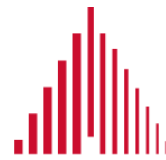


Appraisal Institute®

Professionals Providing Real Estate Solutions

What's Your Home Worth?
A Review of the Appraisal Industry

Testimony of Stephen S. Wagner, MAI, SRA, AI-GRS

2019 President

Appraisal Institute

Before the Subcommittee on Housing, Community Development and Insurance

House Committee on Financial Services

June 20, 2019

Chairman Clay, Ranking Member Duffy and members of the Subcommittee on Housing, Community Development and Insurance, thank you for the opportunity to testify on behalf of the largest professional association of real estate appraisers in the United States at today's hearing on "*What's Your Home Worth? A Review of the Appraisal Industry*."

First, I will address the set of questions directed to us for today's hearing. Second, I will provide feedback on the two discussion draft bills relating to FHA appraisals and Appraisal Subcommittee registry fees. I will conclude with a set of recommendations for broader industry reforms we believe would be beneficial for consumers, users of appraisal services, and professional appraisers.

Question 1: Do you have concerns with the recent proposed regulation from the Federal financial institutions regulatory agencies to increase the de minimum threshold and ultimately increase the number of transactions that are exempt from appraisal requirements?

Yes, two pending proposals – one involving the federal bank regulatory agencies, and another involving the credit union regulator – would increase risk to safety and soundness of financial institutions and the health of the financial system. Specifically, the federal bank regulatory agencies have proposed to increase the residential appraisal threshold level from $250,000 to $400,000. This proposal does a complete "about face" from recommendations made by the same agencies in the Economic Growth and Paperwork Reduction Act (EGRPRA) Final Report delivered to Congress in 2017. In 2017, the agencies opted not to increase the residential appraisal threshold level based on safety and soundness concerns and additional worries about losing consumer protections. Today, the agencies are about to turn their backs on the EGRPRA final report purely to promote regulatory relief, even with 90+ percent of commenters writing in opposition to the proposal to increase the residential appraisal threshold level to $400,000. In the interim, Congress enacted a discrete regulatory relief provision with S. 2155 for rural residential loan situations. This provision has simply not been given an opportunity to be implemented by regulated institutions.

Real estate appraisal is a highly regulated profession. As an appraisal practitioner, I deal with a multitude of rules and regulations with nearly every aspect of my practice. My experience also includes working within a bank managing residential and commercial appraisal operations. I understand concerns about and the need for regulatory relief in the financial sector. However, we must not ignore the need and benefits of regulation. At the heart of the financial crisis was a minimization of risk management activities – including appraisal functions – throughout the real estate financial sector. We cannot allow the regulatory relief pendulum to swing too far the other way, and in doing so, sow the seeds for the next financial crisis.

This is where we are today with appraisal requirements. We are fast moving to *optionality* in appraisal. The very definition of "de minimis" is one too trivial or small to merit consideration. The de minimis appraisal threshold levels are now proposed to represent most transactions. This represents a complete reversal of Congress' intent when it enacted FIRREA in 1989.

This is witnessed today by the proposal by the National Credit Union Administration to increase the nonresidential appraisal threshold level from $250,000 to $1 million. If this proposal is finalized, as we understand the agency was recently preparing to do, it will likely result in the federal bank regulators having to reissue their now final rule establishing a $500,000 commercial real estate appraisal threshold level. The federal bank regulatory agencies would likely feel compelled to increase the threshold to $1 million simply to level the playing field between banks and credit unions in reduced appraisal requirements. Because of this, the agencies are competing over which sector of the financial community can do the least due diligence. Frankly, this is preposterous and should be a concern to all taxpayers, who ultimately pay the bills for failures in our financial system.

Question 2: Are there ongoing concerns that appraiser independence is being undermined, and if so, what more can Congress do to strengthen appraiser independence protections?

Yes, ultimately, the attempts to increase appraisal threshold levels will cause a reduction in appraiser and appraisal independence, as they represent a dramatic deemphasis on risk management activities within regulated

financial institutions. As the appraisal threshold level increases, the number of loans eligible for evaluation allowances increases with it. Evaluations can be prepared by internal bank staff and those who carry no ethics or standards obligations, unlike appraisers. The lines of separation within financial institutions quickly devolve and become murky. Through the last two real estate related financial crises, we have experienced loan production operations gradually exert pressure on risk management functions like appraisal – when left unchecked, and we would expect this to occur should these two proposals be finalized.

Overt "value pressure" – or pressure to deliver inflated appraisals to satisfy those with vested interests in the transaction is likely less common today, largely because mortgage brokers have been removed from the appraisal ordering process. This was a major problem during the lead up to the financial crisis. Sometimes we hear the opposite scenario, where appraisers have been asked to lower the appraised value in reaction to support for things like green or energy efficient features.

