for 1986?
- 7.1% \$0 - 10,000 3.1% 10,001 - 15,000 7.1% 15,001 - 30,000
11.2% \$30,001 - 45,000 22.4% 45,001 - 60,000 14.3% 60,000 - 80,000
7.1% \$80,000+ 110,000 2.0% 111,000 15.3% 150,000+
12. What would you estimate the average charge (in dollars) for the type of appraisal you most frequently perform to be? \$10 - 500 = 56.1%
\$500 - \$10,000 = 22.2% Missing 21.4%
- A. List the type of appraisal you most frequently perform:

13. Are you aware of any inproprieties engaged in by fellow appraisers that were deceptive, fraudulent, or infationary? 50% Yes 46.9% No
3.1% Missing
- If yes:
- A. How would you describe the frequency? (Check only one)
- 15.3% rarely 27.6% occasionally 12.2% regularly 1.0% continuously
43.9% missing
14. Have you ever received pressure from, or been requested by, a client to provide a biased appraisal? 60.2% Yes 37.8% No 2.0% missing
- If yes:
- A. How would you describe the frequency (Check only one)
- 28.6% rarely 33.7% occasionally _____ regularly 1.0% continuously
36.7% missing
- B. Have you ever received such request/pressure from: (Check as appropriate)
- 8.0% Banker 10.0% S & L's 14.9% Mortgage Companies
13.9% Buyers 15.9% Sellers 13.4% Others (Please list)
23.9% Missing

15. Have you ever come in contact with a work product of an incompetent appraiser? 89.8% Yes 9.2% No 1.0% Missing

If yes:

A. How would you describe the frequency (Check only one)

30.6% rarely 53.1% occasionally 6.1% regularly 2.0% continuously
8.2% Missing

16. Do you believe that regulation of real estate appraisers would benefit the general public? 58.2% Yes 31.6% No 2.0% Other 8.2% Missing

17. If yes to #16, please list five benefits that regulation would accomplish or if no to #16, 5 reasons not to regulate appraisers:

YES

NO

A. Protection against fraud

Can't regulate an opinion

B. Better educated appraisers

Assesors are already regulated

C. Public confidence

Impossible to regulate honesty

D. Public could appeal appraisal

Professional organizations
already police appraisers

E. Establish Standards

18. How much of your business falls within a radius of 20 miles of your office?

22.4% All 40.8% 80% 10.2% 70% 5.1% 60% 7.1% 40% 7.1% 20%
7.1% Missing

19. Who are the major clients of your services? (Please indicate by a % of your total business)

Banks ____ S & L's ____ Mortgage Companies ____ Condemnation

Investment Companies ____ VA ____ FHA ____ Individual Home Buyer

Individual Home Seller ____ Real Estate Developers ____ Utilities

Assessment Agencies ____ Others (please list)

20. Are you: (Check only one) 77.2% An independent appraiser 13.9% real estate assessor or 8.9% both?
21. If your occupation were to be regulated, what level of regulation would you think is the maximum required? (Check only one)
5.0% Inspection 10.9% Registration 45.5% Certification
34.7% Licensing 4.0% Missing
22. Which of the following functions constitute the basis for conduct of most of the appraisals that you perform?
- A. Estimation of property value 33.4%
 - B. Forecast of gross or net earnings 8.4%
 - C. Estimation of cost of new property 12.5%
 - D. Estimation of total depreciation of property 10.6%
 - E. Reproduction or replacement cost of property 12.9%
 - E. Monetary benefits of characteristics that contribute to value 9.0%
- Missing 13.2%
23. Name five functions, currently performed by real estate appraisers that should be performed only by persons credentialed:
- Market Value
 - Income Analysis
 - Analysis of Comparable Sales
 - Feasibility Studies
 - Inspections
24. Would State regulation of real estate appraisers provide the public additional assurance of competent and quality service?
46.5% yes 35.6% no

25. Do you hold any level of certification awarded by a professional organization? 75.2% yes 23.8% no 1.0% missing

If yes: a. Was it obtained by examination 68.3% yes 4.0% no 27.7% missing

b. What credential do you hold--please list.

<u>Credential</u>	<u>No. of Hours Required on Exam</u>	<u>Awarding Organization</u>
a. _____	_____	_____
b. _____	_____	_____
c. _____	_____	_____

26. Have you ever reported an appraiser member of either of a National Appraiser Organizations to the leadership of that organization for an observed or detected impropriety (e.g., ethics, incompetence?)

17.8% yes 81.2% no 1.0% missing

If yes:

A. Did the organization act on your complaint? 13.9% yes 3.0% no 83.2% missing

B. Was the action taken: appropriate? 10.9% yes 4.0% no 85.1% missing
effective? 5.9% yes 5.0% no 89.1% missing

27. Have any of your appraisals ever been contested:

A. By another appraiser? 20.8% Yes 72.3% No 6.9% missing

B. In a court? 31.7% Yes 60.4% No 7.9% missing

C. By an appraisers society/association? 5.0% Yes 86.1% No 8.9% missing

28. Do you hold membership in any professional organizations?
94.1% Yes 3.0% No 3.0% Missing

If yes, please answer the following:

- A. Society of Real Estate Appraisers 14.5%
- B. American Society of Appraisers 18.3%
- C. American Institute of Real Estate Appraisers 8.7%
- D. Virginia Association of Assessing Officers 9.0%
- E. National Associaton of Master Appraisers 0.0%
- F. National Association of Real Estate Appraisers 2.3%
- G. Others (Please list and give address or phone number)
_____ 40.5% missing

29. Have you ever been intimidated by any of your major clients?

13.9% yes 79.2% no 6.9% missing

If yes, please explain: _____

30. What resultant effects do federal regulations have on: (Please rate 0 through 3: none = 0, very little = 1, a lot = 2, very effective = 3)

	<u>None</u>	<u>Very Little</u>	<u>A lot</u>	<u>Very Eff.</u>	<u>Missing</u>
A. Appraiser's ethics	29.9%	36.6%	20.8%	9.9%	3.0%
B. Increased standards	14.9%	33.7%	30.7%	17.8%	3.0%
C. Independent judgements	41.6%	36.6%	13.9%	5.9%	3.0%
D. Quality of appraisals	15.8%	35.6%	32.7%	12.9%	3.0%
E. Accuracy of appraisers	21.8%	42.6%	23.8%	8.9%	3.0%
F. Protection of the Public	17.8%	35.6%	27.7%	14.9%	4.0%

31. Technical and highly specialized knowledge:

What areas of the real estate appraiser's practice require the greatest amount of technical and highly specialized knowledge? (Please rate each on a scale of 1 - 10, 10 being the highest level essential)

NOTE: The following results attempt to reflect the highest percentage of responses in a given category outlined by the code below.

	<u>Technical Knowledge</u>	<u>Specialized Knowledge</u>
Single family	32.7% Somewhat	33.7% Somewhat
Commercial	42.6% Most	41.6% Most
Special Purpose	40.6% Most	49.5% Most
Farm and Rural	19.8% Moderately Above	21.8% Moderately Above
Rental Forecast	21.8% Somewhat	25.7% Most
Assessment	29.7% Somewhat	27.7% Somewhat

Others
Please
list

*Code for 1 - 10:

1- Least 2 - Not highly 3 - Not Moderately 4 - Easy

5 - Somewhat 6 - Technical/Specialized 7 - Somewhat Above

8 - Moderately Above 9 - Highly Above 10 - Most

32. Are appraisals that you perform required to be in writing, dated, and signed?

81.2% always 5.0% most of the time 2.0% sometimes 8.9% seldom

33. Are you always paid the same fee whether or not a loan is granted?

83.2% yes 2.0% no 14.9% missing

34. Are you knowledgeable of the sale price/loan amount in question?
20.8% sometimes 36.6% most times 19.8% often 5.9% seldom 4.0% rarely
10.9% never 2.0% missing
35. Have you ever, as an independent appraiser, performed a test or check appraisal on a property already appraised by the institution's staff for a lending institution? 56.4% yes 34.7% no 8.9% missing

THANK YOU FOR COMPLETING THIS SURVEY--YOUR INPUT IS IMPORTANT

Contact Person _____ (Optional)

Return To:

City/County _____

Laster G. Thompson, Jr.
 Department of Commerce
 3600 W. Broad St.
 Richmond, VA 23230

All Categories 1,022 Respondents
 Total Sent 4,525

REAL ESTATE APPRAISER-USER QUESTIONNAIRE

1. What occupational professional services do you or your firm offer the the public; i.e., real estate, land development, etc.?

Real Estate Sales; Development; Contractors/Builders

2. How would you describe the frequency of your use of real estate appraiser services?

4.5% never 9.5% rarely 18.3% sometimes 31.4% often 36.3% very often

3. How did you identify real estate appraisers or real estate appraiser firms that you have done business with?

Yellow Pages 3.5%
 Personal Associations 31.8%
 By reference 30.2%
 Local advertisement .5%
 Bid process .9%
 Contacted by the real estate appraiser 24.7%
 Other (please indicate) 2.1% missing

4. How would you describe problems that you have experienced with real estate appraisers?

7.6% nonexistent 44.4% minor 34.0% moderate 9.3% severe
2.1% very severe 2.6% missing

5. How would you describe the frequency of problems with real estate appraisers?

6.7% never 37.7% rarely 41.8% occasionally 10.9% regularly
3.1% missing

6. Have you or your business been injured in any way as a result of poor or incompetent services by a real estate appraiser? 33.6% yes 59.2% no 7.2% missing (If yes, please explain at the bottom of the page)

Loss of income or increased expenses due to time appraisers spend in returning appraisals, updates and information. Appraisal done by an appraiser not familiar with the area.

7. How would you generally describe the quality of the services that you have received from real estate appraisers? (check only one)

.7% very poor 7.6% poor 52.0% good 30.2% very good 5.2% excellent
4.3% missing

8. Did any of the real estate appraisers, used by you, hold credentials or designations issued by a private professional organization?

57.0% yes 3.2% no 36.0% unknown 3.7% missing

If yes: A. Was this the primary basis for your selecting the real estate appraiser or firm? 23.0% yes 33.3% no 43.7% missing

9. Did any of the real estate appraisers used by you not hold credentials or designations issued by a private professional organization?

24.7% yes 19.7% no 51.1% unknown 4.6% missing

10. If answer to #7 and #8 are yes:

B. Was the quality of services performed by credentialed real estate appraisers substantially superior to services performed by non-credentialed real estate appraisers?

