Testimony presented on behalf of the

Appraisal Institute
American Society of Appraisers
American Society of Farm Managers and Rural Appraisers
National Association of Independent Fee Appraisers

Before the House Financial Services Committee

On

H.R. 1728 The Mortgage Reform and Anti-Predatory Lending Act

Presented by

Jim Amorin, MAI, SRA
President
Appraisal Institute

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Chairman Frank, Representative Bachus and members of the Committee, I am Jim Amorin, MAI, SRA, President of the Appraisal Institute and Vice President of Atrium Real Estate Services in Austin, Texas. Today, I am pleased to represent the Appraisal Institute, American Society of Appraisers, American Society of Farm Managers and Rural Appraisers, and the National Association of Independent Fee Appraisers, the four largest professional appraisal organizations in the United States, representing 30,000 real estate appraisers. I want to thank the other appraisal organizations for their work and support on this testimony. We particularly appreciate the special contributions of the American Society of Appraisers regarding our positions on the appraisal provisions of HR 1728 and on our recommendations for how a few changes to those provisions would further enhance the safety and soundness of mortgage lending and the considerable consumer protections that independent, professional appraisals provide home buyers and homeowners.

Thank you for the opportunity to testify on H.R. 1728 “The Mortgage Reform and Anti-Predatory Lending Act.” The professional appraisal community applauds the work of this Committee and Representatives Miller and Watt on bringing this legislation forward. Mortgage fraud and predatory lending practices have contributed greatly to the near collapse of our mortgage finance system. As this Committee knows, professional real estate appraisers can assist Congress, the Administration and consumers with relevant information regarding the value of collateral and provide the analysis needed for lenders and consumers to make informed decisions regarding real estate investments. Armed with advanced methodologies, professional appraisers today provide real-time information on local real estate markets, which is vital in trying times.

Appraisers provide impartial professional services in mortgage transactions. Our fees are not contingent upon whether loans go through, nor are they based on loan amounts. Independent, competent and qualified appraisers provide crucial safeguards in the process. Their objectivity, experience and ethics help participants in residential and commercial transactions understand the risks inherent in collateral lending. Appraisers should be the trusted advisor in the transaction.

That is what is supposed to happen. We are here to work on restoring integrity to the process, which, too often, has been corrupted by mortgage fraud. The mortgage industry has long suffered structural problems. Much of it, including appraisal, has regulation in place, yet many regulatory gaps still exist today, which invites devious participants to skirt basic safety and soundness requirements. Further, government regulators have been asleep at the switch on matters of oversight and enforcement. Existing rules have not been enforced adequately. Underfunding cripples many government oversight agencies, and structural deficiencies and unwillingness to act contribute to their ineffectiveness. Structural reforms for regulatory regimes must emphasize and strengthen oversight.

It is imperative that we return to the fundamentals of mortgage lending with the focus being on the capacity to repay the loan, credit worthiness of the borrower and underlying collateral value. These are the basic tenents of sound lending practices. Today, inadequate attention is paid to the collateral held in support of a loan. This oversight combined with loose credit policies and poor underwriting produced economic disaster. We no longer can continue to ignore the basics.

Modeled after H.R. 3915 from the last Congress, H.R. 1728 goes further in the area of appraisal reforms and is in many ways a “Back to Basics” bill. We believe this bill will go a long way in restoring confidence in mortgage lending. I will comment primarily on the provisions found in Title VI.

- Interior Observations, broader coverage for appraisal requirements
- Conflicts of Interest, Consumer Protection
- Appraiser Independence
- Registration of Appraisal Management Companies
- Appraisal Subcommittee Amendments
- Technical Issues

Interior Observations of the Property
Title VI of the bill requires that a qualified appraiser conduct a “physical property visit of the interior of the mortgaged property.” Such a requirement to most seems obvious, yet many loans have been made without such an observation and in some cases without even a “drive-by” to confirm that the property was still standing. We

strongly support the intent of this provision and applaud the bill sponsors for its inclusion. This provision, we believe, should be extended to include mortgages beyond the "high cost mortgages" mandated in the bill to all subprime and even conventional loans to provide consumers with information and protection on issues related to valuation.