Appraisers experience pressure in less overt or masked ways from any number of parties to the transaction, including:

- Negotiated service matters such as turnaround times. We must be careful not to emphasize these and other factors that detract from the quality of such services. Nobody benefits from a professional service that cuts corners or is so watered-down that it loses reliability or credibility.
- Use of Reconsiderations of Value on a frequent basis. Unless appraisers have clearly missed pertinent data to the appraisal at hand, reconsiderations are often a waste of time and resources.
- Use of Borrower Estimates. These may be communicated orally by someone working with an appraisal management company, or even delivered on forms provided to the appraiser by lenders.
- Denying access to the property to steer the appraisal assignment to a favored appraiser.
- Providing erroneous information and submission of incomplete or inaccurate information by the borrower or their broker. This is then 'discovered' during the appraisal process. Which changes the outcome and the banks underwriting, and the appraiser is indirectly blamed or seen as responsible for delivering a lowered value.

The Dodd-Frank Act did include an important provision, Section 1472, protecting the independence of real estate appraisers from coercion and intimidation. This should be maintained in any legislative review by Congress.

However, we remain concerned with the overall approach taken by federal regulatory agencies and financial institutions in supporting independent real estate appraisal functions within financial institutions. Several significant problems are apparent, as follows:

1. Inadequate consideration of the quality of service, or geographic or market competency of the appraiser.
2. Federal regulatory agencies remain deeply under-resourced to deal with examination issues involving real estate appraisals. At one point in the 1990s, each federal regulatory agency had competent appraisers on staff helping to support examination teams. Today, there are no professionally designated appraisers supporting examination functions in the four major examination agencies. There is ample room for enhancement here, as examiners face a wide variety of collateral valuation challenges today.
3. Generally, most banks have opted not to take responsibility or ownership of residential appraisal functions, instead electing to outsource appraisal operations to third parties that offer a perceived layer of insulation from coercive pressure but apply new business pressures that put constraints on appraisal quality. Further, use of appraisal management companies can add to the time it takes for a bank to finalize appraisal review within a loan application.

Many financial institutions have been under the mistaken impression that federal rules require the use of appraisal management companies to comply with basic appraisal independence requirements. This is not the case, as financial institutions may manage appraisal ordering and review internally. Many financial institutions, upon learning that federal rules allow banks to take back the appraisal function, have reestablished appraisal departments with independent reporting structures as an alternative to utilizing appraisal management companies. Depending on the size of the bank, this may be accomplished with a functioning appraisal department, or hiring an appraiser on staff, or utilizing several software programs in the market that enable risk management staff to oversee appraisal orders and reviews.

Not that *all* external appraisal management companies are performing poorly, because some place the quality of service at the forefront of their business model; the business model just employed by many appraisal management companies does not do enough to promote *competency* in the appraisal hiring process. Our biggest concern is the propensity to make appraiser hiring decisions based on speed (or turnaround times) rather than quality or competence (both market and geographic). Here, many institutions appear to ignore federal guidelines that clearly state that price and turnaround time should not be the predominant factors in an appraiser hiring decision. Yet, as cited above, bank regulatory agencies appear understaffed to enforce this provision, helping to enable substandard appraisal procurement by banks.

Section 1492 of the Dodd-Frank Act explicitly requires creditors and their agents to pay "customary and reasonable" fees to appraisers to reflect what an appraiser typically would earn for a residential appraisal assignment absent the involvement of an appraisal management company. Under the Act, evidence for such fees may be established by objective third-party information, such as government agency fee schedules, academic studies and independent private sector surveys. There is sound reason for this provision. Specifically, it helps to assure that faulty appraisals will not give rise to the sort of financial crisis that this country faced a decade ago.

The rules promulgated by the Federal Reserve (Interim Final Rule) and the Consumer Financial Protection Bureau (Final Rule) contradict the plain language and intent of the Dodd-Frank Act. Two presumptions of compliance are provided by the Federal Reserve and accepted by the CFPB that are internally inconsistent. One presumption requires independent studies or fee schedules that align with retail appraisal fees direct from the appraiser, while the other accepts internally generated results that include what amounts to wholesale fees involving third parties.

Even as the CFPB has finalized the original Interim Final Rule unchanged, we continue to have concerns with the internal inconsistencies found in the two presumptions for compliance, and we urge fresh oversight on this issue and the related issue of consumer disclosure of appraisal and AMC fees.

Consumer Disclosure

The congressional requirement that customary and reasonable fees be paid to appraisers is undermined by consumer disclosure rules that allow the co-mingling of appraisal and appraisal management company fees on the Appraisal line of the Consumer Disclosure form issued by the CFPB. This co-mingling confuses consumers into believing they are paying appraisers more for services today, when, in fact, compensation levels may have significantly declined because appraisal management companies are taking a sizeable portion of the total cost paid by the consumer.

