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Real Estate Valuation Advocacy Association

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On Behalf of the
Real Estate Valuation Advocacy Association (REVAA)

Before the
House Committee on Financial Services
Subcommittee on Housing, Community Development and Insurance

Hearing on
"What's Your Home Worth? A Review of the Appraisal Industry."

Thursday, June 20, 2019

Introduction

Good afternoon Chairman Clay, Ranking Member Duffy, and members of the Subcommittee. Thank you for the privilege to share the perspective of appraisal management companies (AMC) at the Subcommittee on Housing, Community Development and Insurance hearing entitled, *"What's Your Home Worth? A Review of the Appraisal Industry."*

Since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) nearly a decade ago, the appraisal industry has changed significantly as Congress intended to protect safety and soundness. There has been much progress made and ample room for improvement.

The following submitted testimony from the Real Estate Valuation Advocacy Association (REVAA) seeks to respond to the questions posed by the Subcommittee. It is also intended to provide insight into the appraisal industry from the perspective of appraisal management companies (AMC), many of which also serve as a lender valuation provider beyond residential appraisals. Specifically, this testimony addresses the items below:

- An overview of the role of AMCs in the residential mortgage process;
- The AMC state regulatory structure post Dodd-Frank Act;
- Support for the recruitment and training of the next generation of residential real estate appraisers;
- Integrating human capital, data and technological innovation in the appraisal industry;
- Undervaluation of properties in minority neighborhoods; and
- Suggested next steps for Congress and the industry.

About Appraisal Management Companies

AMCs are third party service providers engaged by bank/non-bank lenders to work with appraisers on residential appraisals in compliance with federal appraisal independence requirements. AMCs have existed since the 1960's and were primarily utilized by the largest US financial institutions to reduce consumer costs by outsourcing the expenses that would be incurred through their internal management of the valuation process. AMCs grew in popularity among smaller and mid-size lenders following the 2010 financial crisis as their attention to efficiency, compliance and regulatory responsibilities helped ensure consumer protection. The outsourcing of the valuation process continued, extending to the largest financial institutions, who now rely upon AMCs for the valuations of residential mortgages. Today, there are an estimated 300-400 AMCs in the nation, ranging from small local businesses to large national corporations.

AMCs benefit consumers by ensuring that the residential property they are purchasing, refinancing, or otherwise using as collateral is properly evaluated and that the lender they are working with to secure their residential mortgage transaction will receive a quality, timely appraisal that is reasonably priced based on current market conditions, free from undue influence, and compliant with the *Uniform Standards of Professional Appraisal Practice* (USPAP). Among an AMC's core functions include:

- Maintaining a panel of qualified appraisers ready to execute lender valuation assignments.
- Ensuring appraiser independence by safeguarding against fraud and undue influence.
- Providing quality assurance processes in the delivery of final appraisal and valuation products.
- Supporting a smooth, timely and responsive mortgage process for consumers and lenders.
- Ensuring lender compliance with federal and state banking and mortgage regulations.

AMCs invest significantly in technology to support the above functions, including but not limited to developing proprietary ordering processes that can integrate with appraisal form provides and other real estate technology solutions and implementing automated quality control rule sets. It is important to underscore that the AMC's lender customer sets the expectations for how an AMC must manage its appraisal orders – this is critical as there is a misunderstanding amongst appraisers that AMCs set appraisal order turn times, delivery requirements, and other obligations.

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In addition, many AMCs are more appropriately described as valuation providers that often provide customers with a variety of valuation-related products and management services, including but not limited to evaluations, broker price opinions, automated valuation models, property data collection products, post-disaster property reviews, and data analytics. While a business may meet the definition of an AMC, they often provide many other services - this business model is beneficial to customers, borrowers, and helps to support a more healthy and cohesive process.

Lenders, mortgage companies, investors, government-sponsored entities and others seek different levels of service from a valuation company for several reasons, including:

- Valuation companies are experts in real estate property data. Customers seek to work with companies that have expertise in all real estate collateral risk concepts.
- From a vendor management perspective, customers demand to work with one business that can support many needs, as opposed to working with an AMC, a valuation company, and data company. This helps banks and other regulated industries more effectively provide much more effective oversight of their vendors.
- Valuation companies invest heavily in technology, product development tools, vendor panels to be able to adapt to shifts in the marketplace, which provides economies of scale and efficiencies to support customer needs for different transaction types.