18.8% yes 22.3% no .2% other 58.7% missing

11. How would you describe problems that you have experienced in identifying a real estate appraiser or firm that was qualified to perform the services for you?

20.0% nonexistent 43.2% minor 17.8% moderate 6.9% severe 1.0%
very severe 11.1% missing

12. Do you think that regulation of real estate appraisers by the Commonwealth would:

A. Assist you in identifying qualified real estate appraisers
57.9% yes 34.8% no 7.2% missing

B. Provide a greater assurance of qualifications than is now provided
63.9% yes 28.2% no 7.9% missing

C. Improve protecting the public welfare
65.1% yes 26.8% no 8.1% missing

D. Improve valuation considerations for real estate
59.5% yes 32.1% no 8.4% missing

13. Are appraisals that you order required to be in writing, dated, and signed? 88.9% yes 3.0% no 8.0% missing
14. Do you always pay the same fee whether or not a loan is granted? 73.6% yes 15.0% no 11.4% missing
15. Do you inform the real estate appraiser of the sale price/loan amount in question at the time of ordering the appraisal? 48.9% yes 36.2% no 14.9% missing
16. Do you maintain a listing of real estate appraisers who are used by or acceptable to you? 47.2% yes 45.7% no 7.1% missing
17. Please state the primary criteria used by your firm to select/approve real estate appraisers:

FHA, VA or conventional appointed; experience and credentials; good references; knowledge of the area; ability to be prompt; lenders usually select appraisers; good reputation

18. If your firm has staff appraisers, does your firm ever have test appraisals made by independent appraisers to check the organization's knowledge of trends and values? 6.4% yes 33.0% no 60.7% missing
19. Do you or your firm use the services of real estate appraisers only for appraisals that you use? 58.2% yes 21.0% no 20.7% missing

If no, who else do you use to provide appraisal services?

- A. Mortgage Companies
- B. Other agents/qualified salespersons
- C. Investors' Opinions
- D. Lenders

20. Other comments you wish to make:

Most difficulties arise when the appraisals are not received by the mortgage company in a timely manner. Unfortunately, appraisers seem to have the selling price before appraisal is made. Regulation will not prevent ethical misconduct. Need to improve the appeals process for appraisals. Problems occur with appraisers who are also real estate agents.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

CITY/COUNTY _____
CONTACT PERSON _____
PHONE # () _____

Return To:
Laster G. Thompson, Jr.
Department of Commerce
3600 West Broad St.
Richmond, VA 23230

Number of Responses 84
Total Sent 208

REAL ESTATE APPRAISER -- FINANCIAL QUESTIONNAIRE

1. How would you describe the frequency of your institution's use of real estate appraiser services?

6.0% rarely 7.1% sometimes 7.1% often 16.7% very often

63.1% continuously

2. Does your institution employ staff appraisers? 25.0%
yes 73.8% no 1.2% Missing

3. Does your institution engage the services of independent real estate appraisers? 91.7% yes 4.8% no 3.6% missing

4. How would you describe the problems that you have experienced with real estate appraisers?

13.1% nonexistent 47.6% minor 33.3% moderate 3.6% severe

1.2% very severe 1.2% Missing

5. How would you describe the frequency of problems that you have experienced with real estate appraisers?

11.9% never 39.3% rarely 40.5% occasionally 7.1% regularly

1.2% Missing

6. Has your institution been injured in any way as a result of poor or incompetent services by a real estate appraiser? 20.2% yes 76.2% no 3.6% Missing (If yes, please explain at the bottom of this page)

How injured:

Inflated values

Poor Comparables

Length of time in obtaining appraisal results in inability to close loan within the quoted lock-in period.

7. Has your institution ever been involved in litigation associated with alleged incompetent or fraudulent behavior on the part of a real estate appraiser? 2.4% yes 96.4% no 1.2% Missing

If yes, A. How many times during 1984 to December, 1986? 1 time = 1.2%
None = 98.8%

B. How many times were judgements on settlements rendered that were favorable to your institutions? None = 100%

8. Did any of the real estate appraisers, used by you, hold credentials or designations issued by a private professional organization?

83.3% yes 3.6% no 8.3% unknown 4.8% missing

9. Do any of the real estate appraisers employed on your staff hold credentials or designations issued by a private professional organization? 8.3% yes 17.9% no 64.3% do not employ staff appraisers 9.5% missing

If yes, to 8 or 9: Was this the primary basis for your selecting the real estate appraiser or firm? 32.1% yes 14.3% no 53.6% missing

10. Did any of the real estate appraisers used or hired on your staff not hold credentials or designations issued by a private professional organization? 45.2% yes 46.4% no 8.3% missing

11. If answers to 8 and 10 are yes:

Was the quality of service performed by credentialed appraisers substantially superior to services performed by non-credentialed appraisers? 22.6% yes 35.7% no 41.7% missing

12. Will your institution accept an appraisal done by an assessor for tax assessment purposes (tax assessment) if such assessment was not more than two years old? 11.9% yes 82.1% no 6.0% missing

If answer is no, please state your reasons at the bottom of this page.

Assessments are typically much lower than market value; only accept appraisals from Board approved appraiser; follow guidelines of FHLMC and FNMA; market value is of prime importance; secondary marketing standards must be met.

13 A. Does your institution ever order more than one appraisal on the same property under evaluation for a loan, sale, or investment consideration?