The Dodd-Frank Act authorized the CFPB to require the disclosure of AMC fees separately from fees paid to appraisers. In developing the final "TRID" rule, the CFPB conducted consumer testing of sample Closing Disclosure forms. This testing concluded that consumers were indifferent to the disclosure of AMC fees separately from appraisal fees, indicating that consumers were not confused by a disclosed appraisal management company fee. Despite this, in the final rule, the CFPB erred on the side of less disclosure, allowing – but not requiring - AMC fees to be reported separately from appraisal fees. As a result, most lenders continue to comingle AMC fees with appraisal fees. We continue to believe consumers are better off being fully informed about fees they are paying.

Question 3: How is technology changing the appraisal industry and are there concerns with some of the changes that are occurring as a result of evolving technology?

Technology has made, and continues to make, the appraisal process more efficient in some ways, and possibly more complicated in others. A bevy of data and software applications are widely available to appraisers to assist with virtually every facet of the appraisal process, from client communication to data acquisition and appraisal reporting. We do not track a metric on productivity or efficiency, but appraisers are more efficient today than ever before. Appraisers are also some of the first adopters of technology in the real estate sector.

Within the appraisal process itself, some factors may be replaced by technology. Auto-population of data from data systems like the multiple listing services has removed much of the need for manual entry of data, for

example. Some factors may be enhanced by technology. Our organization has offered seminars on drones in real estate appraisal, and we have a new seminar on big data or "artificial intelligence" in real estate appraisal, as examples. Still, other factors simply cannot be replaced, or face severe limitations. The ability to analyze and observe functional obsolescence in a property is one such example. Positive features like view amenities, high quality construction features, green features, etc. are also observations by the human eye that cannot be replaced with technology. Remember, that appraisal is an applied study objectively based on careful analysis and judgement. Those factors cannot be easily replaced by machines.

Technology can also be misused. Automated valuation models can be programmed to produce predetermined outcomes. The lack of quality standards on AVM modeling is potentially a risk.

Appraisal Waivers

Today, Fannie Mae and Freddie Mac waive appraisals in certain circumstances based on automated valuation models and internal models and systems. These systems are fed, substantially in part, by data extracted from appraisals completed by appraisers across the country. These systems were established following the financial crisis largely to conduct a level of quality assurance on the appraisal before purchase the loan from a loan seller. Prior to the crisis, the GSEs did not see the appraisal report and delegated nearly the entire appraisal due diligence process – including review – to the loan seller. That was not a healthy arrangement.

While we support more quality assurance by the GSEs, we do not want to see competition between the enterprises result in a race to the bottom on risk management. The enterprises should not compete based on who can do less due diligence, for example. We have raised these concerns directly with the enterprises and the FHFA, and we have been told that plans to use such waivers are said to be generally limited in scope or based on factors such as risk and availability of data. However, we note that if fewer appraisals are done by appraisers, these systems will no longer be fed good data. In the longer run, any AVMs using such data will become less reliable.

Fannie Mae and Freddie Mac are in a position where they can provide some neutral information to appraisers that would be beneficial to the appraisal process. Simple things such as what type of records exist for square footage would be extremely helpful to an appraiser, who could verify which record is correct. We have also discussed this idea with the GSEs, and the general concept seems part of the ongoing review of the modernization effort.

Hybrid Appraisals

Fannie Mae and Freddie Mac have undertaken two related initiatives in appraisal – to "modernize" the appraisal process and develop new appraisal report forms. Both are multi-year efforts and relate to the data aggregation and appraisal waiver issues identified above. The report forms project is essentially an identification of the data package that the GSEs want to collect from the appraisal, along with how the appraisal report form might be made more dynamic or functional to the appraiser or the appraisal process. We have provided feedback to the GSEs on the appraisal report forms project, and we look forward to continuing to work towards improvements to the appraisal report forms.

The modernization project appears to center on the potential development of "gap" products for appraisals. There are essentially two appraisal order options for the GSEs today – the Uniform Residential Appraisal Report (Form 1004/70) or an appraisal waiver (none). In the past, various efforts to develop gap products were met with mixed results.

In discussing the issues with the GSEs, much of the current effort appears centered toward a goal of reducing turnaround times with appraisals. With this, we understand the GSEs have tested and evaluated various "hybrid" or "bifurcated" appraisal processes that may involve different work forces for completing the inspection of the subject property. Rather than the appraiser or someone associated with the appraiser (an associate or trainee for example) completing an inspection of the subject property, that service may be completed by labor forces outside of appraisal, such as insurance inspectors or real estate agents. Once that inspection is completed by a third party, it would be delivered to an appraiser for a desktop analysis. Such an assignment can be performed by an appraiser. We would point out, however, that given the intended use of the appraisal, such as for loan collateralization, a more in-depth scope of work, such as a traditional appraisal may be necessary.

Not knowing or understanding the use or volume of the proposed bifurcated product is one concern we hear from appraisers. Risk based application of such scenarios may have merit, but we also see a potential slippery slope for a degradation of appraisal risk management. Furthermore, if there is a proliferation in the use of a bifurcated process, then it begs two questions. First, as analysts will not be in the field on a regular basis, how will appraisers overall maintain their edge and knowledge of the market along with real estate products in general? Second, and this is particularly critical, how will trainees gain adequate knowledge and experience in their markets. Maintaining one's edge and knowledge of the market on a recurring basis is important in terms of accurate valuation.