Under federal law and regulation, lender clients may be held responsible for the actions or inactions of their third-party vendors, including AMCs. Therefore, AMCs are under continuous, vigorous, and extensive scrutiny by their lender clients through the lender client third-party oversight programs. AMCs are required to regularly submit to client audits to ensure compliance with federal banking regulations and lender policies and procedures. In addition, lender transactions with AMCs are regulated by state and federal banking regulators.

Fannie Mae, Freddie Mac and others have praised the role AMCs have played in improving appraisal quality and enforcing federal Appraisal Independence Requirements (AIR) since the Home Value Code of Conduct (HVCC) and Dodd-Frank were enacted. In addition, AMCs are actively involved in the non-profit and for-profit advisory councils of The Appraisal Foundation ("TAF"), many of their representatives have sat on the TAF Appraiser Qualifications Board and Appraisal Standards Board and participate in meetings hosted by The Association of Appraiser Regulatory Officials ("AARO").

AMC Oversight Post Dodd-Frank Act

The Dodd-Frank Act was rooted in the objective to restore public trust in the safety and soundness of the financial industry. Specific to appraisal and AMCs, Dodd-Frank adopted several important consumer protections that REVAA supports, including but not limited to:

- The Truth in Lending Act ("TILA") was amended to make it unlawful, in extending credit or in providing any services for a consumer credit transaction secured by the principal dwelling of the consumer, to engage in any act or practice that violates appraisal independence.
- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") was amended to include AMCs within the scope of appraisal activity overseen by the Appraisal Subcommittee and applicable federal regulators.

Supporting Appraiser Independence Under TILA

- *Safeguard Appraiser Independence and Protecting Against* Fraud - AMCs help ensure that appraisals are completed in compliance with federal and state laws, as well as industry standards (USPAP), and that appraisers form their value opinions independently, without undue influence. Preventing coercion is critical to avoiding collusion in the valuation process and thereby reducing the potential for fraud.

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- *Protect Public Safety* - Consumers are provided an extra layer of safety and protection as most AMCs are required to conduct background checks before appraisers are employed or empaneled. Further, AMCs continue to monitor appraisers on an ongoing basis to ensure that appraisers who are unqualified or may pose a threat to public trust or safety are removed.

- *Ensure Lender Compliance with State and Federal Banking and Mortgage Regulations* - AMCs are invaluable partners for lenders as they ensure efficiency and support lender compliance with the mortgage lending requirements of state and federal regulators (e.g., Fed, FDIC, OCC, CFPB).

- *Ensure Appraiser Independence* - Lenders (big banks, small banks, mortgage lenders, credit unions, etc.) use AMCs because they provide efficient solutions to establish and maintain the necessary firewalls to preserve appraiser independence. Lenders require that AMCs maintain processes to give appraisers a clear path to complain if they believe they are being unduly influenced.

- *Ensure Quality Essential to Consumers and the Secondary Market* - AMCs provide the quality assurance lenders need to ensure a valuation won't prevent a loan from being saleable in the secondary market. Federal agencies require lenders to provide thorough, accurate, and objective appraisal reports with reliable opinions of market value to support underwriting decisions.

With respect to possible confirmation bias where an appraisal confirms or exceeds the associated contract price, we do not believe confirmation bias is tied to appraiser independence. Specifically:

- To the extent an appraiser believes that a subject property is valued within an acceptable range of the contract price, it is extremely common for the appraiser to decide on the contract price as the final opinion of value;

- Price confirmation and overvaluation should not by themselves be indicators of appraisal quality or appraiser independence, as such metrics are based on a number of market factors, and the ultimate determination of quality is based on whether the opinions of value are credibly supported.

- Studies of price confirmation often review years in which home price appreciation was strong and healthy – it is possible that appraisals often met or slightly exceeded purchase prices during the more recent sampling, as market conditions could cause prices to rise between a property's contract agreement and eventual appraisal. Moreover, post-recession sale of foreclosed property by financial institutions may have contributed to more overvaluation and super-overvaluation.

