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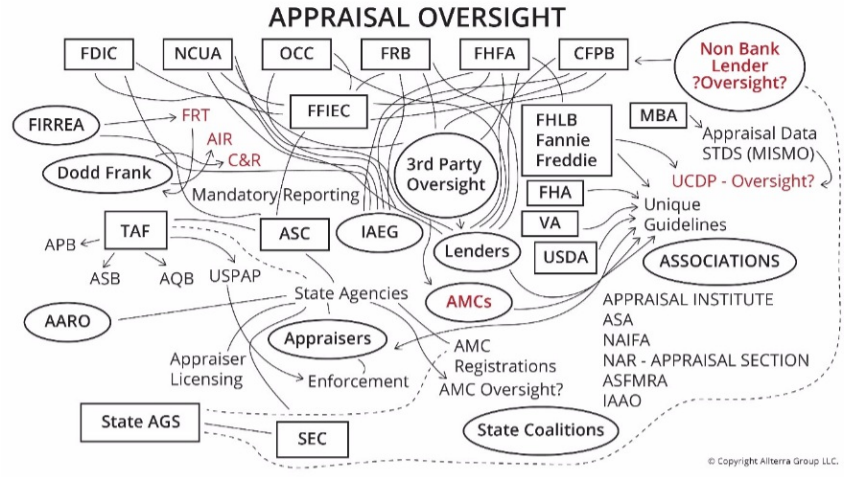
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Congress Hears Appeals to Fix Dysfunctional Appraisal System

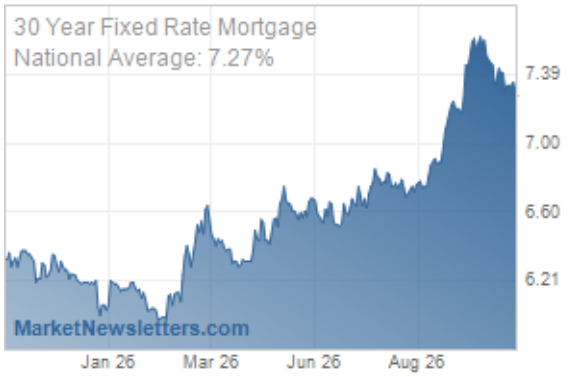
The House Financial Services Subcommittee on Housing and Insurance recently held a hearing on "**Modernizing Appraisals**: A Regulatory Review and the Future of the Industry." According to the committee memorandum, the hearing was called to "Examine the appraisal industry since the creation of the Appraisal Subcommittee in 1989, review the Dodd-Frank Act's impact on appraisers, consumers and stakeholders, and explore the future of appraisals, including alternative home valuation methods." Six panelists presented more than a hundred pages of prepared testimony. Some highlights.

James R. Park, Executive Director of the Appraisal Subcommittee and David S. Brunton, President of the Appraisal Foundation opened the hearing, outlining in detail the events leading to the **present status of appraisal regulations** and the role of their respective institutions.

They were followed by Joan N. Trice, CEO and Founder of Clearbox and author of a white paper entitled "Reengineering the Appraisal Process, Revisited" who said that today all stakeholders suffer from an appraisal regulatory regime that is outmoded and that the housing crisis revealed structural flaws in the system whereby no one was held accountable. She presented a diagram which she said represented the current regulatory structure, called it **dysfunctional** and said it was time for a "big and bold" plan to overhaul it.



National Average Mortgage Rates



Mortgage News Daily

	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.97	+0.16
10 YR Treasury	4.8832	-0.0467
30 YR Treasury	5.2560	-0.0522

Pricing as of: 11/2 9:52AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Her **recommendations**:

- Create a single authority to take ownership of the policy, process, practice, procedures, and people. "National licensing is needed with oversight at the state level. States must adopt a standardized process for investigation and adjudication of any disciplinary actions. Peer review and rehabilitation of the appraiser should occur at the state level."
- Erase the legacy; replace the current structure and repeal the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA.)
- Insure the independence of the appraisal process. "The Home Valuation Code of Conduct (HVCC) and subsequently the AIR (appraisal independence requirements) components of Dodd Frank left an indelible mark on the appraisal profession. For the past 9 years, practically every stakeholder has done their best to avoid compliance with AIR".

