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House Committee on Business and Labor  
Support for HB 3419

Mr. Chair and Committee Members:

My name is Thomas R. Harris, from H&S Appraisal LLC in Redmond, Oregon. My 48 years of experience in appraisal and lending includes 13 years of bank staff appraisal work; I also have been a fee appraiser and consultant for 28 years. I want to discuss the need for HB 3419 based on my own experience.

Broker Price Opinions (BPO) represent a return to the same historically failed system that caused massive bank failure in the past. Prior to the mid 1970's bank staff appraisers were required to produce as many as 5 appraisals *daily*. The quality was similar to a BPO but potentially less dangerous. Staff appraisers were not in a position to trade value for self-interests. Going back to that same basis of low quality valuation creates significant opportunity for future failures.

BPO "savings" as compared to an appraisal are miniscule when related to lender risk. The \$400 savings on a typical \$175,000 loan is .23% of loan amount. But the normal loss on the \$200,000 home is virtually never less than 25% of the original home value, or \$50,000. (Loss includes opportunity cost, maintenance, attorney fees, inspection fees, repairs, replacements, taxes, insurance, appraisal for resale, marketing and closing costs.)

Unregulated BPO's have a propensity for evolving into relationships between individual lending personnel and real estate agents, some of which can lead to unethical conduct.

Appraisal regulation began after massive failure of the S&L industry in the late '70's at significant cost and effort. Effective regulation is in place today that has, and will continue to cause appraisals to afford a reliable basis for lending and other purposes. But its success is dependent on sufficient business to maintain the profession and fund the regulator.

As a new appraiser trainee at Bank of America in 1966, the bank policy regarding separation of lending and appraisal function was strictly enforced. On valuation matters the appraisal department had absolute authority over lending. That same policy is essentially carried forward through current appraiser regulations. But the BPO makes it possible to bypass that separation.

A very old principle is applicable here. It is: "If we fail to recognize the history of our mistakes, we are committed to making the same mistakes in the future." It goes hand in hand with the definition of insanity: "When we do the same things we did in the past but somehow expect the outcome to be different."

I have had a very unique position as appraiser, appraiser supervisor, loan department manager and permanent loan committee member. I also worked directly with the bank auditors and supervisors during their annual audits of our bank. From my positions I know full well the importance of separation of lending and appraisal functions, and want to express the importance of reliance on quality appraisals for any use, including lending. I urge you to vote yes on HB 3419.

Thank you for your consideration of my thoughts. I am happy to answer any questions.