- An arm's length transaction where both buyer and seller are each acting in their own best interest, the sale price they negotiate is likely to be a direct reflection of market value.

- Additional testing and evaluation of appraisal values is needed to better understand possible confirmation bias.

Ultimately, while confirmation bias could be an indicator of appraiser independence, we believe these are two separate issues.

FIRREA – Guidance for State Regulation of AMCs

The Dodd-Frank amendments to FIRREA and their subsequent regulations promulgated after Dodd-Frank's enactment created the path for States to register AMCs providing appraisal management services related to a federally related transaction. The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration Board, the Federal Housing Finance Agency, and the Bureau of Consumer Financial Protection (collectively, "the Federal Banking Regulators") were tasked to jointly, by rule, establish minimum requirements to be applied by a State in the registration of appraisal management companies.

These minimum rules became effective on August 10, 2015. FIRREA provides that no appraisal management company may perform services related to a federally related transaction in a State after the date that is 36 months after their rules' effective date, unless such company is registered with such State or subject to oversight

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by a Federal financial institution regulatory agency. There was also an opportunity for States to obtain a one-year extension from the Appraisal Subcommittee - the firm deadline is now August 10, 2019.

Pursuant to the minimum rules, at minimum a State registration program must include a requirement that AMCs:

- register with and be subject to supervision by a State appraiser certifying and licensing agency in each State in which such company operates;

- verify that only licensed or certified appraisers are used for federally related transactions;

- require that appraisals coordinated by an appraisal management company comply with the Uniform Standards of Professional Appraisal Practice; and

- require that appraisals are conducted independently and free from inappropriate influence and coercion pursuant to the appraisal independence standards established under section 129E of the Truth in Lending Act.

The Appraisal Subcommittee is authorized to review State AMC program compliance with the above requirements.

Seeking to ensure that there was appropriate oversight over AMCs, many States passed AMC registration programs – REVAA has been actively engaged in supporting the registration and oversight of AMCs in all States.

A total of 49 states have implemented AMC registration programs consistent with federal law and rules. In Massachusetts, legislation is proceeding and expected to pass. The only U.S. states and jurisdictions that are poised to opt-out of enacting these important Dodd-Frank consumer protections are the District of Columbia, Puerto Rico, Guam, Virgin Islands and the Northern Marianas Islands.

As a result, AMCs are now state regulated and under significant regulatory scrutiny. They must comply with a number of important requirements, including but not limited to:

- Only engaging with appraisers who have an active appraiser credential in good standing;
- Requiring disclosure of its registration number to appraisers when ordering appraisals;
- Not employing persons who have had appraiser credentials revoked;
- Disclosing to customers fee information about completed appraisals;
- Maintaining a process to require that an appraiser comply with USPAP and state law;
- Paying appraisers within a defined period of time;
- Maintaining a process for reviewing the work of appraisers;
- Informing regulators of address changes or material changes in ownership
- Maintaining a surety bond;
- Being subject to audit by state regulators

Violations of any of these requirements may result in disciplinary action by the state regulators.

REVAA supports the Dodd-Frank amendments to FIRREA and believes that proper oversight by federal and state regulators over AMCs is critical to supporting a health valuation marketplace and ensuring safety and soundness of financial institutions. Therefore, we continue to support AMC registration by all 50 states and the five U.S. territories to strengthen and ensure consistent appraiser independence and consumer protections across the entire United States.

AMC National Registry

As part of the amendments to FIRREA, each State was given authority to collect a fee from AMCs to transmit to the Appraisal Subcommittee to pay for the ASC's oversight efforts, including maintaining a roster of AMCs registered in States (the "AMC Registry"). The amount of the fee is set in statute, and is as follows:

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- For an AMC that has been in existence for more than a year, $25 multiplied by the number of appraisers working for or contracting with such company in such State during the previous year, but where such $25 amount may be adjusted, up to a maximum of $50, at the discretion of the Appraisal Subcommittee, if necessary to carry out the Subcommittee's functions under this title; and

- For an AMC that has not been in existence for more than a year, $25 multiplied by an appropriate number to be determined by the Appraisal Subcommittee, and where such number will be used for determining the fee of all such companies that were not in existence for more than a year, but where such $25 amount may be adjusted, up to a maximum of $50, at the discretion of the Appraisal Subcommittee, if necessary to carry out the Subcommittee's functions under this title.