While we understand that GSEs are attempting to shorten the loan decisioning process, using competent appraisal professionals is tantamount to maintaining independence of the process and overall risk mitigation. We must work together to attract qualified individuals to the profession. We fear, users of appraisal services will run a race to the bottom in terms of capability and knowledgeable appraisers. We hear repeatedly that well-trained and independent professionals continue to move away from performing appraisal work for the financial services industry. Competent professional appraisers cannot afford to operate with the same cost structure, including liabilities, with diminished earning potential.

Appraisers express concern about changing processes and procedures, in part, because of their experiences with mortgage lenders leading up to and during the financial crisis. Virtually every lawsuit brought by the Federal Housing Finance Agency against mortgage lenders following the financial crisis involve various forms of mismanagement of the appraisal process by loan officers, mortgage brokers and others. Even this week, a major settlement was reached between the Federal Housing Administration and one of the nation's largest mortgage lenders over appraisal management failures. If the financial crisis taught us anything it is the importance of risk mitigation, and we see signals we are losing sight of this less than a decade removed from the largest financial crisis in a generation.

There are also significant concerns about liability we have raised directly with the GSEs. As the appraisal process is separated or bifurcated, the appraiser is being asked to evaluate the work of unrelated third parties. We believe it is critically important to recognize the distinction between "believing" third-party information in reliable, versus "knowing" that such information is reliable. Today, using extraordinary assumptions by appraisers helps reduce liability to the appraiser and has long been established in appraisal and lending practice, including federally related transaction appraisals. We believe it should continue to be recognized in any bifurcated appraisal process.

Further, we understand the GSEs may be considering utilizing third party inspection vendors who may not have certain liability coverage, including Errors and Omissions insurance coverage, for their work. Frankly, the best way to address this issue is through indemnification to the appraiser for the portion of the assignment relating to the inspection. This would remove most liability concerns altogether and help promote acceptance of this proposed process.

Absent this, we believe inspectors envisioned under the program should be held to the same standard as appraisers in having to stand and defend their work through such measures as carrying Errors and Omissions (E&O) insurance coverage. Some might say that the Seller/Servicer Guides do not require appraisers to carry E&O insurance. However, this overlooks that E&O coverage has been a de facto loan seller requirement for several decades now. It is a well known fact in the industry that an appraiser cannot get work from any lender if the appraiser does not carry E&O insurance.

Using alternative workforces to complete inspections is another concern, when viable appraiser-related alternatives are readily available. Appraiser trainees are a good example of this. They need to be envisioned as one potential source for inspections, however, lender/loan seller policies continue to stand in the way of their use. While the GSEs have tried to clarify their policies relative to the allowance for trainee inspections, many loan sellers continue to prohibit this practice today. This could be addressed with an altered policy to restrict loan purchases from loan sellers who prohibit trainee inspections.

I say this, acknowledging there are opportunities for some appraisers within this proposed bifurcated process. Specifically, such a gap product may be a viable substitute to alternative valuation services commonly found in the marketplace in such areas as portfolio monitoring and asset management. From a risk mitigation and

consumer protection perspective, it is critical that a bifurcated process be used sparingly, not as the typical standard. There may be other efficiencies beneficial to appraisers, and we look forward to trying to resolve these and other issues with the GSEs and FHFA.

TRID Constraints
As we discussed above, technology in appraisal is usually driven by one factor alone – to reduce turnaround times. Today, the mortgage industry is adopting technology at a rapid pace. We live in a world of instantaneous loan approvals, and the mortgage and real estate industries are under intense regulatory pressure to comply with federal bank and consumer laws, increasing pressure on the closing process. Tight constraints around the Loan Estimate and Close Disclosure forms relating to appraisal exacerbate these issues, and sometimes inhibit the appraisal process itself.

In particular, the new TRID rules place unreasonable constraints around appraisal service fees we believe should be modified by Congress. Under the final TRID rules, appraisals are no longer in a 10 percent tolerance bucket, and only if a valid changed circumstance occurs can the cost of an appraisal to the borrower exceed what was disclosed on the Loan Estimate. Appraisers are asked to bid on assignments without understanding the complexity of the assignment. The problem with this is that it is difficult to understand the complexity of the assignment from a desktop. It is much like asking an architect to develop an architectural plan for a house without seeing the land.

Every appraisal assignment is different. There are, of course, acceptable ranges of scope of work and associated fees, but we believe it is unreasonable to ask appraisers to bid on an assignment sight-unseen. We recommend Congress reevaluate this requirement relative to appraisal costs.

Question 4: How diverse is the appraisal industry and what is being done to promote diversity in the industry?

We publish a fact sheet on the appraisal profession that contains broad demographic information in the United States. I am including with this testimony.