14.3% never 36.9% rarely 41.7% sometimes 6.0% often ___ very often 1.2% missing

13 B. Are all appraisals ordered pertaining to a property in question required to be maintained in the file of that property for the duration of the loan? 91.7% yes 4.8% no 3.6% missing

14. Does your institution ever use the services of other than an independent or staff real estate appraiser to perform appraisals for you?

9.5% yes 89.3% no 1.2% missing

15. If #14 is yes, who else (by occupation) performs appraisal services for you?

A. Real Estate Broker

C. Bank Directors

B. Office Manager

D. HUD or VA Designated Appraisers

16. How would you describe the frequency of encounter with:

	<u>1</u> <u>never</u>	<u>2</u> <u>seldom</u>	<u>3</u> <u>sometimes</u>	<u>4</u> <u>very often</u>	<u>Missing</u>
A. An unscrupulous appraiser	52.4%	29.3%	14.6%	0	3.7%
B. An incompetent appraiser	22.0%	46.3%	28.0%	0	3.7%
C. An appraiser lacking in technical knowledge of an accepted assignment	25.6%	46.3%	24.4%	2.4%	1.2%
D. An appraiser lacking in specialized knowledge of an accepted assignment	26.8%	35.4%	34.1%	1.2%	2.4%

17. How would you describe the competence of real estate appraisers with whom you have done business?

6.1% meet minimum standards 52.4% meet acceptable standards

37.8% extremely competent 3.7% missing

18. How many real estate loans, made by your institution, have come under default as a result of overvaluation during the period of January, 1984 to December, 1986?

1 - 10 loans = 2.4% 30 loans = 1.2% missing = 96.3%

19. What do you estimate to be the total dollar amount of the defaulted loans?

5-20 million = 3.6% 650 million = 1.2% missing = 93.9%

20. Please indicate to the best of your knowledge the primary cause of any defaults reported in item 18 : (m=million)

	<u>Total Number of Cases</u>	<u>Estimated Dollar Amount</u>
Fraudulent appraisal report	8 - 1.2% 15 - 1.2% Missing - 97.6%	\$200-350m - 2.4% Missing - 97.6%
Appraiser not technically qualified	10 - 1.2% 40 - 1.2% Missing - 97.6%	\$250-400m - 2.4% Missing - 97.6%
Appraiser not sufficiently knowledgeable	10 - 3.7% 40 - 1.2% Missing - 95.1%	\$20 - 100m - 3.6% \$400m - 1.2% Missing - 95.1%
	<u>Total Number of Cases</u>	<u>Estimated Dollar Amount</u>
Appraiser competence	10 - 2.4% 15 - 1.2% 88 - 1.2% Missing-95.1%	\$20m - 250m-3.6% Missing-95.1%
Economic climate change	1 - 15 - 2.4% Missing - 96.3%	\$1 - 300m-2.4% Over \$300m-1.2% Missing-96.3%
Institutional judgement	200 - 1.2% Missing-97.6%	\$1 - 200m-2.4% Missing-97.6%
Other	None	

21. Is an appraisal report the single most important document used by your institution in deciding the merits of a loan, sale or investment proposal? 20.7% yes 74.9% no 4.9% missing

22. Does your institution have the capability to judge the quality/reasonableness of appraisal reports that it receives?
96.3% yes 2.4% no 1.2% missing
23. Is the real estate appraiser population in your area sufficient to accommodate the demands of the market for such services?
79.3% yes 14.6% no 6.1% missing
24. How would you describe the impact that regulation of real estate appraisers would have on your institution?
14.6% none 35.4% moderate 29.3% minor 11.0% severe
9.8% missing
25. Do you think that regulation of real estate appraisers by the Commonwealth would have any of the following affects:
- A. Significantly improve the quality and accuracy of appraisal reports?
31.7% yes 63.4% no 4.9% missing
- B. Significantly improve the standards of integrity of real estate appraisers? 41.5% yes 53.7% no 4.9% missing
- C. Significantly reduce the public harm accorded to unscrupulous and incompetent real estate appraisers? 42.7% yes 47.6% no 9.8% missing
- D. Significantly reduce the pressures from the market place for biased, inflated and/or fraudulent appraisals? 43.9% yes 48.8% no 7.3% missing
- E. Provide for greater reliance, by the public, on real estate appraisals
56.1% yes 39.0% no 4.9% missing
26. If real estate appraisers were to be regulated, what level of regulation do you believe would be the minimum required?
(Check only one)
8.5% inspection 25.6% registration 37.8% certification 22.0% licensure 6.1% missing

THANK YOU FOR COMPLETING THIS SURVEY--YOUR INPUT IS IMPORTANT

CITY/COUNTY _____
 CONTACT PERSON _____
 PHONE # () _____

Return To:
 Laster G. Thompson, Jr.
 Department of Commerce
 3600 West Broad St.
 Richmond, VA 23230

Number of Responses 40
 Total Sent 92

CITY/COUNTY ATTORNEYS QUESTIONNAIRE
 (Real Estate Appraisers)

1. How would you describe the seriousness of problems with real estate appraisers? (Circle the appropriate number.)

(1) 52.5%	(2) 30.0%	(3) 12.5%	(4) 5.0%	(5)
nonexistent	minor	moderate	severe	very severe