States must collect this fee from registered AMCs no later than June 1, 2020, and many States have already begun collecting the fee. We believe the current feel calculation is problematic for a number of reasons:

- The above is a huge burden to AMCs. The annual cost of this new registry fee is anticipated to range as high as $150,000 or more per year for AMCs that work on a national basis.

- This fee will be a real financial burden on mid- to small-sized AMCs just trying to compete for survival, which will result in reduced competition in the valuation market.

- More money is being collected than is needed to operate an AMC Registry. Dodd-Frank required the creation of the AMC Registry, along with the assessment and collection of this fee. Because of the flawed funding formula, the Appraisal Subcommittee will collect millions more than is actually needed that will then be granted back to states to subsidize their appraisal management programs.

- Because the above funding formula is in Dodd-Frank, we are aware of no other option for relief other than revising the statute.

REVAA supports legislation to amend the above fee to grant the Appraisal Subcommittee discretion to amend the fee if it determines the fees result in adverse consequences or are otherwise not appropriately tailored to meet the ASC's goals. We also support the ASC issuing a report to Congress justifying its decision before any change would occur.

Support for the Recruitment and Training of New Appraisers

National demographic data has long forecasted the coming retirement of the nation's Baby Boom generation and the profound impact to American businesses as industries experience a shortage of available skilled workers. The U.S. Census Bureau estimates that by 2025, the population of people 65 and older will increase by 37.8%, while the population of those 18 to 64 will rise by only 3.2%. Persons aged 18 to 24 will decrease in number.[1]

Following national trends, certified residential appraisers are aging and leaving the workforce. According to a recent Appraisal Qualifications Board "Practice Analysis Survey:"[2]

- 70% of the 2,066 respondents were 51 years or older
- Of those, 30% were 66 years or older
- Only 13% of the respondents were 40 years old or younger

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[1] Jennifer M. Ortman, Victoria A. Velkoff, and Howard Hogan, "An Aging Nation: The Older Population in the United States," May 2014, , https://www.census.gov/prod/2014pubs/p25-1140.pdf.
[2] Appraiser Qualifications Board, "Practice Analysis Survey," 2014.

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Beyond aging, there are other challenges facing appraisers including:

- Dwindling number of new appraisers - There is a shortage of young adults, graduates and those in career transition seeking to become appraisers.

- Lack of appraisers that want to be supervisors - Supervisory appraisers are hesitant to want to take on the responsibility or economic burden of training.

- Burdensome licensing requirements - It's not easy for new people entering the industry to become an appraiser. Appraisal Licensing/Certification requirements are exhaustive, time intensive and often economically infeasible

- Not all credentialed appraisers are practicing in the field - According to the Appraisal Subcommittee National Appraiser Registry, as of October 2018 there were a total of 94,678 Certified Appraisers in the United States and five territories (48,114 Certified Residential Appraisers, 39,084 Certified General Appraisers, and only 7,480 Licensed Appraisers). However, a large number of credentialed appraisers may not actually be appraising residential properties in the field.

- Lender resistance to use of trainees - Because trainees are not on the National Registry, many lender risk-management policies and procedures restrict, limit or prohibit the use of trainees.

REVAA supports several collaborative industry initiatives to make a real difference in attracting and training the next generation of real property appraiser, including:

- The Appraisal Foundation Appraisal Qualifications Board's new education and experience requirements for new appraisers entering the field, along with the creation of the Practical Applications of Real Estate Appraisal (PAREA) to provide voluntary guidelines for trainee programs to ensure they are eligible for experience credit.

- Industry efforts to recruit military veterans and other people to consider becoming appraisers. There is nothing that discriminates against persons of all backgrounds, gender, race, religion or ethnicity to be an appraiser if they complete the applicable education and experience requirements.

- AMCs and lenders have become more instrumental in providing supervisory training to new appraisers.

