TESTIMONY OF KAREN MANN

On Behalf Of

THE AMERICAN SOCIETY OF APPRAISERS
and the
NATIONAL ASSOCIATION OF INDEPENDENT FEE APPRAISERS

Before The

Subcommittee On Insurance, Housing And Community Opportunity, Committee On Financial Services, U.S. House of Representatives

June 28, 2012 Hearing On

"Appraisal Oversight: The Regulatory Impact on Consumers and Businesses"

I. Introduction

Chairwoman Biggert, Ranking Member Gutierrez and members of the Subcommittee, my name is Karen Mann and I am the president of Mann & Associates, a residential and commercial real estate appraisal firm, established in 1983, with offices in the San Francisco Bay Area and the California Central Valley. I hold a California Certified General Appraiser credential, a Nevada real estate appraiser license and have earned a Real Property professional appraiser designation from the American Society of Appraisers, on whose behalf I am testifying today. In addition, I am also testifying on behalf of the National Association of Independent Fee Appraisers.[1] I am also a member of two other professional appraisal organizations.

I want to thank the Subcommittee and particularly Congressman Gutierrez, for providing the American Society of Appraisers and the National Association of Independent Fee Appraisers an opportunity to testify at today's important appraisal oversight hearing.

II. Executive Summary Of Testimony

- The current appraisal regulatory structure, tiered across federal and state governments and the private sector, is a dramatic improvement over the "Wild West" environment in which appraisers operated prior to the Savings and Loan Crisis of the 1980's and the enactment of Title XI of FIRREA. Pre-Title XI, appraisers operated without minimum appraiser qualifications, minimum appraisal standards, and patchwork oversight. The regime instituted by Title XI of FIRREA continues to be an effective structure that mirrors similar regulatory approaches which apply to other professions whose members are involved in federal matters, like accountancy; and has been mirrored in legislation designed to regulate mortgage loan originators through the SAFE Act. The appraisal regulatory system we now have provides consumers, government agencies and mortgage market participants with confidence that real estate appraisers meet minimum educational and experience requirements, that appraisals are subject to a set of generally-accepted uniform standards, and that appraisers who fail to meet these requirements will be held accountable by their state appraisal board, as well as by any professional organization which has accredited them.
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- We believe the Appraisal Foundation has been and continues to be an indispensable factor in the growth of the appraisal profession in our country. We reject the view that the Foundation has engaged in "mission creep" or in any other inappropriate activity. We believe that the creation of the Appraisal Practices Board is a natural and necessary adjunct to helping professional appraisers understand and apply the appraisal standards promulgated by the Foundation's Standards Board. It is also important to understand that Foundation decisions involving standards, qualifications and best practices are made in a completely transparent manner with an opportunity provided to all appraisers to comment

[1] ASA and NAIFA each teach, test and credential their members for professional appraisal practice and appraisal review in residential and commercial real property valuation. Additionally, ASA is a multi-disciplinary appraisal organization that teaches, tests and credentials its members for professional appraisal practice and appraisal review in business valuation and in personal property valuation (including machinery and equipment, fine art, antiques, gems and jewelry and the contents of homes and offices).

on proposed actions. Such transparency and the opportunity for all stakeholders to be heard often stands in contrast to the way other organizations make decisions.

- While we believe there is no need for an alternative approach to the current appraisal regulatory regime, we do believe that some improvements could be implemented to bolster the existing regulatory structure's effectiveness. We concur with the findings of the General Accountability Office's January 2012 study regarding the activities and operations of the Appraisal Subcommittee, but we also acknowledge that the Subcommittee has made steady improvements over the last year or two.

- There are several concerns facing professional appraiser which, if left unaddressed, stand to undermine not just the appraisal profession, but the safety and soundness of the residential mortgage lending market and the rights of consumers. These concerns include:
    - The need for the Consumer Financial Protection Bureau, when it issues final appraiser independence regulations, to undo the stunning and completely inappropriate loophole left in the Federal Reserve Board's original Interim Final Rule. That rule allows appraisal management companies to consider the fees they pay appraisers to justify their compliance with Dodd-Frank Act's "customary and reasonable fee" provisions. The Board's Interim Final Rule amounted to a unilateral repeal of the clear language and intent of the Act by regulatory fiat. If the loophole remains in the final rule, the cramdown in appraiser fees it permits will continue to cause the most experienced professional appraisers to leave the residential appraisal market, denying consumers and lenders access to their expertise while forestalling trainee appraisers from obtaining the required apprenticeship hours – likely leading to a severe shortage of available appraisers.