2. How would you describe the frequency of problems with real estate appraisers? (Circle the appropriate number.)

(1) 50.0%	(2) 32.5%	(3) 15.0%	(4) 2.5%	(5)
never	rarely	occasionally	regularly	continuously

3. Approximate number of complaints against real estate appraisers over the past 5 years. 1-10 complaints = 7.5% 87.5% missing
 10-50 complaints = 5.0%

4. Check the types of complaints received:

	<u>Number of Complaints</u>	<u>Average Dollar Value</u>
() Contract term dispute		<u>100% Missing</u>
() Failure to comply with generally accepted standards	<u>5-2.5%</u> <u>25-2.5%</u> <u>Missing 95.0%</u>	<u>100% Missing</u>
() Failure to satisfy contract requirements		<u>100% Missing</u>
() Incompetent performance	1-5 = 7.5% 5-25 = 2.5% <u>Missing = 90.0%</u>	
() Poor quality of work	1-5 = 7.5% <u>Missing = 92.5%</u>	<u>100% Missing</u>
() False or misleading statements	<u>1-5 = 5%</u>	<u>100% Missing</u>
() Other (Describe) <u>25 complaints -2.5%</u>	<u>97.5% Missing</u>	<u>\$25,000-2.5%</u> <u>Missing 97.5%</u>

5. The number of indictments as a result of complaints. 100% Missing

6. The number of convictions as a result of complaints. 100% Missing

7. Are there any other problem areas with real estate appraisers that should be addressed through regulation? Inconsistent valuations; lack of disciplinary action.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

CITY/COUNTY _____
 CONTACT PERSON _____
 PHONE # () _____

Return To:
 Laster G. Thompson, Jr.
 Department of Commerce
 3600 West Broad St.
 Richmond, VA 23230

Number of Responses: 32
 Total Sent 50

COMMONWEALTH ATTORNEYS QUESTIONNAIRE
 (Real Estate Appraisers)

1. How would you describe the seriousness of problems with real estate appraisers? (Circle the appropriate number.)

<u>(1)</u> 50.0%	<u>(2)</u> 50.0%	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
nonexistent	minor	moderate	severe	very severe

2. How would you describe the frequency of problems with real estate appraisers? (Circle the appropriate number.)

<u>(1)</u> 53.1%	<u>(2)</u> 46.9%	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>
never	rarely	occasionally	regularly	continuously

3. Approximate number of complaints against real estate appraisers over the past 5 years: 1 Complaint - 12.5% Missing - 87.5%

4. Check the types of complaints received:

	<u>Number of Complaints</u>	<u>Average Dollar Value</u>
Contract term dispute		<u>100% Missing</u>
Failure to comply with generally accepted standards	5-3.1% <u>Missing-96.9%</u>	\$300 - 3.1% <u>Missing-96.9%</u>
Failure to satisfy contract requirements		<u>100% Missing</u>
Incompetent performance		<u>100% Missing</u>
Poor quality of work	1-6.3% 5-3.1% <u>Missing 90.6%</u>	\$200 - 3.1% \$30,000-3.1% <u>Missing 93.8%</u>
False or misleading statements	1-6.3% <u>Missing 93.8%</u>	<u>100% Missing</u>
Other (Describe) _____		<u>100% Missing</u>

5. The number of indictments as a result of complaints. 100% Missing

6. The number of convictions as a result of complaints. 100% Missing

7. Are there any other problem areas with real estate appraisers that should be addressed through regulation? None listed.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

CITY/COUNTY _____
 CONTACT PERSON _____
 PHONE # () _____

Return To:
 Laster G. Thompson, Jr.
 Department of Commerce
 3600 West Broad St.
 Richmond, VA 23230

Number of Responses: 2
 Total Sent 4

BETTER BUSINESS BUREAU QUESTIONNAIRE
 (Real Estate Appraisers)

1. How would you describe the seriousness of problems with real estate appraisers? (Circle the appropriate number.)

(1) 100% (2) (3) (4) (5)
 nonexistent minor moderate severe very severe

2. How would you describe the frequency of problems with real estate appraisers? (Circle the appropriate number.)

(1) 50% (2) 50% (3) (4) (5)
 never rarely occasionally regularly continuously

3. Approximate number of complaints against real estate appraisers over the past 5 years. 100% Missing

4. Check the types of complaints received:

	<u>Number of Complaints</u>	<u>Average Dollar Value</u>
() Contract term dispute	<u>100% Missing</u>	
() Failure to comply with generally accepted standards	<u>100% Missing</u>	
() Failure to satisfy contract requirements	<u>100% Missing</u>	
() Incompetent performance	<u>100% Missing</u>	
() Poor quality of work	<u>100% Missing</u>	
() False or misleading statements	<u>100% Missing</u>	
() Other (Describe) _____	<u>100% Missing</u>	

5. The number of investigations as a result of complaints. 100 Missing

6. The number of valid claims found as a result of complaints. 100% Missing.

7. Are there any other problem areas with real estate appraisers that should be addressed through regulation? None listed.