The Appraisal Institute maintains an Education and Relief Foundation (AIERF). For more than 50 years, the Appraisal Institute Education and Relief Foundation (AIERF) fostered the advancement of the real estate appraisal profession and played a critical role in supporting valuation education. AIERF supported a vast range of initiatives, from world-renowned resources such as the Y.T. and Louise Lee Lum Library, to programs that will help secure the future of the valuation industry, including research grants and scholarships. The AIERF Minorities and Women AI Course Scholarship is designed to provide financial assistance to help Candidates for Designation in advanced designation states achieve their designation. The AIERF Minorities and Women Education Scholarship is awarded to minority and women undergraduate students pursing academic degrees in real estate appraisal or related fields.

The Appraisal Institute also maintains a Minority and Women Directory in the Appraisal Institute's Find an Appraiser function. The Minorities and Women Directory is a search tool for local, state, and federal agencies and financial institutions that would like to, or are required to, assign a portion of their work to qualifying minorities, women and persons with disabilities. Designated members and Candidates for Designation of the Appraisal Institute can add themselves to this directory for increased visibility.

The Appraisal Institute also continuously undertakes professional recruitment efforts, including a release last month that highlighted professional career opportunities, including our involvement with the "Careers Building Communities" initiative with leading national real estate organizations. The corresponding website to this initiative allows visitors to navigate through the scores of career paths across all sectors of real estate. The Appraisal Institute's section of the website outlines why students and others should consider a career as an appraiser. The website is a collaboration of 29 real estate industry organizations, representing more than 10 million jobs, that focuses on raising awareness and attracting diverse talent to the industry.

Beyond this, a representative from the Appraisal Institute recently participated in a workshop in Baltimore, Maryland hosted by Fannie Mae and the National Urban League promoting the appraisal profession to minority

communities. Both residential and commercial appraisal practices were discussed and highlighted. We understand this event resulted in the Appraisal Institute representative hiring an attendee as an appraisal trainee with his firm.

Question 5: Why are we seeing an undervaluation of properties in minority communities and what can Congress do to ensure that appraisal methodologies are not resulting in unfair valuations?

This question is complex and weighty, and the issues stretch well beyond appraisal.

Let me start by saying that appraisers report what is occurring in the marketplace. Appraisers do not make the market but reflect buyer and seller behavior in real estate. Appraisers do not evaluate individuals or borrowers; rather, they analyze the property markets. Appraisers work under various definitions, including a definition of "market value." Simply stated, market value is market value in the eyes of professional appraiser. Essentially, market value means, if you place a sign in the yard, what should the property sell for?

Our ethics requirements, which are enforced as law at the state level, require appraisers to perform their work with impartiality, objectivity and independence and without bias. Appraisers also must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.[1] These ethics requirements have a long and vast history, and they have grown stronger since our profession was established almost a century ago. This theme is and has been strongly emphasized in appraisal education and the body of knowledge of the Appraisal Institute

A vast amount of research has been done on fair housing and housing development. Many have commented on how our mortgage finance system was developed and maintained to support liquidity of suburban housing stock, and how it may have neglected urban and rural areas. These are discussions well beyond the realm of appraisal.

Access to credit and mortgage financing is a subset of, or related to, the fair housing issue, and there is a discussion to be had on how appraisal interacts with mortgage lending and underwriting today. Mortgage lending practice is governed by a set of rules established by the secondary market and government agencies. These guidelines are often interpreted by lender underwriters and reviewers as "rules" to be enforced relative to the appraisal process. As a result – whether we are discussing inactive or limited markets, urban or rural markets, or new markets, such as "green" or energy efficiency valuation – we often hear that appraisers feel hamstrung by these guidelines or de facto rules.

This has resulted in a situation where nobody "owns" the problem. Appraisers will say they cannot go outside of a neighborhood to evaluate comparable sales to avoid being second guessed by underwriters. Such practice flies in the face of what we teach: that sales comps should come from the market area, which may or may not be the same as the neighborhood. AMCs and reviewers will say that the guidelines require the appraiser to demonstrate market reaction, and this is read to mean, "no sale/comp = no value." Meaning, the appraiser is asked to find comparable sales that simply do not exist because of inactivity in that market. Further, the secondary market and agencies will say, the problem is beyond their mission or scope.

We see an opportunity to make lender/underwriter guidelines fewer rules oriented and more flexible about the appraisal review process. Lender/underwriter guidelines need to stay out of the "how to do an appraisal" arena and defer to the appraisal profession's body of knowledge on appraisal practice matters. While the sale comparison approach in appraisal is likely the most reliable approach used in an owner-occupied housing scenario, it is not the only approach that should be accepted by lenders and underwriters. In an absence of comparable sales, cost and income techniques can be helpful in supporting adjustments in the sales comparison approach. This should be affirmed throughout all of mortgage guidelines.