In addition to an interior observation, the Committee should consider restrictions on alternative valuation methods such as Broker Price Opinions (BPOs) and Automated Valuation Models (computerized models used to calculate an estimate of value) for mortgage origination purposes. Such models may have a role in performing additional due diligence or data confirmation, but should not be the basis of a lending decision. BPOs have the additional complication of being delivered by realty agents who may not be licensed as appraisers, have minimal training and education in appraisal methodology, and also may have an interest in garnering future brokerage business from the BPO client. We believe there is an inherent conflict of interest as well, where an agent's primary role is to facilitate a sale of real property, not objectively develop an opinion of its value.

We note that Freddie Mac recently clarified their policy prohibiting the use of BPOs for mortgage lending purposes. We urge the Committee to do same with regard to all federally related transactions.

Closing Other Loopholes

Lenders are turning to BPOs and away from professional appraisals principally because they appear affordable and they are essentially unregulated. Surprisingly, the federal bank regulatory agencies (with the exception of the NCUA) permit regulated financial institutions to use them (as well as other alternative products) in transactions involving loans of $250,000 or less. This extremely high threshold results in most mortgage loans in the U.S., and virtually all loans in thousands of low to moderate income communities in America, to be potentially based upon alternative valuation products, often from unregulated persons. The banking agencies are mistaken to conclude that BPOs and other products are sufficient to ensure the soundness of the deposit insurance funds. They are playing a dangerous game of roulette with people's homes.

Appraisals – traditionally the "gold standard" for valuing collateral property – cost more than a BPO, but their cost is nominal relative to the advisory and qualitative services provided. This is especially true when compared to other real estate services such as title insurance, filing fees and other miscellaneous fees required to close a loan. Unlike the real estate agents who perform BPOs on a part-time basis, appraisals are performed by full-time valuation professionals who have extensive training and education in valuation (including continuing education). Appraisers have demonstrated their valuation competency by passing a national exam and adhere to generally-accepted uniform valuation standards (USPAP). Professional appraisers are required by federal and state laws and the Ethics Rule of USPAP to be fully independent and objective in reaching their opinions of value. They are regulated by appraiser licensing boards in the 55 jurisdictions that issue licenses and have the ability to revoke those licenses. By contrast, real estate agents providing BPOs have minimal education and training in valuation theory and practice; do not adhere to any uniform valuation standards and are not always independent of the transactions for which their BPOs are provided.

We fail to understand why the federal banking agencies, understanding the many weaknesses of BPOs and the potential conflicts-of-interest involved in their performance, have adopted policies which encourage their use. More shocking, perhaps, is that having made their policy decisions to permit lenders to rely on BPOs, they have taken no action to establish meaningful standards regarding the performance of BPOs.

If a taxpayer wanted to donate real property to a charity and used a real estate agent or broker BPO to establish the value of the donation, the IRS would likely deny the deduction on its face. If the administrator of a deceased's estate used a BPO to value real property estate assets in connection with filing an Estate tax return, that valuation likely would be rejected by the Service. Similarly, BPOs and other valuation products are unacceptable for use in FHA, VA and USDA home loan guaranty programs. This is not an accident or an oversight by these agencies. It is a well thought out, fundamentally sound practice.

Other appropriate actions to address shortcomings in financial regulation include:

- Lowering the threshold (*de mimimis*) above which an appraisal is required.

- Tying the requirement for a mandatory appraisal to the down payment percentage; but also give the mortgagor the option to have an appraisal even if the down payment is sufficient to avoid one.
- Requiring the banking agencies and the FTC to hold a public hearing and make a determination on the hearing record regarding the requirement established by section 603(a)(3) of H.R. 1728 that threshold levels must be determined to provide “Reasonable Protection For Consumers Who Purchase 1-4 Unit Single Family Residences.” Section 603(a) (3) of H.R. 1728 establishes an important new consumer protection requirement relative to the establishment of a de minimis level under which an appraisal will not be required. While we are concerned that the banking agencies will view this consumer protection determination lightly, a requirement that the determination be made based on the record compiled at a public hearing, could change the calculus somewhat. The provision also should require that the hearing be held and the determination made, on a specific time-table. We recommend 270 days after enactment as a reasonable time frame given how consumers have been treated under the current system. Anything longer would perpetuate the status quo for too long. We believe adoption of such a change would be an improvement over current law and policy, and could help to move the banking agencies toward more defined and improved appraisal specific guidance.
- Establishing meaningful anti-conflict of interest mandates and accountability requirements for those performing BPOs.
- Establishing Consumer Protection and Safety and Soundness Standards for AVMs.