THANK YOU FOR YOU COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

CONTACT PERSON _____
 CITY/COUNTY _____
 PHONE # () _____

RETURN TO:
 Laster G. Thompson, Jr.
 Virginia Department of
 Commerce
 3600 West Broad St.
 Richmond, VA 23230

Number of Responses: 5
 Total Sent 12

CONSUMER AFFAIRS QUESTIONNAIRE
 (Real Estate Appraisers)

1. How would you describe the seriousness of problems with real estate appraisers? (Circle the appropriate number.)

(1) 40.0%	(2) 20.0%	(3) 40.0%	(4)	(5)
nonexistent	minor	moderate	severe	very severe

2. How would you describe the frequency of problems with real estate appraisers? (Circle the appropriate number.)

(1) 40.0%	(2) 60.0%	(3)	(4)	(5)
never	rarely	occasionally	regularly	continuously

3. Approximate number of complaints against real estate appraisers over the past 5 years. 5 complaints = 20% Missing = 80%

4. Check the types of complaints received:

	<u>Number of Complaints</u>	<u>Average Dollar Value</u>
() Contract term dispute		<u>100% Missing</u>
() Failure to comply with generally accepted standards		<u>100% Missing</u>
() Failure to satisfy contract requirements		<u>100% Missing</u>
() Incompetent performance		<u>100% Missing</u>
() Poor quality of work		<u>100% Missing</u>
() False or misleading statements		<u>100% Missing</u>
() Other (Describe) _____		<u>100% Missing</u>

5. The number of investigations as a result of complaints. 100% Missing

6. The number of valid claims found as a result of complaints. 100% Missing.

7. Are there any other problem areas with real estate appraisers that should be addressed through regulation?

Consumer complaints about cost of an appraisal.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

Contact Person _____
City/County _____
Phone # () _____

Return to:
Laster G. Thompson, Jr.
3600 W. Broad St.
Richmond, VA 23230

Number of Responses 44
Total Sent 137

AGENCY QUESTIONNAIRE--HIGHWAY DEPARTMENT/COMMISSIONERS OF REVENUE
(Real Estate Appraisers)

1. How would you describe problems with real estate appraisers in your area? (Circle the appropriate number.)

<u>(1)</u> 15.9%	<u>(2)</u> 50.0%	<u>(3)</u> 29.5%	<u>(4)</u> 4.5%	<u>(5)</u>
nonexistent	minor	moderate	severe	very severe

2. How would you describe the frequency of problems with real estate appraisers? (Circle the appropriate number.)

<u>(1)</u> 11.4%	<u>(2)</u> 38.6%	<u>(3)</u> 34.1%	<u>(4)</u> 15.9%	<u>(5)</u>
never	rarely	occasionally	regularly	continuously

3. Do you feel that there is a problem with abuses by real estate appraisers in your area?
27.3% yes 68.2% no 4.5% missing

4. Estimated total number of all types of condemnations/estates your agency handles each year.

1 - 50 = 15.9%	500 - 5,000 = 4.6%
50 - 500 = 2.3%	26,000 - 2.3%
	missing = 75.0%

5. Total number of condemnations/estate projects assigned to independent real estate appraisers last year.

1 - 20 = 9.1%	missing = 86.4%
100 - 500 = 4.6%	

6. Please describe the most common types of deficiencies found against projects in which independent real estate appraisers were used:
 1. Gathering information by telephone
 2. Incomplete market data
 3. Lack of knowledge of area property
 4. Real estate agencies using own employees as appraisers

7. What is the approximate average dollar value of these deficiencies?

\$5,000 - \$10,000 = 4.6%
\$10,000 - \$30,000 = 4.6%
missing = 90.9%

8. How would you estimate the frequency of complaints on appraisals that were developed by real estate appraisers who hold credentials issued by a professional organization? Please explain as a percentage of item #5:

1 - 10% = 15.9% missing = 77.3%
10 - 50% = 6.8%

9. How would you estimate the frequency of complaints on appraisals performed by real estate appraisers who do not hold credentials issued by a professional organization?

1 - 15% = 15.9% 15 - 75% = 9.2% missing = 75%

10. How would you describe the quality of the appraisals which were prepared by non-credentialed real estate appraisers to those prepared by real estate appraisers with credentials?

2.3% much worse 13.6% worse 40.9% no difference 9.1% better
 much better 34.1% missing

11. Do you believe that State regulation of real estate appraisers would have any of the following effects:

	<u>Yes</u>	<u>No</u>	<u>Missing</u>
A. Significantly improve the protection of public health, safety and welfare	43.2%	34.1%	22.7%
B. Significantly improve valuation considerations for condemned real estate and/or real estate property	47.7%	29.5%	22.7%
C. Provide a greater assurance of professional qualification over what is provided by private professional credentialing programs	50.0%	29.5%	20.5%

12. Approximately what percentage of real estate appraisers (assessors) employed by your department hold credentials issued by one of the professional organizations?

