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Oral Statement

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Government Sponsored Enterprises

On

"Broken Dreams in the Poconos: The Response of the Secondary Markets and Implications for
Federal Legislation"

Thank you, Mr. Chairman.

Let's take a look at the record. Pocono real estate was thrown into turmoil by an influx of lower-income New Yorkers, flooding in to seek a better life. Powerful interests misled the existing residents as to the value and extent of their property, cynically cheating them out of their homes. Pennsylvania authorities ignored the victims' complaints for years.

I am referring, of course, to the infamous "Walking Purchase" of 1737, a swindle pulled off by colonial secretary James Logan, expanding the boundaries of settlement, which should have ended up roughly here in Stroudsburg, all the way up to Lackawaxen.

Logan worked his scam by misleading the principals, departing from norms in land deals, and controlling the process. This beautiful land has been plagued by crooked deals ever since. The spirit of James Logan apparently still haunts the Poconos. How can we get rid of it?

There's an obvious place to start: eliminating corrupt appraisals, which figure in the outrageous transactions we are discussing today.

My written testimony lists fifteen specific measures to correct weaknesses in our appraisal licensing system. Most of these would have to work their way through Congress, but one could work now, if the bank regulators on the federal Appraisal Subcommittee would use authority they already have.

Last year, bank regulators reminded lenders that borrowers and loan production staff should not influence the selection of appraisers. Yet this mandate is still routinely ignored. Some mortgage brokers even require a predetermined value to be met if an appraiser wants future work from them. The regulators have authority to stop this abuse of appraiser independence, and they should use it *now*.

Similar problems during the Savings and Loan scandals of the 1980s prompted FIRREA, which sought to foster accurate appraisals as key elements in federally financed real estate transactions. The appraisal industry responded by creating uniform standards and promoting greater professional

development. Fifteen years later, we see FIRREA has failed to meet its goals, and nowhere more than here in the Poconos.

Appraisal problems exist around the country, but they are acute here, where one-fifth of all the mortgaged homes face foreclosure. Compare the 29% foreclosure rate in Monroe County to national average under one percent. Pennsylvania's appraisal regulators have been especially slow to deal with complaints. The political and judicial establishments have been so close to some developers that it was necessary to bring in judges from elsewhere to ensure fair legal proceedings. In 2002 Freddie Mac made Chase Manhattan Bank buy back the loans it had sold to them—an extraordinary occurrence.

Much Pocono development targeted inexperienced homebuyers of limited means, especially from New York City, completely unfamiliar with the area. Corrupt developers, financiers, and appraisers in some cases are one and the same. Now six overlapping investigations seek to unravel the mess—which every resident of Monroe County pays for, one way or another. As an appraiser proud to represent my profession, I am appalled that phony appraisals have helped to ruin so many lives here.

An appraiser must be independent to render an objective valuation, and must be free to resist pressure to inflate values. Despite FIRREA, such pressure persists. Three-quarters of appraisers polled nationwide told independent surveyors that they have been pressured to deliver higher values.

Contrary to the intent of FIRREA, qualified appraisers are being marginalized. Language in the law is misinterpreted to cater to minimally qualified appraisers, at the expense of those with the most experience and professional development, the equivalent of hiring high school dropouts rather than college graduates. So-called “bargain” bundling of real estate services renders appraisal just a formality in a mixed bag of services controlled by lenders, courting abuse.

Regulators have been under-funded, understaffed, misdirected as to priorities, and sometimes just plain lazy. Some impose fines for trivial mistakes while leaving massive, deliberate frauds unchecked. Complaints languish for months and even years without resolution while the federal Appraisal Subcommittee does little to encourage timely action.

Our professional organizations recommend specific changes to the law that would promote appraiser independence and allow FIRREA to work as intended to protect government financial interests, and with them, consumers. We recommend giving regulators enough assets to do their jobs, giving public access to regulatory proceedings, and advancing the professionalism of appraisers. Most important of all, we want accountability down the line, from a credible federal enforcement entity, through responsible state regulatory agencies, to the entire mortgage lending industry.

The realty scandals of the Poconos reflect problems across the nation. Let's stop this mortgage Merry-Go-Round, whizzing in circles without getting anywhere. We can work with Congress toward

a system of accountability, and clearly defined responsibility. Guaranteeing the integrity of honest appraisals is the first step toward purging Pennsylvania of the spirit of Logan and the modern Logans that are harming her to this day.

Thank you.