Conflicts of Interest, Consumer Protection in Changing Market Conditions

Consumers are facing foreclosure and in many cases bankruptcy, lenders are taking significant losses as neighborhood property values decline. The recent glut of foreclosures in the current market is hurting consumers, lenders, and communities, as housing inventories increase to levels that require severe reductions in price. All of these factors have a wide-ranging effect on decreasing equity, wealth, and delivery of social services.

There are two issues on which we want to raise awareness today – a) Consumer protection during the pre-foreclosure and foreclosure process, and b) Basic due diligence requirements to protect the safety and soundness of financial institutions.

With regard to consumer protection, our members are reporting that foreclosed properties are oftentimes being sold below market value or at firesale prices. There may be several reasons for this, including the fact that financial institutions are not in the property management business, and sales activity is slow and real estate agents are looking to sell properties quickly by listing properties to entice sales. Potential buyers (whether “investors” or new owner-occupants) are aware of the “forced sale” duress financial institutions face and simply wait for the fire sale pricing. Then those price declines prompt examination officers to mandate further non-performing loan asset write-downs by financial institutions, which force more supply into saturated markets, continuing the spiraling price decline. In part, the price decline spiral is exaggerated by the actions of the financial institutions and their examination offices.

It is important to remember that there are basic consumer protection responsibilities that all parties must respect. Lenders have a fiduciary responsibility to obtain the highest value possible on the property to retain whatever equity is left in the house or reduce whatever amount is owed by the consumer to the lender. With many consumers facing judgments by lenders today, this is a serious issue. Selling properties at a fire sale price, as opposed to its market value, exacerbates the financial condition of the consumer and places additional burdens on the banking industry for these potential deficiencies

We are deeply disturbed by conflicts of interest that exist in this space today – most notably, the use of BPOs as alternatives to appraisals in valuing properties in pre-foreclosure situations. While BPOs can legitimately serve the function of helping a seller provide a list price of the property, price is much different than value from the standpoint of economic theory. Further, when issues of value are in question, such as in deeds in lieu of foreclosure and pre-foreclosure analysis, it should be compulsory for lenders to rely on the services of independent, impartial, and highly trained valuation professionals. Instead, many lenders and loan servicers today are relying heavily on BPOs as a replacement for appraisals, even in states that prohibit this activity. According to recent analyses conducted by our organizations, as many as 23 states appear to require licensed or certified appraisers to prepare opinions of value if it’s offered for compensation. States have enacted these laws for good reason –consumers deserve basic protections within the valuation process.

Second, many lenders today are facing severe financial conditions themselves as a result of significant losses in real estate-related financial assets. Bank failures are on the rise, and there is increasing concern about the capital position of many banks and financial institutions. Real estate appraisal regulations require lenders to monitor their portfolios to ensure safety and soundness, and this includes requirements regarding the valuation of these assets. Further, these valuations are important because the assets are reported to investors as part of financial reporting requirements. Appraisals are required in certain situations in accordance to FIRREA, but often exempted in other valuation scenarios. These exemptions should be openly reexamined to determine if the public trust is truly being served.

One of the exemptions that is receiving a lot of activity in recent months is the exemption that allows the use of so-called "evaluations" in refinancing and renewals. This exemption is permitted under current rules so long as there are no material changes in market conditions or no new monies conveyed. Recently, the Obama Administration released guidelines to conduct loan modification under the Home Affordable Modification program, and we were shocked to see heavy reliance on BPOs and Automated Valuation Models instead of appraisals in the guidelines. Our concern is that there are clearly material changes in market conditions in many parts of the country today and that basic transparency, safety and soundness, and investor protection deserve accurate information relating to the value of these assets. We strongly believe the best way to attain this protection is through the use of highly qualified real estate appraisers. Additionally, we are concerned that the bank regulatory agencies have not provided clear definition to what constitutes "material changes in market conditions." In our view, the circumstances in the market today constitute material changes in market conditions, yet we do not believe the federal bank regulators have defined this term to date in their regulations or guidelines and some, to our astonishment, may be claiming there are no material changes occurring today by allowing this exemption to go unchecked.