Under 100% = 4.6%
100% = 11.4%
Missing = 84.1%

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE--YOUR INPUT IS IMPORTANT

STATE _____
 CONTACT PERSON _____
 PHONE # () _____

Return To:
 Laster G. Thompson, Jr.
 Department of Commerce
 3600 West Broad St.
 Richmond, VA 23230

Number of Responses: 35
 Total Sent 48

AGENCY SURVEY
 (Real Estate Appraisers)

Section A

1. Does your State regulate real estate appraisers? 17.1% yes 82.9% no
 If "no" answer questions in Section A only.

2. How would you describe problems with real estate appraisers in your area? (Circle the appropriate number) 17.1% Missing

<u>(1) 5.7%</u>	<u>(2) 57.1%</u>	<u>(3) 20.0%</u>	<u>(4) 0%</u>	<u>(5) 0%</u>
nonexistent	minor	moderate	severe	very severe

3. How would you describe the frequency of problems with real estate appraisers? 17.1% Missing

<u>(1) 5.7%</u>	<u>(2) 42.9%</u>	<u>(3) 28.6%</u>	<u>(4) 5.7%</u>	<u>(5) 0%</u>
never	rarely	occasionally	regularly	continuously

4. Do you feel that there is a problem with abuses by real estate appraisers in your area?
28.6% Yes 54.3% No 17.1% Missing

5. Total number of complaints against real estate appraisers last year.

1-10 = 17.3%	50-100 = 2.9%
10-50 = 8.7%	Missing = 71.4%

6. Please describe the most common types of complaints made against real estate appraisers:
 - a. Appraisal values routinely equal loan amounts
 - b. Inconsistencies on square footage; incorrect measurements
 - c. Negligent use of comparables

7. What is the approximate average dollar value of these complaints?
\$14 - 2.9% \$400 - 2.9% \$900 - 2.9% Missing - 91.4%

8. Is regulation of real estate appraisers being considered or studied in your state? 31.4% Yes 51.4% No 17.1% Missing

SECTION B

REGULATIONS

1. What category best describes real estate appraiser regulations in your state?

 Registration - any person may engage in an occupation, but that person must submit certain information to the appropriate authorities.

 Certification - any person may practice the occupation but only those who have met certain standards may use the title "Certified Real Estate Appraisers."

17.1% Licensure - a person is prohibited from engaging in the occupation without meeting certain standards and obtaining a license.

82.9% Missing

2. Which of the following groups are being regulated? (check more than one if necessary)

12.5% real estate appraisers business

12.5% real estate appraisers (individuals)

75.0% Missing

3. Does your state have a real estate board or commission?

22.9% Yes 2.9% No 74.3% Missing

a. If yes, what year was the Board or Commission created? 1937-1955 20%
Missing: 80.0%

b. Is the Board or Commission an independent state agency? 8.6% yes
11.4% No 80.0% Missing

c. Is the Board or Commission advisory? 8.6% Yes 8.6% No 82.9% Missing

4. Are real estate appraisers required to be bonded? Yes 25.7 No
74.3% Missing

5. What types of examination does your Board or Commission give?

14.3% Written 0 Practical 0 Both 5.7% None 80.0% Missing

6. What percentage of applicants pass the examination?

___ percent that pass written: 5% = 2.9% 88.6% Missing
 68% = 5.7%
 75% = 2.9%

___ percent that pass practical: 100% Missing

___ percent that pass both: 100% Missing

EDUCATIONAL REQUIREMENTS

7. Does your board or commission "approve" real estate appraisers programs?

8.6% Yes 14.3% No 77.1% Missing

8. If yes, is the curriculum of the schools set by the board or commission?

5.7% Yes 2.9% No 91.4% Missing

9. Does your state allow apprenticeship programs as an alternative to school programs?

5.7% Yes 11.4% No 82.9% Missing

10. Do regulations require that all applicants graduate from real estate appraisers programs?

___ Yes 20.0% No 80.0% Missing

11. What level of education is required prior to entry into the profession?
(check more than one if necessary)

8.6% less than high school

2.9% high school graduate

___ college graduate

5.7% none of the above

82.9% Missing

Please provide a copy of your state's Real Estate Appraiser's Rules and Regulations with your response.

Thank you for your cooperation and assistance.

APPENDIX N

Public Hearing Participants
Fairfax, Virginia
June 10, 1987

<u>Speaker</u>	<u>Address</u>	<u>Affiliation/Position</u>
David Hyatt	Merrifield	Northern Virginia Board of Realtors/Supports
Charles Moore	Washington, D.C.	American Society of Appraisers/Supports licensing for all appraisers; dovetail with federal legislation
Peyton Klopfenstein	McLean	Supports
Richard Parli	Washington, D.C.	D.C. Metro Chapter of American Institute of Real Estate Appraisers/Supports Self-Regulation
Tom Reed	Fairfax	Realtor & Appraiser/Opposes
David Lennhoff	Washington, D.C.	Society of Real Estate Appraisers, D.C. Metro Chapter/Wait for federal legislation or self-regulation
Nancy Sullivan	Strasburg	Real Estate Broker/Conflict of interest with agents doing appraisals
Peter Vidi, Jr.	Washington, D.C.	National Director of the National Association of Independent Fee Appraisers/Regulation of some form
Mr. Purcell		Appraiser/Opposes
Milton McCormick		Appraiser/Opposes

Public Hearing Participants
Richmond, Virginia
June 11, 1987

<u>Speaker</u>	<u>Address</u>	<u>Affiliation/Position</u>
Ray Shepard	Washington, D.C.	American Society of Appraisers/ Opposes state regulation at this time
Robert E. Barton	Richmond	Appraiser/American Institute of Real Estate Appraisers/Supports self-regulation
Dick Chandler	Richmond	Virginia Association of Assessment Officers/Opposes regulation at this time
Richard Niess	Richmond	Richmond Chapter of Society of Real Estate Appraisers/Opposes licensing

