NABPOP
National Association of BPO Professionals
6619 North Scottsdale Road
Scottsdale, Arizona 85250

April 3, 2009

Ken Harney
P.O. Box 15281
Chevy Chase, MD 20815

Re: Article BPOs contributing to downward spiral

Dear Mr. Harney:

I am responding to your article "Broker price opinions could be contributing to downward spiral". Although your article is interesting and is certainly attention-grabbing, the article does not appear to be very objective as there is an obvious appraiser bias and some misstated facts. I represent two organizations in the real estate valuation industry, NABPOP and REVAA. We take exception to this article and the next article that you write referencing BPOs, we would implore you to have a more objective approach that includes both sides of the issue. Please feel free to contact me in the future with any questions you may have regarding BPOs and how they relate to the valuation and/or real estate industry.

I represent two organizations. The National Association of BPO Professionals – NABPOP is a non-profit trade association of BPO practitioners. The Real Estate Valuation Advocacy Association – REVAA is comprised of valuation companies that provide Appraisals, BPOs, and automated valuation models AVMs. REVAA contends that there should be wide array of valuation products available to the lending industry to include appraisals, BPOs, and AVMs. NABPOP obviously advocates the utilization of BPOs and agrees with REVAA that the widest variety of valuation products is best for the market. You can think of NABPOP as a smaller version of the National Association of REALTORS – NAR. NABPOP is to the BPO industry what NAR is to the real estate industry. Both REVAA and NABPOP contend that to limit or discredit any valuation product only ends up harming the consumer and the general public.

For clarification purposes, a BPO and an appraisal are two distinctly different valuation products. A BPO is the probable selling PRICE of a house whereas an appraisal is the VALUE of a house. A BPO is forward looking i.e. a prediction whereas an appraisal is historically based – a quote versus statistics. I will address some of the article quotes that we take exception to.

"…BPOs, that substitute for actual appraisals".

First of all, a BPO is not a substitute for an appraisal. When an appraisal is called for, an appraisal is completed by an appraiser. There is a federal law, FIRREA, that requires an appraisal for a new mortgage. Everyone knows that when you buy a house, you have to get an appraisal done and, as far as we know, this practice is followed without exception. There are disclaimers on BPO submission forms that state that the "BPO is NOT an appraisal and if an appraisal is desired to contact a qualified appraiser".

What few people realize is that there is a litany of other reasons to determine the price of a house by a wide array of financial type organizations and this article touches on only a few of the reasons – houses that are in default i.e. short sale, foreclosure, and/or REO. The other reasons are as follows (but not limited to): to review and/or supplement an appraisal, mark to market accounting of real estate portfolios, home equity loans/lines of credit, refinancing, and PMI removal. According to our estimates, there are more than 5 million BPOs performed annually across the country. To remove BPOs from the valuation industry would be disastrous because there simply are not enough appraisers to cover that kind of valuation demand. Appraiser organizations contend that there are enough appraisers because there are currently many appraisers looking for work – a surplus of appraisers. This may be true, but to remove BPOs would remove over 100,000 suppliers and in turn overwhelm the appraisal industry. When there is more work than there are appraisers to do the work, quality would slip because there would be little to no competition to get work, people that are overwhelmed have a tendency to cut corners, appraisers could then charge more, and turnaround time would increase dramatically.

Longer turnaround time would have a negative effect on the liquidity of the credit market that is tied to real estate i.e. banks that lend money for homes need to sell these loans off in order to have more money to lend. When you slow down this process (banks/lenders having to wait significantly longer to get appraisals done), you slow down liquidity. When John and Mary Q Public go to get a loan on their dream home, the bank will have to put them on hold to get the money to loan them. Not only will the public have to wait longer to get loans, they would also have to pay more.

Basic economic principles dictate that having a surplus of workers is good for the overall economy – it helps ensure quality and keeps costs in check. Few will argue that competition is good for the consumer.

One problem is that selling BPOs to value houses violates the law in 23 states, according to appraisal industry leaders.

There is not a federal law that states that an appraisal is required other than FIRREA as stated above. Some states have placed restrictions on the utilization of BPOs, but there are not laws in 23 states that make BPOs illegal – this simply is a false statement or an extreme stretch of the truth (to be nice). The controversy is spurred by the fact that the laws are subject to interpretation and you could look for any kind of language that is limiting and categorize that as “illegal” which it appears the appraiser organizations that oppose BPOs have done.

”…real estate agents who may have minimal or no appraisal training”

Again, BPOs are not replacing appraisals - they are two distinct valuation products and it is a fallacy to imply that the same level of training is needed for both. The above statement is apparently an attempt to discredit the ability of a broker to estimate the selling price of a house. To complete an appraisal, Appraisers rely heavily on the sold prices of houses. These prices are estimated by brokers and then put to market. To imply that a broker can determine a price that goes to market, but can’t determine a price for a BPO is a stretch. To discredit a broker/agent in their ability to estimate a price is essentially discrediting the appraisers that rely on the sold prices that were initially determined by the brokers.

Buyers (or lack of) determine and drive any market. To truly know the buyers' mindset is to truly know the market. This is especially true in the real estate market. A seller can be wishful thinking and put any price that they want on a house, but if it isn't reasonable, nobody will BUY it and there it sits. Even in a market that favors sellers (a seller's market) the overabundance of buyers creates that type of market and the sellers are still responding to the buyers mindset. In any market, sellers need to know what the buyers are willing to pay and sellers determine the sell price based on that. So ask yourself, who is going to best know the mindset of real estate buyers? Appraisers? How many appraisers do you know that go with real estate buyers and look at properties with them? I can't say that I know of any. I can however give you a directory of brokers and agents that spend most of their time with real estate buyers – evaluating, pricing, and advising – giving their opinion.

Furthermore, NABPOP formally trains agents and brokers how to complete accurate and timely BPOs with fundamentally sound valuation techniques. NABPOP also administers a stringent BPO certification process. Additionally, organizations that order the majority of BPOs have a vetting process that ensures only the best brokers can provide BPOs not to mention that these organizations have a QC process that each BPO submission is subjected to before being returned to the lender. Brokers are put through the paces to ensure quality and accuracy between the certification process, the vetting process, and QC processes.

"critics say they may be far off the mark in accuracy - typically coming in below appraised values. That's partly because agents who perform the BPOs may set the value extra low to ensure quicker sales."

In general, to blame realty brokers for contributing to the downward spiral is exactly the same as blaming stock brokers for the stock market crashing. Brokers (real estate and stock) set the selling price at a level that the market will bear. Brokers are market makers. Realty brokers don't deviate from what the market will bear because that is how they are evaluated – that is their job. In a down market (especially a rapidly moving down market) setting a realistic price early in the marketing process will garner the best selling price and yes, it will be lower than the sold price a month ago (and thusly easy to criticize the price is too low). If you set the price too high initially, the market will continue to move below that list price. Once you have reacted to the market moving lower, you then need to set the price lower than what you would have originally had to set to actually get a sale. Additionally, due to the fact that banks want to unload distressed properties as soon as possible, they expect the brokers to set the list price to sell, not to sit on the market in hopes of getting a higher price as the market continues to move lower. Brokers have a fiduciary responsibility to the lender and both the lender and the broker would like to get as high of a sold price as possible, but that notion is quickly trumped by the reality of the market direction.

Furthermore, in any default situation, multiple BPOs are ordered from separate brokers in separate offices. At any step (and there are multiple steps) in the default process multiple BPOs are typically ordered and they are all done by brokers that do not have an interest in the property. To the best of our knowledge, multiple BPOs are ordered, all of whom, are by brokers that do not have an interest in the property. If an asset manager, that orders the BPO, knows that the broker is either listing the property or has a client interested in buying the property, they will not get the BPO from them.

The asset manager takes the multiple BPOs (from the non-involved brokers) and determines a list price which is then handed to the listing broker (who has not done a BPO for the subject property).

This claim that brokers "fix" the price of a BPO is entirely speculative and is quite far off base.

"**typically coming in below appraised values"** Appraisers use historic prices i.e. looking backward. Brokers use forward looking estimates. Think about walking down a hill, when you look forward you will see lower ground, when you look backwards, you see higher ground. This is a down market and of course forward looking prices will be lower than historic prices. Turn the coin over and you could say that appraised values are typically coming in too high.

The Nevada Real Estate Division warned agents that when a real estate salesperson "prepares a BPO for any reason other than listing and selling a property, and receives compensation, they have violated" state law.

The Nevada Real Estate Division did make the above statement in an advisory opinion; however, if you read Nevada statutes, there is no mention at all about BPOs – good, bad, or indifferent. The Nevada RED misspoke about it being against the law, they overstepped their bounds in trying to emulate the law without anything in the statutes, and the person that issued the memo in addition to the "against the law" statements, was removed from the NV Real Estate Division.

National appraisal groups, including the Appraisal Institute, whose members lose revenue when lenders or property owners order BPOs, are up in arms.

Agreed 1,000%. Appraisal groups ARE up in arms. They obviously resent the form of competition that BPOs present and will go to great lengths to protect their territory to include making superficial statements, stretching the truth, and exaggerating facts. These appraiser organizations have written countless numbers of correspondences denouncing BPOs.

We will submit that competition is very healthy and the consumer/public is best served when there is a wider array of competitive valuation products to choose from. There are times that appraisals are absolutely the best choice and there are times when a BPO is the right choice. There are also times when both are ordered. The institutions that order BPOs are very well aware of what BPOs offer and the limitations of BPOs. These institutions also keep a very close eye on the accuracy of each product. The fact that over 5 million BPOs are ordered per year gives a very good indication to the reliability and accuracy of BPOs. If BPOs were as bad as the pundits claim, believe me, the banks and lenders would have nothing to do with them.

A big part of the problem is that there is very little awareness of BPOs. Nowadays, it seems like the only awareness that is being raised about BPOs is negative. REVAA and NABPOP are trying to offset the negativity and thusly a response to your article. We firmly believe that removing BPOs would be detrimental to the real estate industry as well as the public in general. There are a lot of supporters of BPOs; however, Articles like the one you wrote certainly doesn't help.

We respect your position as a journalist and would appeal to you to maybe write another article that is more objective that represents both sides of the issue. If you need any technical input or quotes for future articles, I would be happy to accommodate your needs. You can contact me at 800-767-0743 xt. 300 or via e-mail Michael.Ramer@NABPOP.com

Thank you for your time and consideration.

Sincerely,

Michael Ramer
President
National Association of
Broker Price Opinion Professionals

Michael.Ramer@NABPOP.com
www.NABPOP.org
(800) 767-0743 xt. 300