- AMCs continue to encourage lenders to allow appraiser trainees to work on assignments when possible, including developing new trainee programs.

- The introduction of H.R. 2852 and S.1722, which would permit licensed real estate appraisers to perform FHA appraisals – led by the Appraisal Institute and The Appraisal Foundation – is important as it would allow more appraisers practicing in the field today to be eligible to conduct real estate evaluations on FHA properties.

- REVAA is proud to work with the House Financial Services Committee, Appraisal Subcommittee and other stakeholders to support soon to be introduced legislation to add appraiser trainees to the National Appraiser Registry.

Collectively, the efforts above and others will make a positive impact in attracting new future appraisers.

Integrating Human Capital, Data and Technological Innovation

With growing calls for modernization by policymakers, consumers, lenders, investors and others, dynamic new technologies and the availability of decades worth of property data have generated excellent potential to innovate residential appraisals and valuations to support more effective and efficient opportunities to evaluate collateral risk while still ensuring the quality of those products meets industry expectations.

Along with modernization, REVAA supports a vibrant appraiser industry because the future isn't going to solely rely on new technology and data. We feel strongly that the future of appraisal needs to retain a human component, which is why we support the recruitment of new appraisers to help revitalize the professional for the next generation. The reliance on appraisers and appraisal products creates an important need to help ensure the sustainability of the profession. Consumers, residential mortgage lenders, secondary markets and AMCs rely on a plentiful supply of qualified appraisers to meet anticipated demand.

Therefore, we believe that the modernization efforts above will not replace appraisers but will complement the appraiser's essential role in utilizing their experience, education, local market knowledge to analyze a subject property and develop a credible opinion of value. Beyond appraisals, there are a wide variety and range of valuation products that can be available to financial institutions, mortgage companies, investors, and others making real estate collateral decisions. The following are several examples:

Evolving Use of Automated Valuation Models.

An automated valuation model ("AVM") is defined in FIRREA as "any computerized model used by mortgage originators and secondary market issuers to determine the collateral worth of a mortgage secured by a consumer's principal dwelling."[3]

AVMs are used in a number of different contexts, including but not limited, for: (1) assess collateral value before deciding what type of additional valuation is required; (2) valuing a portfolio; (3) for lending decisions where an appraisal is not required (i.e., for home equity lending purposes). Federal guidelines define how an AVM can be used in lieu of an appraisal as prescribed by the Interagency Appraisal and Evaluation Guidelines.

Importantly, not all AVMs built the same. There are consumer-facing AVMs that provide value estimates for various non-lending purposes, and lending-grade AVMs that have sufficient data and analysis to support lending use.[4] Testing of AVMs can also vary.[5]

REVAA supports the use of AVMs for permitted purposes, but we recognize that AVMs are not appropriate in all cases for lenders to make collateral valuation decisions – we recognize and appreciate an AVM in a market-data rich neighborhood for a traditional property may be more effective than an AVM in a market with little data and for an atypical property. As with any valuation tool, the loan-type, loan-to-value ratio of the transaction, whether the property is atypical for its neighborhood, and data availability all could impact whether an AVM should be relied on exclusively in making a lending decision.

Federal Banking Regulators were tasked under the Dodd-Frank amendments to FIRREA to promulgate regulations to implement AVM quality control standards, including standards designed to:

1) ensure a high level of confidence in the estimates produced by automated valuation models;
2) protect against the manipulation of data;
3) seek to avoid conflicts of interest;
4) require random sample testing and reviews; and
5) account for any other such factor that the agencies listed in subsection (b) determine to be appropriate.[6]

We welcome that guidance so long as it does not interfere with marketplace competition and the responsible use of these products.

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[3] 12 U.S.C. 3354(c).

[4] Mortgage Bankers Association, "Real Estate Appraisals [RIN: 1557-AE57; 3064-AE87; 7100-AF30]," https://www.mba.org/Documents/MBA_Real_Estate_Appraisals_(0).pdf

[5] "A Lender's Guide to the Top 3 AVM Testing Methods," ClearCapital.com, Inc, June 06, 2019, https://www.clearcapital.com/blog-avm-testing-guide/.

[6] 12 U.S.C. 3354(a), (b).

