



**STATEMENT OF THE  
NATIONAL ASSOCIATION OF HOME BUILDERS**

**Hearing Entitled:  
*“Appraisal Oversight: The Regulatory Impact on  
Consumers and Businesses”***

**Subcommittee on Insurance, Housing and Community Opportunity  
United States House of Representatives  
Committee on Financial Services**

**June 28, 2012**

The National Association of Home Builders (NAHB) appreciates the opportunity to submit this statement to the Subcommittee on Insurance, Housing and Community Opportunity on *“Appraisal Oversight: The Regulatory Impact on Consumers and Businesses.”* NAHB is a Washington-based trade association representing over 140,00 member firms involved in home building, remodeling, multifamily construction, property management, housing finance, building product manufacturing and other aspects of residential and light commercial construction.

The ongoing stress in the housing and mortgage credit markets has brought greater focus to the importance of accurate appraisals. In response to criticism that lax appraisals contributed to the financial crisis, more restrictive appraisal policies have been implemented by lenders, federal banking regulators, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the United States Department of Agriculture (USDA), and Fannie Mae and Freddie Mac (the Enterprises). However, the pendulum has swung too far, producing a downward bias in the home valuation process. The problem has been exacerbated by improper appraisal practices, a shortage of experienced appraisers and inadequate oversight of the appraisal system.

It is difficult to come to a conclusion other than appraisal standards are not clear, best practices have not been well communicated, and enforcement is not occurring in a consistent manner. For all sectors that interact with appraisers – consumers, home builders, realtors, lenders, the government-sponsored enterprises, mortgage insurers – appraisal quality and appraiser competence remain tremendous challenges. The problem is an urgent one, yet throughout the extended housing recession little attention has been focused on the fundamental problems. Until today. NAHB thanks the Subcommittee for this hearing, hopefully the first of many, which will explore the impact of inaccurate appraisals on the flow of mortgage credit and the housing recovery.

## Background

Appraisals remain a major problem for the housing industry. The process has gone seriously wrong due to a breakdown in appraiser education and qualifications as well as dysfunctional federal and state regulatory oversight and enforcement. Other challenges facing the appraisal industry include shortcomings in appraiser training and experience in dealing with new construction and green building. Additionally there is insufficient new construction, energy efficient and green building data available to appraisers and current valuation practices do not provide a process for expedited appeals of inaccurate or faulty appraisals.

Too often, due to faulty appraisal practices, the builder's house winds up with an appraised value less than the cost of construction. In an NAHB survey of builders, nearly two-thirds of the respondents (64 percent) said that they had an appraisal that was below the agreed-upon contract sales price for a house, and one-third of the respondents indicated they had lost a sale because of a low appraisal. NAHB is not advocating that appraisals should be higher than the real market. Rather, our goal is to establish an appraisal system that produces accurate values through all phases of the housing cycle.

A key concern is that some appraisers are using distressed sales – many of which have been neglected and are in poor physical condition – as comparables in assessing the value of brand new homes, without accounting for major differences in condition and quality. Without such adjustments, the two are not comparable. Appraisers don't typically enter and inspect these fixer-upper homes; if they did, they would likely recognize the substantial differences between a foreclosure and a state-of-the-art new home. The inappropriate manner in which distressed sales are utilized is distorting home valuations. Use of the cost and income approaches in conjunction with the comparable sales approach would mitigate such distortions.

The dramatic increase in the use of Appraisal Management Companies (AMCs) is another factor contributing to inaccurate appraisals. Some AMCs have reduced appraiser compensation, which has led to more activity by appraisers with less training and experience, and shortened turnaround times for valuations to as little as 48 hours. These changes have had a significant adverse effect on appraisal quality.

## Regulatory Structure

Regulatory oversight of the appraisal industry is a dysfunctional patchwork of federal and state regulations. At the federal level, the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC) sets appraisal practices and procedures through The Appraisal Foundation (TAF). TAF is a private, non-profit entity which through its Appraisal Standards Board (ASB) establishes appraisal practices through the Uniform Standards of Professional Appraisal Practice (USPAP). Oversight of appraiser qualifications and appraisal practices falls to the individual states, and many jurisdictions have inadequate resources to adequately perform this function. In some states, fees collected for appraiser licensing and certification are swept into a general fund and are not utilized in appraisal/appraiser oversight and enforcement.

In January, The Government Accountability Office (GAO) released a report, *Real Estate Appraisals – Appraisal Subcommittee Needs to Improve Monitoring Procedures*, which identified several weaknesses that have limited the ASCs effectiveness, including weak enforcement tools and reporting procedures; inadequate policies and procedures for monitoring appraisal requirements; no written policies to determine if TAF's activities are consistent with the statutory

mandates; and not fully addressing the requirement of the Dodd-Frank Act for the ASC to establish and operate a national hotline to receive complaints of noncompliance with appraisal independence standards and USPAP.