She said appraisals are the **weak link** and the current structure continues to diminish the role appraisers play in the housing finance ecosystem. Discussions of shortages, poor quality, cost, delayed delivery of appraisals, and the *de minimus* threshold are all code for efforts to diminish it further. You cannot, she said, replace appraisers with push button technology.

Ed Brady, Chairman of the Board of the National Association of Home Builders (NAHB) told committee members that in response to the role appraisals played in the housing crisis, more restrictive appraisal policies were implemented by lenders, regulators, FHA, VA, and the GSEs, along with a myriad of appraisal guidelines that are **complex and inconsistent**. Appraisal standards are not clear, best practices have not been well communicated, and enforcement is not consistently applied.

He called for shoring up state regulatory oversight by putting it in the hands of independent and **self-funded state agencies** with well-defined policies and **automated** processes. A survey NAHB conducted identified several "best practices" for such oversight.

- Providing dedicated resources such as sufficient staff for proper enforcement, legal counsel dedicated to the appraisal program; keeping appraisal-related monies out of the general fund, and independence from other agencies.
- Effective governance. Members of the board must be well rounded and include a majority from the appraiser community along with representatives from lending, management companies, builders, Realtors, and consumers.
- Standardization of oversight policies within and across states.
- Clear and prescriptive communication between stakeholders, clear and timely interpretation of AQB requirements, education for stakeholders on state regulatory processes; clear information on disciplinary procedures and actions.

Bill Garber, Director of Government and External Relations for the Appraisal Institute, told the committee that the federal regulatory structure for appraisals has essentially been **untouched** since the enactment of FIRREA. The Dodd-Frank Act amendments added further complexity to the structure, "and the resulting rules are overwhelming practicing appraisers"

He said the Appraisal Institute has the **following suggestions** for altering the regulatory structure.

- Bring the structure into alignment with other real estate professions. One model that merits consideration is that of the National Mortgage Licensing System (NMLS)
- Sunset the Appraisal Subcommittee while keeping the authorities of state appraisal boards and aligning the federal functions through a nationwide portal like NMLS,
- Authorize a federal backstop authority should states fail to adhere to basic program requirements.

He also suggested that **financial institutions** should be authorized to recognize professional designation programs that exceed minimum licensing requirements. Also, Congress should protect and maintain Dodd-Frank Act Section 1472 which prohibits coercion and intimidation of appraisers and repeal or amend more cumbersome sections of the Act.

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Jennifer S. Wagner, Managing Attorney, Mountain State Justice, Inc disagreed with most of what other panelists had recommended when it came to government oversight. She thanked Congress for imposing stricter standards on appraisals under the Dodd-Frank Act and detailed the results she said arose from a less regulated industry before the housing crisis. These included **widespread and fraudulent property flipping**, bogus refinances, and incentives for appraisal fraud. These all contributed to the avalanche of foreclosures and millions of under-water properties that followed.

She said any **appraiser shortage** should be addressed through market forces and is likely in any case to be temporary and disappear as the demand for refinancing recedes. Lowering standards and qualifications, including permitting lenders to rely on alternative valuation products and broker price opinions, will further increase any such shortage as it would lower demand and discourage entrants into the profession. It would also further enable lenders to return to obtaining unreliable reports which, in turn, create instability in the market. "In short," she said, "the regulatory regime is a floor that is essential to avoid both unintentional errors as well as fraud."

She also spoke against raising the *de minimis* appraisal threshold for Federally Related Transactions, advocating instead for lowering the current threshold which only requires an appraisal for loans over $250,000 or for Higher Priced Mortgage Loans over $25,000. "The majority of homes throughout the country are worth less than $250,000," She said. "Low- and moderate-income homeowners- and the government entities that insure or invest in their loans-deserve the same protections as higher income homebuyers."

She said it is essential that a national regulatory floor be retained and built upon to protect homeownership. "Without these protections, the market will become more costly in the short term, and lead to new financial crises in the future, even while we have barely recovered from the last one."

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