From: Stephen F. Fanning [steve@fanningconsult.com]
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In 1990 it was proposed that appraisals for mortgage lending be based on its "economic potential". –(ie Federal Register, August 22, 1990, Section C, Section 1608.2 stated that the defined market value " is designed to provide an accurate and reliable measure of the economic potential of property involved in federally related transactions")

Apparently the economic potential requirement either was not enforced or was eliminated, since most if not all the current sub-prime lending and the commercial problems on the horizon were based on the buy /sale market and not its fundamentals (economic potential). Economic potential goes beyond the current sale price and analysis its fundamental user market value. This would mean that most appraisals for mortgage lending would require some analysis of the fundamental user market value. The economic potential value levels out hyper boom and bust markets. Thus, if this would have been enforced a lot of the appraisals based on bubble market sales comps would not have occurred. Now in this depressed buy/ sell market we are going to see the opposite- extremely low appraisals based on current low buy/ sell market On the other hand market value based on a properties fundamentals (economic potential) gives the underlying sustainable value of the real estate which is more what is needed for mortgage lending.

Thus, I would recommend the 1990 requirement that market value be based on a properties "economic potential" be added to the current regulations

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