In conjunction with the report, the GAO conducted a survey that supports the conclusion that appraisal quality and appraiser competence remain a tremendous challenge. The survey asked state appraisal regulators to evaluate the effectiveness of the current real property appraiser regulatory system, the effectiveness of TAF, state agency structure and resources and the appraisal complaint process. The complete survey can be found at <http://www.gao.gov/special.pubs/gao-12-198sp/>.

In NAHB's opinion the results of the GAO survey indicate there is much work to be done. For example, the GAO's findings show that:

- Less than 40 percent of state regulatory officials rated TAF, ASB and the Appraisal Qualifications Board (AQB) as very effective in:
  - Setting standards for the way appraisals should be conducted;
  - Establishing the qualifications needed to become an appraiser;
  - Setting requirements for appraisers' continuing education; and,
  - Approving courses for appraisers' education or training.
- Less than 25 percent of respondents rated TAF, ASB and AQB as very effective in determining the qualifications needed by instructors who teach courses to appraisers and providing guidance on disciplining appraisers.
- Less than six percent rated the newly formed Appraisal Practices Board (APB) as very effective in improving the quality of appraisals.
- Less than 50 percent found the AQB's qualifications for appraiser education and experience mostly adequate.

The survey supports NAHB's concerns with diminished appraisal quality, the need for a fair and timely process to appeal appraisals and to ensure the competency and qualifications of the appraiser community.

The failures in the process noted by GAO perpetuate the cycle of declining home values, drive more home owners under water, negatively affect housing demand and are obstacles to the recovery of the housing market. Major reforms in appraisal practices and oversight are needed to ensure that appraisals accurately reflect true market values and do not contribute to price volatility.

## **Solutions**

NAHB has been a leading advocate for correcting the valuation process and has undertaken a number of actions to raise awareness and address the adverse impacts inaccurate appraisals are having on the housing sector. NAHB has conducted four Appraisal Summits (two in 2009, one in 2010, and one in 2011) to provide opportunities for the agencies and organizations that establish appraisal standards and guidelines to join housing stakeholders in a constructive dialogue on major appraisal topics of concern. The goal of the Appraisal Summits is to identify recommendations and solutions that participants can jointly pursue to improve the appraisal process.

Through the Appraisal Summits and feedback from builders and others in the field, NAHB has identified the following key areas of focus to improve current appraisal requirements and practices:

Strengthen Education, Training and Experience Requirements for Appraisers of New Home Construction, including:

- The establishment of greater education, training and experience requirements for those who are assigned appraisals of new construction to ensure that lot values and building costs, including those for energy efficient, green building and other evolving new construction techniques and mortgage products, are fully considered in valuation of new home construction.
- The incorporation of the qualifications for appraisers of new construction into appraisal regulations and guidelines of the bank regulatory agencies, Fannie Mae, Freddie Mac, FHA, VA and USDA.
- The prompt implementation of federal legislation directing the federal financial regulators to establish minimum state requirements for the regulation and licensing of appraisal management companies.

Improve the Quantity and Quality of Data for New Construction through:

- Establishment of an appraisal data base system for new construction.
- Standardization of loan level valuation data by Fannie Mae, Freddie Mac, FHA, VA and USDA in their Uniform Appraisal Dataset (UAD).
- Expansion of the UAD to include new construction, energy efficient and green building data standards.

Develop New Appraisal Standards and Best Practices for Conducting Appraisals in Distressed Markets by:

- Modifying current appraisal practices and procedures to consider all three approaches to value -- cost, income and sales comparison -- in appraisals of residential properties to mitigate distortions and volatility.
- Giving greater weight in distressed markets to alternative means of valuation, such as the cost-based approach to value.
- Revising banking agency guidelines to require the appraisal entities used by financial institutions to avoid the use of distressed sales as comparables for new construction sales and, if distressed sales are the only comparables available appropriate, to make adjustments to accurately reflect possible condition and stigma issues associated with distressed properties.

Develop Processes for Expedited Appeals of Inaccurate or Faulty Appraisals through:

- Federal agency adoption of an appeals structure similar in design to that of the Department of Veterans Affairs Loan Guaranty Service Home Loan Program.
- The establishment of more efficient, timely and effective processes for state and local appraisal oversight.
- The establishment of a timely value dispute resolution process that is fair, balanced and appropriate to allow interested parties to appeal appraisal values when appraisal assumptions are incorrect.

Strengthen Oversight of Appraisal Activities through:

- Full implementation of appraisal mandates in recent federal legislation addressing:
  - Appraisal independence
  - Customary and reasonable fees
  - Mandatory reporting of appraisal standards violations
  - Strengthening of state appraisal oversight and enforcement of regulations.
  - Dispute resolution
  - Valuations other than appraisals
- Establishment of best practices for effective and consistent appraisal practices, policies and procedures.
- Creation of an effective state and federal regulatory system for appraisal oversight.

NAHB stands ready to work with appraisal, housing and financial stakeholders to address the real challenges we face in restoring the public trust in how we build, transfer, value and finance the American consumer's most valuable asset. We must work together to reform appraisal practices that support accurate and sustainable values. Solving these issues, in the short and long term, is a critical step toward restarting the housing industry and America's economy.