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Testimony of:
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Chairman Moore, Ranking Member Biggert, and members of the Subcommittee, thank you for inviting me to testify today. As a real estate appraiser for more than 30 years, I appreciate this opportunity to speak on an important topic critical to restoring confidence in the real estate mortgage industry.

I am chairman of Integra Realty Resources, a commercial appraisal organization, and IRR-Residential, a residential appraisal organization. Between the two, we have over 100 locally owned and operated appraisal firms and more than 1,000 licensed real estate appraisal professionals.

Sound mortgage underwriting includes two separate, but equally important components: first, a borrower's ability to pay, as evidenced by their income and credit score; and second, sufficient value of the real estate to support the loan type, as evidenced by the appraised value.

It should be noted that of all the professionals involved with the mortgage origination process, the appraiser is frequently the only professional that visits the property, implicitly for purposes of providing due diligence for their lender client – inspects the property and makes sure that the property has sufficient value to support the intended loan. Appraisers are licensed and professionally trained in valuing real estate and must meet minimum education and experience standards.

Appraiser separation is particularly important in today's mortgage industry where virtually all mortgage originators sell their mortgage paper into the secondary market and thereby hold minimal long-term loan risk. An independent appraiser makes it much more difficult to initiate mortgage fraud.

An independent appraisal serves as a safeguard for the protection of current and future parties to the loan transaction, including the borrower, the originating lender, the secondary market participant and as we are now seeing - the taxpayer. Any effort to circumvent the independence of the appraised value heightens mortgage risk.

Because of the housing slump and corresponding disruption in the credit markets over the past couple of years there have been a number of initiatives, legislatively and by regulation, increasing the separation between contingent fee real estate mortgage professionals and the appraisal process. We support those efforts.

Congress appropriately restricted this type of influence in FIRREA in 1989, but because mortgage bankers and brokers were not regulated by the FDIC they did not have to provide separation between the appraisal process and the mortgage originator. The Fraud Enforcement and Recovery Act of 2009 has appropriately provided further regulations upon these non traditional bank lenders.

There have been two structural conflicts of interest in the appraisal process: 1) loan originators selecting and regulating the volume of work directed to an appraiser, and 2) real estate mortgage companies providing bundled services, including appraisals, that drive EBITDA, but contingent on successful loan closings. In both cases, emphasis is upon closing loans, not protecting the independence of the appraisal process.

We were disappointed when the final version of the Home Valuation Code of Conduct gave a pass to those companies, lender owned or not, that also provide title insurance and loan closing services. In those cases, the company's ability to receive title and closing fees is contingent upon the loan going forward, which in part is conditioned upon the appraised value process they manage, an inherent conflict of interest.

Valuation products and their providers should be compliant with the state laws in which the property is located. We have concerns about the use of Broker Price Opinions, or BPOs in certain circumstances. There can be potential conflicts of interest, but more importantly, they have not proven to be as reliable when compared to valuation products prepared by independent appraisers. We believe HUD, like Freddie Mac, should continue to disallow BPOs for mortgage origination purposes.

Many lenders are choosing to achieve appraisal independence through the use of intermediary firms, a business model called Appraisal Management Companies, or AMCs. The AMCs receive appraisal orders from the lender and then independently choose the local appraiser to perform the service, providing a separation between the loan origination staff and the appraiser, thereby limiting the ability to influence the appraised value.

We believe it to be an inherent conflict of interest for individuals whose income is fully or partially dependent upon the origination of a loan, to select or interface with the appraiser. More fully stated, we believe the real estate broker, the mortgage broker, the title company or loan origination staff members should not participate nor influence the selection of the appraiser, nor be in a position to influence the outcome of the appraised value.

In closing, we believe it is good public policy to continue efforts that support the independence of the appraisal process. HUD should adopt similar principles to those of the HVCC for FHA and reverse mortgage originations.

We believe such standards need to be in place to protect the integrity of the mortgage origination process. Eventual holders of mortgage loans need to have confidence that the appraised value of the properties at the time the loans were originated were true, independent estimations of value. To do otherwise will increase "perceived risk" which will in turn widen interest rate spreads and ultimately increase the costs to borrowers.