Public Hearing Participants
Roanoke, Virginia
June 22, 1987

<u>Speaker</u>	<u>Address</u>	<u>Affiliation/Position</u>
Joseph S. Durrer, Jr.	Roanoke	Roanoke Chapter of the American Institute of Real Estate Appraisers/Representation of appraisers on enforcement committees and inclusion of all appraisers
Allen H. Oberlin		American Society of Appraisers/Supports national position
Von W. Moody, III		Society of Real Estate Appraisers/Favor Certification
Harold Wingate	Roanoke	Appraiser/Supports
John D. Willey	Roanoke	Roanoke County Assessor's Office/Supports
Dewey Robertson	Roanoke	Appraiser/Supports

Public Hearing Participants
Norfolk, Virginia
June, 29, 1987

<u>Name</u>	<u>Address</u>	<u>Affiliation/Position</u>
Peter S. Eckert	Newport News	Tidewater Chapter of American Institute of Real Estate Appraisers/Opposes
Kenneth P. Copeland	Virginia Beach	Appraiser/Opposes
Nicholas Gretakis		Appraiser/Opposes
McCloud B. Hodges	McLean	Retired Appraiser/Supports
Jean Ann Fox	Tabb	Virginia Citizens Consumer Council/Favors least restrictive form of regulation
Bob Smith	Colonial Heights	Broker & Appraiser/Opposes
Mariam Berry	Chesapeake	Real Estate Broker/Opposes

APPENDIX O**Written Comments Submitted
to the Board of Commerce**

<u>Name</u>	<u>Address</u>	<u>Affiliation/Position</u>
David Simpson	Washington, D.C.	American Association of Certified Appraisers/Newsletter Article
Jeff D. Smith	Richmond	Virginia Consumer Finance Association/Newsletter Articles
Bonnie D. Kerney	Virginia Beach	Realtor/Complaint against Appraiser
Patricia G. Murray	Richmond	Independent Bankers Association of Virginia/Opposing letters from member banks
David Hyatt		Northern Virginia Board of Realtors, testimony for public hearing/Opposes federal regulation
Kim E. Shelly	Fairfax	Credit Union Mortgage Association/Supports
James G. Graham	Grundy	Miners Merchants Bank and Trust Co./Opposes state regulation
Elinor W. Downey	Clifton Forge	Commissioner of Revenue/Testing requirements for appraisers doing city/county assessments
A. C. Cornell, GRI	Staunton	Real Estate Broker/shouldn't affect brokers' duties under their license
Robert L. Tolson	Annandale	Appraiser/Supports state regulation
Steve Litten	Alexandria	Mortgage Co./State regulation of conventional appraisals only
Irving D. Packett	Warsaw	Appraisal Example
Harcourt D. Lees, Jr.	Warrenton	Real Estate Broker/Opposes
Bill Hausrath	Waynesboro	Coldwell Banker/Supports self-regulation

<u>Name</u>	<u>Address</u>	<u>Affiliation/Position</u>
Frederick Watson, Jr.	Charlottesville	Peoples Mortgage Corporation/Supports Certification
Teresa Preston	Windsor	Appraisal Example
Charles S. McNulty	Roanoke	Appraiser (MAI)/Let Real Estate Board Regulate
William H. Forst	Richmond	Department of Taxation/Exempt appraisers in assessing offices who are government employees
L. S. Waldrop	Salem	Appraiser/Supports licensing
Jean Ann Fox	Arlington	Virginia Citizens Consumer Council/seek reforms first through Barnard Report
Maurice Martin	San Marino, CA	International Society of Appraisers/Support regulation for other appraisers as well
Frances M. Brintley	Fredericksburg	Heritage Realty/Opposes licensing
William F. Overacre	Lynchburg	Real Estate Broker/delay until self-regulation can be tried
B. J. Chapman	Manassas	Member, Society of Real Estate Appraisers/Opposes regulation
Linda Braley	McLean	Real Estate Appraiser/Concerns with user surveys
Paul E. Smith	Fairfax	Supervisor of Assesments/**
Joseph T. Hix		Director, Real Estate Division/**
Dorothy O. Boyd		Real Estate Assessor/**
Thomas L. Rice	Arlington	Director, Dept. of Real Estate Assessors/**
William W. DeLanoy	Falls Church	City Assessor/**

** All oppose same regulation for assessment personnel as for fee appraisers

<u>Name</u>	<u>Address</u>	<u>Affiliation/Position</u>
John W. Edmonds, III	Richmond	Mays and Valentine/Opposes federal approach
William D. Patten	Springfield	Appraiser/any regulation should prevent active brokers and realtors from appraising
Joseph S. Durrer, Jr.	Roanoke	Real Estate Appraisal Firm/ Eliminate lender pressure
Carl R. Baldus, Jr.	LaPlata, MD	American Society of Farm Managers and Rural Appraisers/ Can't license honesty
Clark G. Martin	Richmond	Broker/Appraiser/Opposes self-regulation
Kale E. Barb	Harrisonburg	Office of Commissioner of Revenue/"Qualification Criteria for Supervisors, Assessors and Appraisers Conducting Assessments in the State of Virginia"
Robert S. Noe, Jr.	Prince William	County Executive/No need to license property tax appraisers
James L. Doherty	Richmond	Elam & Funsten/AIREA Press Release on Louisiana Certification of real estate appraisers
Ron C. Claiborne	Richmond	The Housing Opportunity Group/ Copy of report supporting regulation