    - Rules to implement many of Dodd-Frank's appraisal provisions have yet to be proposed. While we recognize that the statutory deadlines imposed on some provisions of the Act take precedence, we urge the responsible federal agencies to propose implementing rules as early as possible so appraisers, users of their services and consumers all understand the "rules of the road."

    - In connection with the Consumer Financial Protection Bureau's "Know Before You Owe" mortgage form disclosure initiative, our organizations have urged the Bureau to approve a Good Faith Estimate form and a Settlement form which separate the fee paid to the appraiser from the fee collected by an Appraisal Management Company when the appraisal is ordered through an AMC. Not only would the separate disclosure comport with the Bureau's own efforts to "protect and empower" consumers, but it affords consumers with critical information as to the true cost of appraisals, as well as the available universe of options for hiring an appraiser both in terms of cost and qualifications. In many cases, failure to separately disclose appraisal fees and AMC fees leads consumers to default into using an AMC, which often leads to higher consumer costs while obtaining an appraisal from a less experienced, less geographically competent appraiser – essentially, paying more while receiving less.

- The ever-increasing threshold *de minimus* levels established by the federal banking agencies deny consumers and market participants the significant safety and soundness and consumer protections provided by an appraisal, as opposed to a less expensive but inherently unreliable and far less informative valuation product, like an automated valuation model. We strongly believe that the current threshold levels ($250,000 for a residential loan, $1 million for a commercial loan) should be eliminated or substantially reduced. GAO estimates that 70% of residential mortgages made from 2006 – 2009 were below the threshold. But, in many neighborhoods across the country in today's economy, the $250,000 threshold would exclude virtually 100% of financed residential properties.

III. Relevant Background

In connection with the specific subject matter of today's hearing, I think it is useful to revisit for a brief moment the state of our residential mortgage and mortgage lending markets in the mid-1980s which caused Congress to enact the real estate appraiser licensing provisions of Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). As we all know, FIRREA was Congress's principal response to the S&L crisis of the 1980s, a crisis whose total cost to resolve was $153 billion – the vast majority of which was borne by U.S. taxpayers.[2] According to Congressional studies and virtually all analyses, the banking problems of that period "came primarily from unsound real estate lending." An FDIC analysis concluded that in many cases, prudent underwriting standards were not observed and necessary documents and controls were not put in place. It went on to say that real estate lending "was appraisal driven and was often based on the overly optimistic assumption that property values would continue to rise."

To the extent that faulty and fraudulent appraisals contributed to the losses of the S&L debacle – and they did – the principal cause was the "Wild West" environment in which appraisers operated in that era.[3] While many appraisers were thoughtful, conscientious and did good work, many did not and there is little mystery as to why:

> <u>First</u>, there were no generally-recognized appraiser qualifications that providers of appraisal services had to meet. A relatively small number of residential appraisers held legitimate credentials from a few professional appraisal organizations; some earned illegitimate credentials from diploma mills; and others had no meaningful valuation credentials at all;
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> <u>Second</u>, there were no generally-accepted, uniform appraisal standards that all practitioners were required to observe. Some appraisers operating in that era adopted whatever valuation approaches and methodologies suited the valuation conclusions needed to create the illusion that a real estate loan was adequately collateralized;

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[2] The thrift cleanup was Congress's response to what many have characterized (at least until the subprime and related financial meltdown of the past few years) as the greatest collapse of U.S. financial institutions since the 1930s. The FSLIC and the Resolution Trust Corporation closed 1,043 institutions holding $519 billion in assets and resulted in a massive restructuring of the number of firms in the industry. From January 1, 1986, through year-end 1995, the number of federally insured thrift institutions in the United States declined 50 percent from 3,234 to 1,645.

[3] See, for example, House Committee on Government Operations, *Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market*, 99th Cong., 2nd Sess., 1986, H.Rep. 99-981.