Our members also report positive experiences in dealing with credit enhancement programs such as those established in Detroit in recent years and recently announced in St. Louis. These "Greenlining" funds provide

[1] USPAP 2018-2019, page 7, The Appraisal Foundation

secondary forms of financing – essentially a second line of consumer credit – based on a range of factors, and placed on top of the first note, which relies on the market value of the subject property. This program may be very helpful in generating market activity, which can then be used by appraisers as subsequent or future comparable sales in the market. Many of these markets are challenged due to lacking sales activity.

The idea of a Greenlining Fund may be a way to help this process move forward.

Pending Legislation

There are two bills before today's hearing we have been asked to provide comments on. One bill, introduced by Rep. Brad Sherman (H.R. 2852), involves FHA appraisals, while the other – a discussion draft - relates to registry fees established by the Appraisal Subcommittee.

The Rep. Sherman bill would allow licensed appraisers to do FHA appraisals. We support this bill because it addresses long-standing concerns about the implementation of pre-existing FHA appraisal requirements, which are unique and differ from those of the GSEs and the conventional market. As background, the HERA Act of 2008 last amended the FHA requirements, and it required that state certified appraisers or those certified by a nationally recognized appraisal organization be eligible for the FHA Appraisal Roster. We supported the intent of the HERA Act because FHA was ramping up efforts to capture more market share in the mortgage market. At one point, FHA represented less than half of the lending market; now, it exceeds 25 percent by some estimates. Leading up to this, the requirements for FHA Appraisers had been continuously watered down by the agency, first, an exam requirement was eliminated, and then an education requirement was removed. The HERA Act attempted to raise the bar to help protect the FHA Insurance Fund by elevating the FHA appraiser requirements to state certification and those who have demonstrated verifiable education on FHA appraisal requirements.

The implementation of the HERA Act is what has been at issue over the decade. Some creative lawyering by the agency has avoided implementation of the verifiable education provision, accepting the requirements for state certification for the FHA appraisal requirements. The problem is that the state certification requirements do not cover the FHA appraisal requirements.

We believe if the FHA is going to maintain a separate set of requirements for FHA appraisals that appraisers should demonstrate understanding of those requirements. Taking a course in FHA appraisals is not an unreasonable burden and far exceeds self-attestation by the appraiser, which is essentially all that is required today by the FHA.

A similar bill has been introduced in the Senate by Senators John Thune and Jon Tester (S. 1722). It covers the same issue but does not apply the verifiable education requirement to all FHA appraisers. We support the spirit of this bill too and we understand discussions have taken place to resolve differences. We believe it would be more meaningful to apply these requirements to all FHA appraisers; those who have taken a previous seminar on the FHA appraisal requirements would satisfy the provision, and if some time were needed for implementation, we suggest one certification renewal cycle could be given to appraisers and the FHA.

The second bill (a discussion draft) relates to registry fees established by the Appraisal Subcommittee. The Dodd Frank Act authorized the Appraisal Subcommittee to establish a Registry for Appraisal Management Companies with a corresponding fee based on the number of appraisers on AMC approved appraiser lists. The Appraisal Subcommittee finalized the AMC Registry Fee rules in 2017 with a constrained interpretation of the Dodd Frank Act. The result is a fee potentially higher than what was envisioned during the drafting of the Dodd Frank Act. This bill would give the Appraisal Subcommittee authority to establish different formulas for the AMC Registry Fee. It would also allow the registry fees to be used for a broader array of programming, both concepts we can generally support. Last, the bill would allow the Appraisal Subcommittee to include appraisal trainees in the National Registry of Appraisers, charging up to $20 per year for such inclusion. The bill is written flexibly to give the Appraisal Subcommittee wide discretion in establishing a trainee registry fee. In theory, we could argue that the Appraisal Subcommittee could charge $1 for trainee inclusion. We continue to wonder, however, whether any fee should be charged for trainee inclusion in the National Registry, given the need and difficulty in attracting aspiring appraisers in the appraisal profession. We would be pleased to continue discussing this issue with the Committee and the Appraisal Subcommittee to find an appropriate solution.

Finally, this discussion draft also includes a provision that we recommended and strongly support – to mandate full disclosure of AMC and appraisal fees to consumers. This provision would rectify a shortcoming currently found in the new TRID rules and increase consumer awareness around the appraisal process (as explained above).

Additional Legislative Recommendations

As the Committee looks to build upon the two bills above, we urge continued review of these legislative suggestions that we believe would be beneficial to consumers, users of appraisal services, and professional appraisers:

1. Appraisal should be removed from the zero-tolerance bucket under TRID.

2. Establish parameters around rulemaking pursuant to the EGRPRA process. The latest EGRPRA review took several years to complete and resulted in recommendations since ignored. It is not unreasonable to expect rulemakings undertaken by the agencies to follow final recommendations from the EGRPRA review, and we would urge that some parameters be established around this to avoid a perpetual state of change in risk management.

3. Authorize the Appraisal Subcommittee to serve as a "negotiated rulemaking committee" to establish consistent and flexible lender guidelines relating to appraisals that would address issues such as inactive or limited markets where there is an absence of comparable sales. Such a consensus building committee could bring all agencies and stakeholders to the table to develop guidelines with greater consistency and understanding than today. Such guidelines could then be utilized by agencies and enterprises as their own, with deference given to any supplemental requirements that would correspond to their respective missions.