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Growing Interest in "Hybrid" Appraisal Products.

Concern over appraiser availability, higher residential appraisal costs and long turn times in some major U.S. housing markets in 2016 and 2017 may have subsided for now. However, lenders and consumers in rural areas continue to feel the strain from a lack of supply of credentialed appraisers. A product that has received attention recently is called a "hybrid" appraisal, where a third-party collects data about a property, and an appraiser prepares an analysis and opinion of value using that third-party information. Such products are not new – but they have received new interest for issuance of home equity loans and in the portfolio servicing space.[7]

These valuation products can also significantly help for transactions when an appraisal is not required or in rural areas where turn times and appraiser availability is an issue. We also note that legislation recently passed the Congress (H. 299) authorizing the Department of Veterans Affairs to consider these valuation products.

There is significant confusion by appraisers that these products are being used because they are the cheapest or fastest without consideration for the underling risk of the collateral – this is not the case. Similar to the use of AVMs, a "hybrid" appraisal is appropriate in certain lending situations and not in others.

We encourage further discussion with members of the subcommittee to provide more information on these products.

GSE Evaluation of Appraisal Forms.

Fannie Mae and Freddie Mac established a Uniform Appraisal Dataset ("UAD") Working Group to collect feedback from stakeholders and begin the process to overhaul the uniform appraisal forms to establish a more flexible, dynamic structure for appraisal reporting.[8] Many AMCs members are active participants in the working group and are offering their technology and valuation management expertise.

GSE Evaluation of Property Data.

As part of its appraisal modernization initiative, Fannie Mae announced it is working independently on modernization of the appraisal process, including testing a variety of technologies and methodologies that could enhance our ability to manage collateral risk and make the process more efficient for lenders, borrowers, appraisers, and investors. One of those tests is evaluating alternatives to obtain relevant data about subject properties. Should an appraisal be required to properly evaluate collateral, the test would involve performing a desktop appraisal informed by the data collected about the property.[9] We understand there are AMCs participating in this testing.

Proposed Increase to Residential Appraisal Threshold.

The Subcommittee has asked about the recent proposed regulations from the federal financial institutions regulatory agencies to increase the de minimus threshold at or below which appraisals would not be required for residential real estate-related transactions from $250,000 to $400,000.

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[7] National Association of Realtors, "Are Hybrid Appraisals Becoming the New Normal In Real Estate Transactions?" PR Newswire: Press Release Distribution, Targeting, Monitoring and Marketing, May 15, 2019, https://www.prnewswire.com/news-releases/are-hybrid-appraisals-becoming-the-new-normal-in-real-estate-transactions-300850871.html.

[8] Fannie Mae and Freddie Mac, "Uniform Appraisal Datatset Executive Summary," Uniform Mortgage Data Program, December 2018, https://www.fanniemae.com/content/news/uad-executive-summary.pdf.

[9] Fannie Mae, "Appraiser Update," March 2019, https://www.fanniemae.com/content/news/current-appraiser-newsletter.pdf.

However, as an agent of the lender for appraisal and valuations services and its role in working with independent fee appraisers to complete appraisals, REVAA does not have a position on this proposed change. However, as reflect in our comments to the proposal[10]:

- REVAA members support the Truth in Lending Act and the requirements for valuation independence.
- Limited information available on the cost of evaluations and appraisals suggests material cost savings in connection with real estate property valuation for regulated institutions and consumer, with evaluations costing approximately 20-50% of an appraisal.
- REVAA broadly estimates that finding a qualified professional (e.g., broker, agent, appraiser) to perform an evaluation can be much faster than having to solely rely on an appraiser, particularly in rural areas, with evaluations taking between one to give days vs. five to twenty-one for an appraisal.
- REVAA membership typically do not see evaluations being used in a full loan origination, and even if they could we support an appropriate and more comprehensive valuation product based on the risk of the underlying transaction, not simply whether a threshold amount has been met.
- The estimates above are based on similar products comparison, geographic market, and other variables.

Other Technologies to Support Appraisal and Valuation Efficiency

In addition to the variety of technological enhancements above, REVAA members and others are developing new technology that supports the appraiser and valuation profession. As stated by the Bureau of Labor Statistics, the expectation of greater use in mobile technology will improve efficiencies and productivity.[11] REVAA members believe their investments in technology will transform the profession into a true 21st century expertise. Examples include:

- Mobile applications that allow an appraiser to more accurately measure property and develop a sketch of a residence;
- Scheduling applications that give the borrower better command over scheduling their appraiser / inspector visit which can reduce delays and improve communications between the appraiser and lender; and
- Continued integration of third-party real estate data available at an appraiser's fingertips.

Undervaluation of Properties in Minority Neighborhoods

REVAA appreciates the opportunity to review the November 2018 report by the Metropolitan Program at Brookings.[12] The information has been shared with our members and we continue to review and assess the conclusions in the report.

We believe it is important to underscore that the practice of appraisal requires the historical review and analysis of subject property sales data in similar neighborhoods (i.e., comparables).

AMCs implement varying controls to ensure appraisers (and AMCs) do not engage in discriminatory behavior, including but not limited to the following:

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[10] Real Estate Valuation Advocacy Association, "Comment Request: Docket ID OCC-2018-0038," https://www.regulations.gov/contentStreamer?documentId=OCC-2018-0038-0539&attachmentNumber=1&contentType=pdf

[11] Bureau of Labor Statistics, "Appraisers and Assessors of Real Estate: Occupational Outlook Handbook," https://www.bls.gov/ooh/business-and-financial/appraisers-and-assessors-of-real-estate.htm#tab-6.

[12] Andre Perry, Jonathan Rothwell, and David Harshbarger, "The Devaluation of Assets in Black Neighborhoods," Https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf, November 2018.

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- Developing policies, procedures, and training that explain fair lending practices and what type of conduct is prohibited;
- Reviewing appraisal reports for possible discriminatory language; and
- Maintaining complaint management programs to investigate borrower complaints alleging discrimination.
- Where appropriate or legally required, AMCs may obtain diversity information from their appraiser panel in accordance with a customer contractual obligation.

REVAA strongly supports and would be willing to partner in efforts to help sustain and diversify the appraiser profession. In particular, we would be interested in partnering with the authors to review if AVM technology could be helpful in better understanding the discrepancies in property valuation in such neighborhoods.

<u>Requirement to Disclose Appraisal Fees</u>

REVAA generally does not take a position regarding amending the Real Estate Settlement Procedures Act (RESPA to require disclosure in the integrated disclosure for mortgage loan transactions of the fee paid directly to the appraiser by an AMC and the administration fee charged by the AMC. However, we offer preliminary feedback that may assist further discussion of this important issue:

- Separating a management fee from the appraisal fee is inconsistent with other fees that are routinely combined for practical business purposes. Other closing services have multiple cost factors (employees, contractors, technology costs) that are not disaggregated – for example, property survey costs do not detail amounts paid to technicians that perform on-site services.
- True disclosure of all cost components of an ordered appraisal may not simply be the appraisal fee and the appraisal management fee. Other costs associated with an appraisal order include, but are not limited to, platform fees, invoice fees, technology fees, and other costs. In other words, the AMC-retained fee is not the AMC's profit.
- The current appraisal fee disclosure offers flexibility for defining the appraisal fee and appraisal management fee, which allows for changes in either should a subject property be determined to be more complex requiring a higher fee to the appraiser. A change could require the lender to provide a new disclosure, resulting in delay to a lending transaction.
- While we defer to lenders and others directly impacted by such a proposal, we note that requiring this fee split could result in other delays in transactions to ensure the lender is properly disclosing the information.
- Borrowers reviewing the disclosure form may be confused over understanding the fee differences.
- A significant majority of states regulating AMCs either: (i) require an AMC to report all fee split information to its customer; (ii) prohibit an AMC from restricting the appraiser's disclosure of their fee in an appraisal report; or (iii) require an appraiser to include in the appraisal report their fee and the AMC's fee.

Related to above point concerning borrower information, we note that the Consumer Financial Protection Bureau in 2013 issued its final rule regarding the integrated mortgage disclosures under RESPA and TILA. In issuing its final rule the CFPB did consider requiring disclosure of the appraiser fee and AMC-retained fee. While the Bureau acknowledged RESPA did not require the disclosure, the CFPB stated:

> It is unclear from [comments submitted by interested parties], however, that a breakout of the AMC's charge from the appraisal would or could lead to the stated result sought by the commenters: that a consumer would utilize the different charges to question and seek an appraisal directly from an appraiser, rather than through the use of an AMC. The Bureau is not aware of any data or information supporting the commenters' belief that this disclosure would achieve their desired results, nor did the commenters supply any such data or information.
>
> Appraisals are third-party reports prepared for the benefit of the creditor as part of an evaluation of the value of the collateral being secured by the property. RESPA recognizes that creditors are the parties that are obtaining the service, and explicitly provides an exemption from constraints on requiring the use of an

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> affiliate for appraisals. In addition, many of the concerns identified by commenters have been the subject of other rulemakings directly concerning disclosures and information provided to the consumer in relation to appraisals, namely the 2013 ECOA Appraisals Final Rule and the 2013 Interagency Appraisals Final Rule.
>
> The Bureau believes that, absent data or other information supporting the commenters' beliefs, it would be inappropriate to use its authority to modify the statutory disclosure provision of Dodd-Frank Act section 1475, because requiring breakouts of such charges to be disclosed in all cases may tend to produce information overload.[13]

We believe additional discussion and research may be warranted, particularly with the lending community, to understand the benefits and consequences of imposing this new requirement on lenders and changing the disclosure process, particularly during the current real estate market and other ongoing reforms being considered to the lending process.

Conclusion

The Dodd-Frank Act enacted statutory and regulatory changes to implement new consumer protections. REVAA believes that the systems and structures that have been put in place across the country have largely helped achieve the goal of protecting safety and soundness. But the work isn't done. Despite the great amount of progress that has been made there continues to be a need for industry-wide focus on improvement.

Stakeholders continue to come together to discuss the future of the industry including the recruitment of new appraisers and the appropriate role of new technologies and data on residential appraisal and lender valuations. This constructive dialogue and collaboration must continue. In supporting these efforts, REVAA respectfully requests that Congress:

- Pass H.R. 2852 – the Homebuyer Assistance Act of 2019 to permit licensed real estate appraisers to perform FHA appraisals (along with its companion S. 1722).
- Pass legislation to permit States to report appraiser trainees to the Appraisal Subcommittee Appraiser Registry to support broader use of trainees by lenders.
- Pass legislation to grant regulatory flexibility to the Appraisal Subcommittee so it may adjust AMC fees and promote greater competition in the AMC market.
- Support the registration and oversight of AMCs in all States, territories, and the District of Columbia to promoted appraiser independence and consumer protections.
- Support continued dialogue with federal regulators on opportunities to streamline outdated valuation policy to provide flexibility in the collateral valuation process while ensuring safety and soundness.

Biography of Jeff Dickstein, Chief Compliance Officer, Pro Teck Valuation Services

Jeff Dickstein is a Certified Residential Appraiser with than 37 years of experience in the mortgage industry, including 30 as an appraiser. He currently holds an appraiser credential in 17 states. As Chief Compliance Officer at Pro Teck Valuation Services, a national appraisal management and lender valuation services provider, Dickstein is responsible for company compliance with all state, federal and industry regulations.

Dickstein's diverse background and problem-solver mentality give him a unique perspective on asset valuation, risk mitigation and the future of the industry. He is a past president and current board member of REVAA (Real Estate Valuation Advocacy Association), a national trade organization representing AMCs. Dickstein serves on the Board of Trustees of The Appraisal Foundation and is a past chair of its Industry Advisory Council. He is also a member of CRN (Collateral Risk Network), NAA (National Association of Appraisers) and NAR (National Association of Realtors),

About REVAA

REVAA is an industry trade association whose membership includes AMCs and lender valuation providers that collectively provide residential valuation transaction volume nationwide on behalf of mortgage lenders. In addition, many REVAA members also provide other important lender valuation services such as Broker Price Opinions (BPO) and Alternative Valuation Methods (AVM).

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[13] 78 FR 80225, pp. 79955-79956 (internal citations omitted).

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