Third, there was no effective system of appraiser accountability. At the time Title XI was enacted into law, most states had little or no authority to oversee or sanction appraisers operating in their states; and, with very few exceptions, federal agencies with an interest in reliable valuations had requirements that were ineffectual or ignored; and,

Fourth, there were no effective laws in place either at the state or federal levels that protected appraisers from the enormous pressures on them at that time, to reach a pre-determined fair market value.

The enactment of Title XI and the regulatory framework it established for federally-related transactions changed all that; and, together with the important appraisal reform provisions of the Dodd-Frank Act, changed things in a way that ensures the competence and independence of appraisers; effectively safeguards taxpayer interests; and provides consumers with critical and independent information on the fair market value of property collateralizing the most important financial transaction they will ever enter into – their mortgage loans.

Notwithstanding the giant leap forward which Title XI represents, it is not the position of the American Society of Appraisers and the National Association of Independent Fee Appraisers that every real estate appraisal performed today is flawless or that the current appraisal regulatory system – including its several component parts – is perfect and cannot be improved. It can be improved and should be. However, it is our unequivocal view that the overall competence and independence of our nation's 100,000 plus real estate appraisers are dramatically better than before Title XI's enactment; and, that the current regulatory framework – which is financed by the appraisal profession – is fundamentally sound and very much a success story that benefits taxpayers and consumers.

IV. Responses To The Issues Raised In The Subcommittee's June 22nd Letter Of Invitation

We believe that the issues raised in the first two bullet points of the Subcommittee's letter of invitation are interrelated. Accordingly, our response treats them together:

- **"Views regarding the federal role in appraisal regulation" and "Options for improving the appraisal regulatory structure, including alternative systems of oversight that would improve efficiency and reduce duplicative regulations in the real estate appraisal industry" –**

  We believe that the federal role in appraisal regulation is indispensible since the mortgage markets are national in scope and since it is federally-related transactions and federal taxpayer dollars which the appraisal regulatory system is designed to protect. While we agree that some components of the tripartite appraisal regulatory structure can and should be improved, we regard the overall framework as fundamentally sound.

  While some have described the appraisal regulatory framework as byzantine or convoluted, we strongly disagree and think it is long past time to address this misconception. The division of responsibility involving the federal government, state governments and the private sector is straightforward, sensible and, in fact, similar to regulatory arrangements involving other professionals, such as accountants, who often play important roles in federally-related transactions. Under the Title XI structure:

The 50 states and territories have exclusive responsibility for licensing real estate appraisers and for disciplining them if their performance is unprofessional or unethical, including the loss or suspension of their license to practice;

The federal government, principally through the Appraisal Subcommittee (ASC), is responsible for overseeing state appraiser licensing systems to ensure that they meet minimum "safety and soundness" and effectiveness standards and that the appraisers they license are competent and independent when their appraisals involve federal financial interests. Federally agencies, whose regulatory or administrative responsibilities include oversight of collateral valuations (such as the banking agencies; HUD; IRS in relation to tax-related valuations; and the SEC in connection with mortgage-backed securities), sometimes and appropriately establish additional valuation requirements they believe are necessary to carry out their missions. But even agencies which add appraisal requirements still rely on Title XI to ensure real estate appraiser competence and independence;

The private sector, principally The Appraisal Foundation (TAF), promulgates generally-accepted appraisal standards (i.e., the Uniform Standards of Professional Appraisal Practice or USPAP) and minimum education, experience and testing qualification requirements for appraisers whose valuations involve federally-related transactions. States are able to establish requirements which exceed those of TAF. Additionally, private professional appraisal organizations, such as ASA and NAIFA, are able to establish educational, testing and experience requirements which exceed those of TAF or state licensing entities for individuals who wish to earn a professional appraiser designation from them.