4. We continue to view appraisal regulatory reforms as essential to housing finance reform and helping to reduce red tape for practicing appraisers and users of appraisal services. We have discussed before this Subcommittee in recent years the idea of establishing a nationwide licensing system for appraisers, where appraisers could be afforded "one-stop shopping" for appraiser license application and renewals. Such a system would continue to work with state regulatory agencies, and would in fact, build and enhance their operations. Such a system could help share disciplinary action information from agencies or enterprises with state regulators. It could also help appraisers track continuing education renewal deadlines and help resolve concerns about portability of appraiser education.

   With the proper controls and oversight in place, the Appraisal Subcommittee could be tasked with managing such an assignment in conjunction with the Appraisal Foundation. This would represent a neutral project that would be beneficial to the entire appraisal profession and all its stakeholders. We urge this Committee to consider such an initiative under a more comprehensive appraisal reform measure that might include components of legislation referenced above.

Thank you for the opportunity to be with you today; I would be happy to answer questions that you may have.

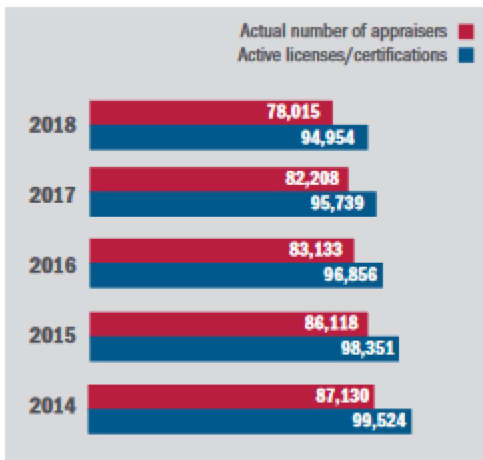
Appraisal Institute®

U.S. VALUATION PROFESSION FACT SHEET Q1 2019

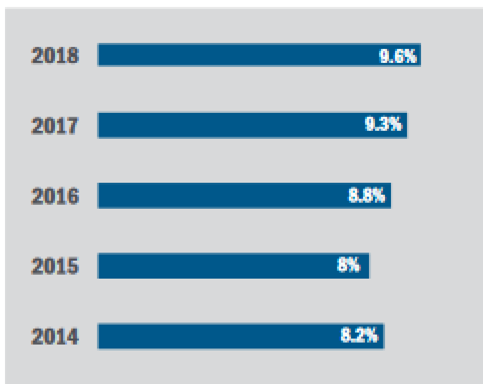
As of Dec. 31, 2018, the number of active real estate appraisers in the U.S. stood at 78,015, a decrease of 5% versus 2017.

The average rate of decrease for the past five years has been approximately 2.6% annually. Broader analysis suggests that declines may continue due to retirements, fewer new people entering the appraisal profession, economic factors, government regulation, and greater use of data analysis technologies.

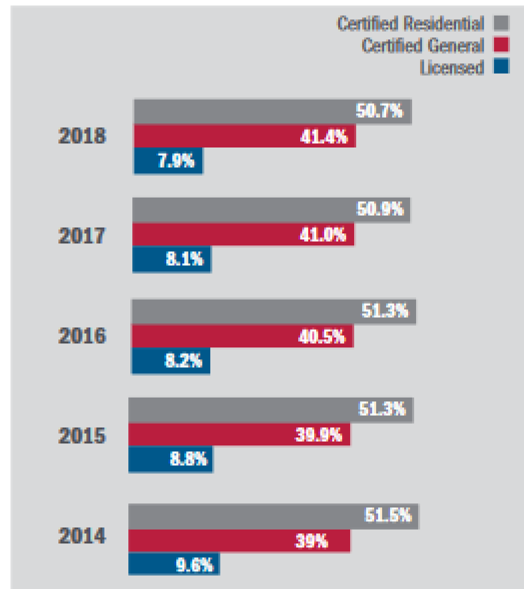
1. TOTAL U.S. APPRAISERS AND NUMBERS OF LICENSES/CERTIFICATIONS



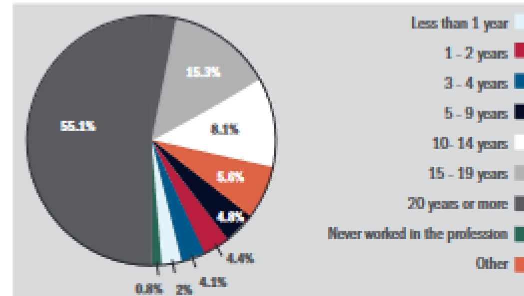
2. APPRAISERS WHO HELD 2 OR MORE LICENSES/ CERTIFICATIONS OUTSIDE THEIR HOME STATE