To address these problems, we recommend two additional actions be taken by this Committee: 1) Require federal bank regulators to provide definition to "material changes in market conditions" that would include several components, including increases in unemployment, higher vacancy rates, and other economic indicators clearly providing evidence of economic decline; and 2) Require that all loan renewals and refinancings be appraised where there have been material changes in market conditions.

Appraiser Independence

A recent report by the Mortgage Asset Research Institute states that "reported mortgage fraud is more prevalent now than in the heyday of the origination boom."[2] Unfortunately, this report cites "Appraisal/Valuation" issues as the third most prevalent type of mortgage fraud. Our organizations believe that a majority of the issues related to appraisal/valuation arise when a party who has a vested interest in seeing that a particular mortgage transaction closes is the same party that is managing the appraisal ordering process. In many cases, appraisers are ordered or severely pressured to doctor their reports and to convey a particular, higher value for a property, or else never see work from those parties again. This is a terrible conflict of interest. While our members are confronted with systemic coercion on a regular basis and reject it outright, too often state licensed and certified appraisers are forced into making a "Hobson's Choice."

Congress took a huge step forward on this issue in 2008 with the passage of H.R. 3221, the Housing and Economic Recovery Act of 2008 (HERA). Title V of HERA enacted the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) which requires all states to enact new mortgage loan originator licensing requirements within two years. Based upon this requirement, the Conference of State Bank Supervisors (CSBS) developed excellent model state legislation, which includes a provision that prohibits mortgage loan originators from making any payment, threat, or promise to any person for the purposes of influencing the value that is reported in conjunction with an appraisal for a mortgage loan. To date, language similar to that included in the CSBS model has been enacted into law in 25 states[3]. Legislation that would enact similar requirements is

[2] Denise James, Jennifer Butts, Michelle Donahue, "

[3] AK, AR, AZ, CA, CO, CT, DC, ID, IN, IA, KS, KY, MI, MN, MS, MO, NM, NY, NC, ND, OH, SD, UT, WA, WV – More information, including links to the statutory language is available on the Appraisal Institute's website at http://www.appraisalinstitute.org/newsadvocacy/stateissues.aspx

currently pending in 24 additional states[4]. We strongly support these state laws and the pending legislation. In fact, we would like to see these appraiser independence laws expanded to prohibit any person, not just mortgage loan originators, from attempting to improperly influence an appraiser. Violators of state appraiser independence laws risk suspension or revocation of their license, as well as potential civil action, and in some states, criminal enforcement with the possibility of a prison sentence.

While these are all excellent state laws, they are only as good as their enforcement. Fortunately, Attorneys General in several states have taken action to ensure the independence of appraisers in the real estate valuation process. In June, 2007 former Ohio Attorney General Marc Dann initiated complaints against ten mortgage brokerage firms and lenders alleging inappropriate influence on appraisers[5]. Many of these complaints have been settled, and have resulted in license revocations, surrenders, lengthy suspensions, and hefty fines. But action by Congress can ensure even enforcement in all states and jurisdictions.

Further, New York's Attorney General conducted a broad investigation of mortgage fraud and acted on its findings. That investigation led to an agreement with Fannie Mae and Freddie Mac and a commitment to protect the independence of appraisers in the mortgage loan process. We encourage additional state attorneys general to take swift and certain action against any party that improperly influences an appraiser, with severe civil and criminal penalties.

We also applaud the Federal Reserve Board's adoption of a new version of Regulation Z that will make it a violation of the Truth in Lending Act for a creditor or mortgage broker to coerce, influence, or otherwise encourage an appraiser to misstate an appraisal in connection with a mortgage loan.

Lastly, we note that the federal bank regulatory agencies have proposed a new version of the Interagency Appraisal and Evaluation Guidelines which reemphasizes the importance of the independence of an institution's appraisal and evaluation program from influence by the loan production process or borrower. The new rules will become effective on October 1, 2009.

Our organizations strongly support Section 602 of H.R. 1728, as proposed, which will amend the Truth in Lending Act to make it an unfair and deceptive practice, with significant civil penalties, for any person to inappropriately influence the outcome of an appraisal in conjunction with a mortgage loan. We further support provisions that would grant authority to the Appraisal Subcommittee to audit state appraiser independence laws to ensure that they are being adequately enforced.

Registration of Appraisal Management Companies

Appraisal management companies (AMC) are business entities that administer networks of independent appraisers to procure real estate appraisal assignments on behalf of lenders. AMCs are third-party brokers of appraisal services that sit between banks and other mortgage originators and licensed or certified appraisers who perform real estate appraisals. The AMC recruits appraisers, reviews their qualifications, verifies licensure, negotiates fees and establishes service level expectations with a network of third-party appraisers. The AMC is also responsible for many tasks associated with the collateral valuation process, including appraisal review, quality control, market value dispute resolution, warranty administration, and record retention. However, many reviews conducted by AMCs are performed by individuals who are not professional appraisers and who do not hold state appraiser certifications and licenses. Upon the completion of an appraisal by the appraiser, the appraisal management company is responsible for forwarding the appraisal report to the lender.

While appraisal management companies have been in existence for many years, the industry has experienced rapid growth as a result of outsourcing by financial institutions and the perceived need for an independent third-party in the appraisal ordering process to ensure that an appraiser is not subject to outside coercion or influence. Further, the implementation of the Home Valuation Code of Conduct (HVCC) on May 1, 2009 could result in a much larger role for AMCs in the collateral valuation process, an unintended consequence that could have chilling effect on the independent appraisal process.

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[4] AL, CT, FL, HI, IL, IN, LA, ME, MA, MO, NE, NV, NH, NJ, NY, NC, OK, OR, RI, SC, TN, TX, VT, and WV

[5] http://www.ag.state.oh.us/press/07/06/070607/LIST_OF_TARGETS.pdf

The advent of the appraisal management industry has resulted in serious problems. The issue of biggest concern to appraisers is AMCs that take an exorbitant percentage of the fee paid to the lender by the borrower for the appraisal as an "appraisal management fee". The current business model used by many AMCs involves a "cramdown" of appraisal fees to boost profits. Compounding this problem is that the borrower often pays a full appraisal fee and expects (and deserves) to have a competent and qualified appraiser performing the valuation analysis. With the AMC keeping more the half the appraisal fee in most cases, the quality of the appraisal suffers as the inexperienced and less competent appraisers are the only ones who will work for fees that do not allow for ample time to develop a credible appraisal.

In addition, we are aware of at least three instances where appraisers who have lost their licenses to revocation have formed or are major operators in AMCs, outside the oversight of a state appraisal regulatory agency. These are just a few of the problems that independent appraisers are facing from appraisal management companies.

Our organizations have attempted to address this gap in regulation by developing a model bill state law to register AMCs with state appraisal boards late last year. To date, three states – Utah, Arkansas, and New Mexico – have enacted requirements for state registration based largely on this model bill, and many other states are considering similar legislation. We strongly support the inclusion of language in HR 1728 that would require that states adopt registration requirements for AMCs operating in their states within three years. Our organizations have jointly developed model legislation on this topic. As noted, to date, AMC registration laws have been in enacted in three states – Arkansas, New Mexico and Utah. Additional legislation is currently pending, or will be introduced in the near future, in thirteen additional states. But more can certainly be done to effect a positive change.

HUD Mortgagee Letter 97-46—AMCs

The disclosure of appraisal fees and AMCs has been the subject of HUD Mortgagee Letters, 97-22 and 97-46. The issue revolves around the disclosure of the appraisal fee and how much is allocated to the appraiser that completed the assignment and the fee apportioned to the AMC for the services rendered in ordering and delivering the appraisal. ML 97-22 directed that "lenders utilizing management firms that secure the appraisal on behalf of the lender may only charge the mortgagor the actual amount paid to and received by the appraiser…" This set the stage for a distinction between the fee an AMC would charge and collect and the fee that an appraiser would receive. Later however, HUD re-addressed this issue in ML 97-46 wherein it states "the Department [HUD/FHA] will allow the mortgagor to pay a fee for the appraisal which may encompass fees for services performed by an appraisal management firm as well as fees for the appraisal itself. However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed."

This directive necessarily and irresponsibly restricts the fee paid to the appraiser to a fee below, perhaps significantly below, the customary and reasonable fee for that market area. At a minimum, fairness and transparency would require that fees for different services (appraisal vs. management) be separated and reported. Because AMCs are capped and can only charge the customary and reasonable "appraisal fee" for that area, AMCs must compensate the appraiser with a less than customary amount if the AMC is to make any money at all.

We believe Congress should direct HUD to adjust or eliminate the cap on appraisal and service fees for mortgage transactions and correct the irrational characterization of appraisal fees. In addition, HUD should be directed to require proper disclosure and transparency in terms of notifying consumers and mortgagors of the fees charged in a mortgage transaction. Unfortunately, allowing HUD to continue their current policies increases risk because AMCs are reduced to using less qualified appraisers (those that are willing to perform assignments for a fraction of the normal fee) to complete appraisals.

Home Valuation Code of Conduct (HVCC)

Recently, New York Attorney General Andrew Cuomo entered into an agreement with Fannie Mae, Freddie Mac, and the Federal Housing Finance Agency to develop a lender code of conduct relative to appraiser independence in loans sold to Fannie Mae and Freddie Mac. Consistent with the agreement it is likely that AMCs will play a larger role in the delivery of appraisal services and thus the issue of fee disclosure has been raised by many across the country. The same unfortunate circumstance of an artificially adjusted appraisal fee results wherever

AMCs are involved. One remedy for this anomaly is to direct that appraisal fees are clearly disclosed to borrowers and differentiated from management or service fees on all relevant mortgage loan documents.

Appraisal Subcommittee Amendments
We support the provisions in H.R. 1728 that are intended to modernize the effectiveness of the appraiser regulatory structure, authorizing additional oversight authority to the Appraisal Subcommittee in its responsibilities to oversee state appraisal laws. We have long supported additional rule making authority for the ASC as well as authority to make grants and provide incentives to states to improve enforcement of appraisal requirement. Effective discipline is necessary if we are to have a meaningful state certification program for appraisers. We believe Congress should "up the ante" with the ASC and help create a robust and realistic set of regulatory expectations. Further, we believe the Appraisal Subcommittee should be held accountable for its responsibilities and be more transparent with its operations, specifically, by providing details of field audits of state appraiser regulatory agencies, deficiencies found, and actions that were taken to achieve compliance.

The savings and loan crisis of the 1980s inspired FIRREA in 1989, and its Title XI established the current appraisal regulatory structure. Specifically, Title XI created the federal Appraisal Subcommittee to oversee the activities of the state appraisal boards and commissions. Yet, the only real power the Subcommittee has over state appraisal boards is authority to "decertify" a state if it is found to be out of conformance with Title XI. This specific power is called by some the "atomic hammer," because if it were invoked, virtually all mortgage-related lending in that state would cease. Because of its severity, the Appraisal Subcommittee has never used this power, and it likely never will. This is why we support the concept contained in H.R. 1728 that would grant the Appraisal Subcommittee authority to impose interim sanctions and suspensions on the State appraiser certifying and licensing agencies. Such powers include the ability to write rules and regulations, powers currently not granted to the Appraisal Subcommittee.

Technical Issues
The following are a series of technical and methodological issues we would like to discuss with the committee:

- **Appraisal Reviews:** An important issue relative to the relationship between appraisers and Appraisal Management Companies (AMCs) speaks to the integrity of the appraisal reports ordered through AMCs. Oftentimes, AMCs allow individuals who are NOT state licensed or certified to review reports prepared by appraisers who do hold similar credentials. They are often located in another part of the country, therefore lacking any geographic competency about the market area. These non-credentialed individuals exercise or seek to exercise control over the appraiser's opinion or conclusion of value, as well as relevant property and market characteristics' information (such as property condition, supply/demand and trends, etc.).

  In connection with this provision, it is important that the term "appraisal review" be defined in a way which prevents AMCs from avoiding the requirement by labeling what is actually an "appraisal review" (relating to the appraiser's opinion of value), as something else – such as an administrative review or quality control review, acceptance review, or the like. The amendment language below attempts to do that by relying, essentially, on the definition of "Appraisal Review" and the language of Standard 3 found in the Uniform Standards of Professional Appraisal Practice (USPAP):

  Definition: "'Appraisal Review' means the act or process of developing and communicating an opinion about the quality, adequacy or reasonableness of the work of an appraiser (including the appraiser's opinions or conclusions developed in an appraisal assignment, such as value) that was performed as part of an appraisal, appraisal review or appraisal consulting assignment."

- **Multiple Approaches to Value:** The appraisal process traditionally includes three "approaches to value," the Income Approach, the Sales Comparison Approach, and the Cost Approach. USPAP requires consideration of each of the approaches in each assignment, and the approaches that are appropriate, relevant or necessary should be used.

For residential properties, the Sales Comparison Approach is most often used as the Income Approach is primarily for commercial or income producing properties. The Cost Approach is sometimes employed in residential properties as an additional method for developing a value indication.

We have observed a decline in the use of the Cost Approach in single family residential appraisal. This has blurred the notion that there are separate components for improvements and land. In the past, appraisers were required to explain the land value contribution when it exceeded 35 percent of the total value. In the housing bubble it became apparent that the relative improvement value to the overall value had diminished, but this was not observable in appraisals because of the diminished role of the cost approach. We believe this information would be beneficial in the underwriting process, and that consideration of the Cost Approach by the appraiser should be viewed as a "best practice" for appraisers.

- **Consideration of Professional Designations:** Our organizations believe H.R. 1728 should conform with current Fannie Mae competency requirements, which state:

  > *"Professional appraisal designations can be helpful in evaluating an appraiser's qualifications, particularly when the designation is from a nationally recognized organization that has formal experience, education, and ethics requirements that are strongly administered. If lenders consider appraisal designations in their evaluations, they should be familiar with the appraisal organization's specific requirements to ensure that the designation is evaluated appropriately.*
  >
  > *Before using an appraiser's services, lenders should be satisfied that the appraiser has demonstrated the ability to perform quality appraisals. When a new appraisal is required for a mortgage that a lender delivers to us, the lender warrants that the property has been appraised by a state-licensed or state-certified appraiser."*

- **Addition of Agencies to the Appraisal Subcommittee:** In addition to the increased authority for the ASC we commented on earlier, we are in favor of expanding the membership of the agency. Specifically, we suggest the addition of the Veterans Administration, as that department has an important housing program for veterans, and a representative from the Federal Trade Commission Office of Consumer Protection. Other agencies with housing authority or financial interests could include the Federal Housing Finance Agency or the Securities and Exchange Commission for their interest in mortgage backed securities. In addition, we believe the Appraisal Subcommittee and the public would be served well through the establishment of an advisory board consisting of stakeholder organizations (consumer groups, professional appraisal organizations, and real estate finance trade organizations) that could meet on a regular basis, keep apprised of the ASC's activities, and provide input, insight, and resources to resolve identified concerns.

- **GAO Study:** Our organizations support the language in this legislation calling for a GAO study on possible improvements in the appraisal process, the effectiveness of State compliance efforts and the examination of the effectiveness of the existing de minimis. Moreover, we ask the Committee to consider a review of all of the current appraisal exemptions, and that the study seek the assistance of individuals familiar with the appraisal process.

- **Copy of Appraisal:** We support, as a disclosure matter, providing the consumer a copy of the appraisal three days prior to closing and believe this provision could be strengthened by also including a copy of any appraisal, review appraisal, evaluation, or valuation related product used in making the decision to fund the loan.

Thank you for this opportunity to testify, I am pleased to respond to any questions you may have.