The structure described above for appraisers is not dissimilar to the regulatory structures of other professions that interact with government, such as accountancy. Accountants are licensed and/or certified by state boards of accountancy and are subject to discipline by them (similar to the role of state appraiser boards). The Financial Accounting Standards Board (FASB) is the designated private sector organization for establishing standards of financial accounting that govern the preparation of financial reports and its standards are officially recognized by the SEC and other federal agencies (similar to the role of the Appraisal Foundation's boards whose work is recognized by federal agencies). While the federal government does not maintain a body to oversee the activities of the state accountancy boards (in the same way the Appraisal Subcommittee oversees state appraiser licensing agencies), the Securities and Exchange Commission and the Public Company Accounting Oversight Board exercise a form of indirect authority over the state boards of accountancy. It is also worth noting that the SAFE Mortgage Licensing Act of 2008 (which licenses and registers individuals who engage in the business of residential mortgage loan originations for federally-regulated financial institutions) established an organizational structure that is roughly comparable to the Title XI system for appraisers.

In short, the overall regulatory structure which exists for the appraisers (i.e., state licensure; federal oversight; and, reliance on an independent, non-profit private sector entity to establish professional standards and qualifications) is neither novel nor even unusual. We are convinced that it is a tried and true structure that works well.

Accordingly (and in direct response to the Subcommittee's question), the American Society of Appraisers and the National Association of Independent Fee Appraisers do not believe there are any realistic "options for improving the overall appraisal regulatory structure, including alternative systems of oversight that would improve efficiency and reduce duplicative regulations in the real estate appraisal industry." More importantly, we do not believe any alternative structures are necessary or desirable.

Nevertheless, we believe that individual components of the current system should be strengthened so that they operate more effectively. Specifically, we concur with the findings and recommendations of the General Accountability Office (GAO) in its January 2012 report regarding the need for additional resources and greater efficiency relative to the operations and activities of the Appraisal Subcommittee.[4] While the Subcommittee faces significant future challenges in connection with its additional Dodd-Frank responsibilities, we want to acknowledge our belief that it has substantially improved its effectiveness over the past two years.

- **"Concerns facing real estate appraisers" –**

There are several major areas of concern facing the real estate appraiser profession. They range from very important to critical, as follows:

(1) CUSTOMARY AND REASONABLE FEES – The Federal Reserve Board's Interim Final Rule on Dodd-Frank's "Customary and Reasonable" Appraiser Fee Provision Violates Congressional Intent and the Clear Language of the Statute: While our organizations found many of the Federal Reserve Board's proposed regulations implementing the appraiser independence provisions of Dodd-Frank to be faithful to the letter and intent of the statute – particularly those that prohibit pressure on appraisers – we were stunned by the manner in which the Board proposed to implement the law's "customary and reasonable" appraiser fee provisions. By permitting Appraisal Management Companies to factor the compensation they pay appraisers into the calculation of what constitutes "customary and reasonable" fees under Dodd-Frank (which the Fed's Interim Rule commentary says they can do), the Board turned Congressional intent on its head. If the Consumer Financial Protection Bureau (CFPB), which now has jurisdiction over the Interim Rule, allows it to become final with the Fed loophole intact, the agencies will have effectively repealed the law by unilateral, regulatory fiat.

[4] *Real Estate Appraisals: Appraisal Subcommittee Needs to Improve Monitoring Procedures,* GAO-12-147, January 2012.

The "customary and reasonable" fee provision was included in Dodd-Frank in recognition of, and in response to, the practice of many of the largest AMCs to cramdown fees that had been customarily paid directly to appraisers by mortgage lenders and other users of their services. The vast majority of appraisal assignments are now ordered by mortgage lenders through AMCs (the estimates range from 60 – 80 percent). The experience of our residential members in the marketplace indicates that AMCs typically take for themselves about 30 - 35 percent of the appraisal fee consumers pay. This means that for a typical residential appraisal assignment for which the appraiser is paid $450.00,[5] the AMC would take between $ 135.00 and $158.00 leaving the appraiser with a fee of between $292.00 and $315.00 – an amount far below what is financially necessary for appraisers with established practices and significant experience to make a living from that book of business.

Given the huge book of business controlled by AMCs, the fee-splitting arrangement between appraisers and AMCs is driving many of the nation's most experienced and competent real estate appraisers out of the market entirely. It is not an exaggeration to say that if the Fed-created loophole is not closed by the CFPB when it issues the final appraiser independence rule, the pool of experienced professional appraisers available to perform residential valuations will shrink to unacceptable levels. If that is allowed to happen, the professional appraisal community will suffer and confidence in our mortgage markets by consumers and secondary market investors will be seriously undermined.

While we acknowledge that AMCs can sometimes make it easier for national and regional mortgage lenders to order and process large numbers of appraisals, our experience is that AMCs do not add meaningful safety and soundness value to appraisals; and, they do not reduce the cost of an appraisal. Indeed, there is evidence that an increasing number of appraisals ordered through AMCs are more costly than those ordered by lenders directly from appraisers or appraisal firms. In today's computer and information technology age, even large lenders can readily meet their appraisal requirements by ordering directly from appraisers in the relevant housing markets.

The cramdown of appraisal fees to well below customary market levels by many AMCs has been disruptive of and deeply troubling to the community of professional residential appraisers. But, it should be equally troubling to consumers because the cram down has caused many of the nation's most experienced and qualified appraisers to refuse AMC assignments. As a result, many of the appraisers willing to accept AMC assignments have less experience, less knowledge of the collateral property's market area and have fewer overall professional credentials than their counterparts who are retained directly by lenders. In short, AMC-ordered appraisals do not save any money for consumers and may in fact cost them more, but in both cases consumers are likely to get the appraisal from the least experienced appraisers in their communities.

(2)IMPLEMENTATION OF REMAINING APPRAISAL REFORM PROVISIONS OF DODD-FRANK: With the important exception of Dodd-Frank's appraiser independence provisions, most of the law's appraisal reform provisions have yet to be proposed, let alone

[5] The Department of Veteran Affairs' appraiser fee schedules demonstrate that a $450 fee for a non-complex single-family appraisal is typical in most areas of the country.

implemented, through rulemaking. These provisions involve enormously important issues including, for example, Property appraisal requirements in connection with extensions of credit; Supervision and registration of Appraisal Management Companies by states and the federal government; Development of quality control standards for Automated Valuation Models (AVMs); Establishment of an appraisal complaint hotline; Establishment of qualification requirement for appraiser trainees; Requiring CFPB concurrence that the banking agencies' existing dollar thresholds for residential and commercial property below which an appraisal is not required ,"provide reasonable protection for consumers who purchase 1-4 unit single-family residences" ; and, the establishment of limits on the permissible use of broker price opinions to value collateral property.

Our organizations recognize that Dodd-Frank imposes significant and far-reaching rulemaking responsibilities on a relatively small number of Executive Branch and regulatory agencies, some of which include statutory deadlines which must take precedence over those which do not. We also appreciate the fact that the agencies are working on drafts of some of these potential rules. Nevertheless, the Act's appraisal provisions are of enormous consequence not only to our members and the entire community of professional appraisers, but also to consumers and, we believe, to the efficient and fair functioning of the nation's collateralized credit markets. Accordingly, we respectfully urge the banking agencies, the Appraisal Subcommittee and the state licensing agencies to propose implementing rules at the earliest possible opportunity for all of Dodd-Frank's appraisal reforms that fall within their areas of responsibility.

(3)<u>SEPARATING THE APPRAISER FEE FROM THE AMC FEE IN MORTGAGE SETTLEMENT DISCLOSURE DOCUMENTS</u>: Given the dominance of AMCs in the appraisal ordering process, we believe consumers are entitled to know who receives the money they pay during the mortgage loan application and underwriting process for an appraisal of the value of the property they are purchasing. Beginning late last year, the Bureau requested comment on its "Know Before You Owe" mortgage disclosure forms initiative. The Bureau requested comment on the success of its efforts to design a new Good Faith Estimate (GFE) form and a mortgage disclosure Settlement form that consolidates, in one place, information about the costs, terms and conditions of a mortgage loan; and, does so in a way that is readily understandable by consumers and the mortgage industry. The CFPB asked whether the different iterations of the forms it was testing in several mortgage markets would provide borrowers with a clear understanding of the final costs, terms and conditions of a mortgage loan; and, allow them to compare these costs, terms and conditions with the information in the Good Faith Estimate provided to them during the loan application and loan settlement process.

Our comments urged the agency to adopt GFE and Settlement forms that disclose to mortgage applicants that when the appraisal of the collateral property is ordered through an AMC, a substantial portion of the appraisal fee shown on both forms does not go to the person who actually performs the appraisal but instead pays for the backroom administrative services of the AMC – a company that is sometimes an affiliate of the mortgage lender making the loan. We pointed out that while there is nothing improper about an appraisal being ordered through an affiliate of the borrower's mortgage lender, this arrangement does represent an undisclosed, even a hidden, consumer payment to that lender. When an AMC is utilized to order the appraisal, we believe that the absence of information on the GFE and settlement forms disclosing this fee splitting arrangement is harmful to consumer interests for two integral reasons:

First, it violates the basic premise of the Bureau's "Know Before You Owe" policy to "protect and empower" consumers in what the CFPB correctly characterizes as "one of the biggest financial decisions a consumer can make"; and, it undermines the agency's objective of making mortgage-related costs "clear at all stages of the mortgage process."

Second, it deprives consumers of important information that would allow them to make informed decisions about the valuation component of the mortgage lending process. Our organizations are concerned that with the rapid increase of lender reliance on AMCs, there has been an accompanying decrease in consumer understanding of the appraisal function, including who is actually performing the appraisal and what it actually costs. When the GFE or settlement forms conflate the appraiser's fee with the AMC's fee, consumer choice relative to the appraisal has been effectively denied – that is, borrowers are deprived of crucial information that would open up options available to them if they understood the possible differences in the range of costs of a professional appraisal as well as the range of qualifications and depth of experience of those likely to be performing them, depending on whether the appraisal is or is not ordered through an AMC.

While the cost of an appraisal ordered through an AMC can be comparable to one ordered by a lender directly from an independent appraiser or appraisal firm, the AMC ordered appraisal can also be more expensive. When lenders contract directly with an independent appraisers or appraisal firm to value collateral property, the backroom administrative costs that are added on by an AMC are avoided and the overall cost to consumers is sometimes reduced. However, if the Good Faith Estimate fails to disclose that the appraisal will be ordered through an AMC and fails to separately identify the portion of the consumer's payment that goes to the AMC, the borrower will have been deprived of essential information bearing on the likely qualification level of the appraiser performing it and, quite possibly, on the cost of the appraisal.

Without a breakout of the appraisal fee from the administrative fee on the disclosure forms, a borrower will have no reason to ask the lender to consider ordering the appraisal directly from an appraiser practicing where the collateral property is located rather than from an AMC – a process that was commonplace prior to the explosive growth of AMCs and the one most likely to produce an appraisal by a highly experienced and skilled appraiser. Without this breakout, borrowers are unknowingly locked into what can be a more costly appraisal process that is overly dependent on less experienced appraisers who are willing to work for fees substantially below what is customarily and reasonably paid to appraisers who are independent of AMCs.

The CFPB is testing various iterations of GFE and Settlement forms in several mortgage markets. Some of those iterations do, in fact, separate the appraiser fee from the AMC fee when the appraisal has been ordered through an AMC; other iterations do not. Our organizations are urging the Bureau to adopt the forms which separate the fees because we strongly believe they benefit consumers and their right to know how their dollars are being spent.

(4) ELIMINATION OF OR SUBSTANTIAL REDUCTION IN THE BANKING AGENCIES THRESHOLDS FOR LOANS ON COLLATERALIZED RESIDENTIAL AND COMMERCIAL PROPERTIES: Section 1473 of Dodd-Frank requires the CFPB to consider whether the banking agencies' existing dollar thresholds for residential property ($250,000) and commercial property ($1 million) "provides reasonable protection for consumers who purchase 1-4 unit single-family residences". Collateralized loans below the thresholds are exempted from the agencies' appraisal requirements. If the Bureau concludes that either or both thresholds do not reasonably protect consumers, then the banking agencies would be required to eliminate or reduce their thresholds, thereby empowering consumers to have appraisals of the fair market value of their purchases.

Our organizations believe that professional appraisers serve critical safety and soundness and consumer protection purposes. We concur with the view expressed by the GAO in its July 2011 "Residential Appraisals" report to the House Financial Services Committee and the Senate Banking Committee that appraisals play "a critical role in mortgage underwriting by providing evidence that the market value of a property is sufficient to help mitigate losses if the borrower is unable to repay the loan." We believe that competent and independent real estate appraisals are as important to the safety and soundness of a collateralized mortgage loan as the creditworthiness of borrowers. We recognize of course that the fair market value of property collateralizing a mortgage loan can move up or down, sometimes at a rapid pace. We also recognize that borrowers – even those with sterling credit scores – can lose their jobs and, with that loss, their creditworthiness. As a consequence, collateral valuations and creditworthiness are both important to the safety and soundness of a mortgage loan. We do not believe that one measure is inherently more or less important than the other. Instead, they complement each other.

Moreover, because professional appraisers are independent of all parties to a real estate transaction (i.e., sellers and lenders) appraisals provide a significant consumer protection function by giving buyers objective information about the fair market value of property they may be purchasing and financing, in relation to comparable properties in the neighborhood.

But, the safety and soundness and consumer protection attributes of appraisals are rendered moot by the ever-increasing threshold levels established by the banking agencies since Title XI's enactment in 1989. Even before the collapse of the residential real estate markets in most parts of the country over the last several years, the residential threshold level of $250,000 established by the banking agencies frequently results in a denial of the protections afforded by appraisals to millions of home buyers. Today, tens of millions of homebuyers are adversely affected by the threshold level, which GAO estimates as covering 70% of all residential mortgage financings between 2006 and 2009. That percentage is likely to be considerably higher in today's depressed mortgage markets; and, in many neighborhoods across the country, it is likely that 100% of residential properties would be covered by the threshold exemption.

Given the substantial safety and soundness and consumer protection benefits which appraisals provide, we strongly believe that the $250,000 threshold levels for collateralized residential loans and the $1 million dollar threshold for commercial loans collateralized by real estate, should be eliminated or, at a minimum, substantially reduced to properly reflect not only current real estate markets but the heightened sense which now exists of the need for much greater consumer protections in mortgage transactions.

V. Issues Relating To The Appraisal Foundation And The Appraisal Subcommittee

Our Organizations Strongly Support the Indispensible Roles Played By the Appraisal Foundation (TAF) and the Federal Appraisal Subcommittee (ASC) In The Continuing Growth Of Appraiser Professionalism and To The Growing Acceptance – By Federal and State Agencies, By the Private Sector and By The Courts - of the Uniform Standards of Professional Appraisal Practice (USPAP) As The Generally-Recognized Standards of the Appraisal Profession: We believe that the appraisal standards and appraiser qualifications promulgated by Boards of The Appraisal Foundation are critical to professional appraisal practice in America. We reject the view expressed by some that TAF has engaged in inappropriate "mission creep" by establishing the Appraisal Practices Board (APB) and that the establishment of the APB infringes on the prerogatives of the professional appraisal organizations. The establishment of the APB for the purpose of drilling down on the meaning of certain USPAP provisions and addressing complex appraisal issues in the marketplace was widely requested; and, we believe serves important functions.

While ASA and NAIFA have active educational programs which teach USPAP <u>and</u> Best Practices to our members, we believe that the APB's best practices guidance is a logical and necessary adjunct to understanding how practitioners should implement USPAP's provisions (which are sometimes general in nature and require more detailed explication of the relevant valuation methods and techniques that should be applied). We also recognize that while the professional appraisal organizations have a vital role to play in contributing to the development of best practices, we are able to accomplish that role both through the voluntary service of our members on the APB and by providing the Board with our comments when it publicly exposes its proposed best practices guidance for stakeholder comment. We also recognize the need for uniformity in best practices so that the nation's real estate appraisers – most of whom do not belong to any professional appraisal organization – will apply the methods and techniques necessary to adhere to the provisions of USPAP, in a uniform and coherent way.

With respect to the Appraisal Subcommittee (ASC), we concur in the findings of GAO relative to the challenges facing the Subcommittee, most of which derive from the important additional responsibilities imposed on the agency by Dodd-Frank. We do believe that the ASC has become a more effective and responsive operation over the past year or two.

The American Society of Appraisers and the National Association of Independent Fee Appraisers greatly appreciate the Subcommittee's investment of time and effort to ensure that Title XI's real estate appraiser licensing system is working effectively on behalf of America's taxpayers and consumers. Thank you again for the opportunity to testify.