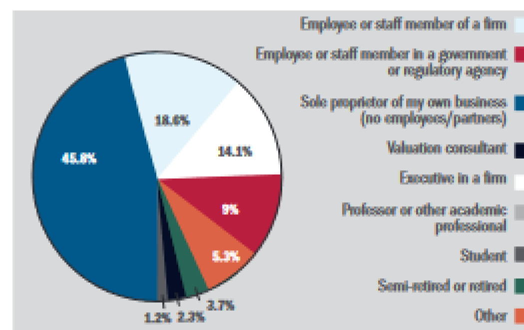
3. PROPORTIONS OF LICENSED AND CERTIFIED APPRAISERS



4. TIME IN VALUATION PROFESSION



5. EMPLOYMENT STATUS



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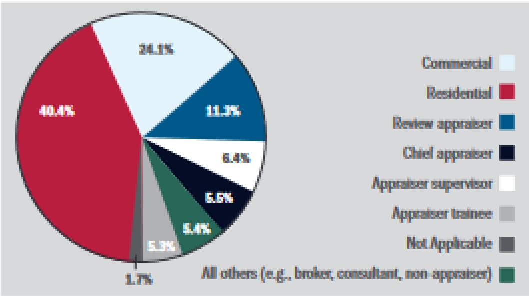
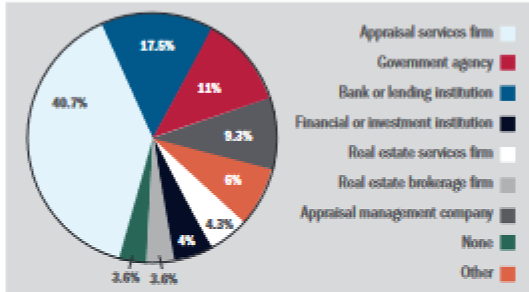
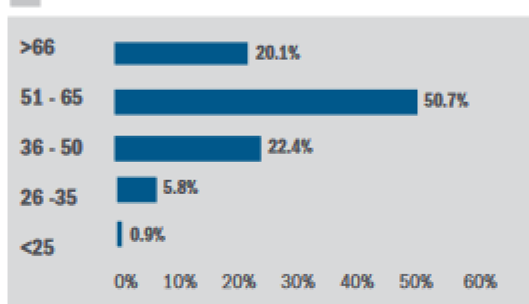
6. PRIMARY JOB FUNCTION



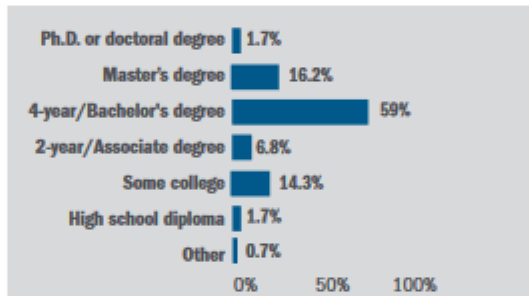
7. TYPE OF COMPANY OR ORGANIZATION



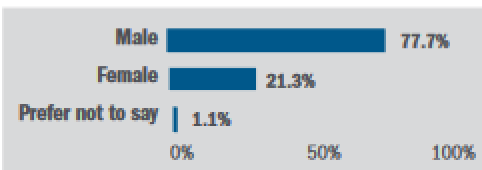
8. AGE



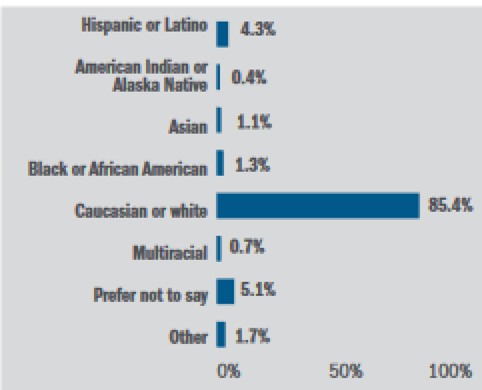
9. EDUCATION LEVEL



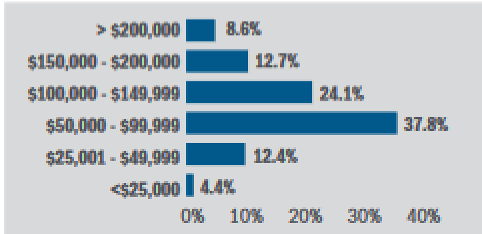
10. GENDER



12. ETHNICITY



12. ANNUAL INCOME



U.S. appraiser population statistics were derived from the ASC National Registry as of Dec. 31, 2018. Additional demographic statistics were derived from Appraisal Institute studies conducted in 2016-2019 that were comprised of randomly selected AI and non-AI real estate valuation professionals. In Q1 2019, the Appraisal Institute invited 15,600 valuation professionals, resulting in 750 responses. This survey's margin of error is approximately +/- 3.56 percentage points at the 95 percent confidence level.

The Appraisal Institute is a global professional association of real estate appraisers, with nearly 18,000 professionals in almost 50 countries throughout the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide.