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**STATEMENT OF THE**

**NATIONAL ASSOCIATION OF REALTORS®**

**SUBMITTED FOR THE RECORD TO THE**

**THE UNITED STATES HOUSE OF REPRESENTATIVES**

**FINANCIAL SERVICES COMMITTEE**

**HEARING TITLED**

**“MODERNIZING APPRAISALS: A REGULATORY REVIEW AND**

**THE FUTURE OF THE INDUSTRY”**

**NOVEMBER 16, 2016**

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REALTOR® is a registered collective membership mark which may be used only by real estate Professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.



## **Introduction**

The National Association of REALTORS® (NAR) thanks the House Financial Services Committee for holding this important hearing. Appraisals provide an independent and impartial analysis of local housing markets, and a credible opinion of the value of a house. This analysis is a critical component of the home mortgage transaction, helping to ensure the buyer is paying a fair market value for the property, and that the lender is fully informed when determining loan terms. NAR represents a wide variety of housing industry professionals, including approximately 30,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. Proper regulation of the appraisal industry is necessary to ensure safety and soundness in the nation's housing market.

## **Federally Related Transactions**

NAR firmly supports maintaining the current de minimus requirement for federally related transactions, in which real estate appraisals are required for real estate loans with a transaction value equal to or greater than \$250,000. According to NAR's research, in 2015, there were 1,591,357 existing single-family homes sold for between \$250,000 and \$500,000. This equals about 30% of the total home sales in 2015. Compared to that number, only 632,509 existing single-family homes sold for over \$500,000 in 2015. In addition, only 5 out of 180 U.S. metropolitan areas had a median existing single-family home value above \$500,000. Increasing the appraisal threshold to \$500,000, which some in the industry have suggested, would severely reduce the number of appraisals required in residential real estate transactions in many communities, putting into question the safety and soundness of those transactions, as well as the well-being of neighborhoods in which those loans are made.

NAR is concerned about the varying quality of valuation tools used by lenders for transactions that fall outside of the federal requirements for an appraisal. Some of the on-line automated valuation tools available today are not sophisticated enough to be relied on for an accurate valuation of real property. Should the appraisal threshold be raised, lenders relying on these estimating tools could be severely under- or over-estimating a property's value in a number of real estate transactions. NAR believes that there should be qualified appraiser oversight of all review processes that meet Uniform Standards of Professional Appraisal Practice review guidelines. Computer generated materials and check lists can complement an appraisal review, but should not act as substitutes for a licensed or certified appraiser's opinion.

Raising the appraisal threshold level would likely increase the levels of risk lending institutions have to manage. When the Government Accountability Office (GAO) investigated this issue<sup>1</sup>, GAO found no support for raising the current threshold. Rather, GAO reported that many stakeholders supported the reduction or elimination of current threshold levels, helping to improve risk

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<sup>1</sup>"REAL ESTATE APPRAISALS: Appraisal Subcommittee Needs to Improve Monitoring Procedures." GAO-12-147: Published: Jan 18, 2012. Publicly Released: Jan 18, 2012. *Available at* <http://www.gao.gov/assets/590/587735.pdf>.

management and providing better consumer protection. Increasing the appraisal threshold levels would undermine the health of the real estate lending industry as a whole.

### **Appraiser Qualifications**

NAR firmly believes in the continuing need for competent, professional appraisers. Persons who perform appraisals of real property must be licensed or certified by their respective state regulatory agency. Appraisers follow the minimum education, experience, and examination requirements for real property appraisers to obtain a state license or certification. Appraisal competency requires a true understanding of the valuation process and is developed over time through training and experience.

In December 2011, the Appraiser Qualifications Board (AQB) adopted revisions to the *Real Property Appraiser Qualification Criteria* to require a Bachelor's degree or higher for Certified General and Certified Residential classifications. The new education requirement went into place on January 1, 2015. College degrees are costly and time-consuming. NAR is concerned that the wages earned as an appraiser are not an incentive for an individual to enter the profession after paying for a four-year college degree, especially when a graduate must do a multi-year internship that is often unpaid. The degree requirement also disadvantages workers who already have thousands of hours of appropriate on-the-job training and could be great candidates to take the certified general or certified residential exam without completing a four-year degree. The AQB should count years of experience in the appraisal profession under a trainee license to qualify for at least part of the four-year college degree requirement. Many very good existing Certified General and Certified Residential appraisers do not have four-year degrees. These same appraisers have successfully mentored many others to follow in the profession with the highest standards.

### **Regulatory Structure**

NAR is committed to responsible valuation principles and to ensuring a regulatory framework that supports credible, independent valuations of real property because credible independent valuations of real property are critical to the health of the overall real estate industry. As such, NAR supports and promotes the mission and vision of the Appraisal Foundation<sup>2</sup> which promotes professionalism and ensures public trust in the valuation profession through the promulgation of the Uniform Standards of Professional Appraisal Practice (USPAP), appraiser qualifications (AQB), and guidance regarding valuation methods and techniques. NAR supports USPAP as the national valuation standard. Additionally, the NAR Code of Ethics requires REALTORS® who provide appraisal services, to conform to the standards of practice expected in that specific real estate discipline. NAR believes that appraisal standards should be uniform across the United States and territories, and does not support efforts to dilute USPAP or layer on additional sets of valuation standards.

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<sup>2</sup> NAR is an affiliate sponsor of the Appraisal Foundation.

## **Federal and Conventional Programs**

Over the past year, many appraisers became wary of participating in Federal Housing Administration (FHA) insured home loan transactions due to concern and confusion over appraisal requirement changes in the FHA Single Family Housing Policy Handbook. Specific rules that required appraisers to test appliances resulted in many appraisers increasing their fees for FHA appraisals. Some appraisers even stopped taking on any FHA appraisals, or asked for additional home inspections to comply with the Handbook requirements. NAR members voiced serious concern that the entire transaction had become costlier and time-consuming; hindering an FHA borrower's ability to compete in today's housing markets. In response to those concerns, FHA recently announced updates to the Handbook that clarifies this requirement. According to the new guidance, appraisers must simply note that certain appliances contributing to the market value of the property are physically present rather than requiring an appraiser to operate the appliances.

However, there are still improvements to be made in both the Handbook and FHA's general policy on appraisals. In particular, NAR has great concern over the requirement that an appraisal stays with a property for 120 days for any FHA transaction. This policy harms both buyers and sellers in rapidly changing markets, hindering economic recovery in certain neighborhoods across the country. By removing the requirement, FHA will help foster home-ownership and ensure borrowers who rely on FHA financing pay the fair and accurate market value for their home.

Recently, both Fannie Mae and Freddie Mac announced programs that would allow for the use of automated valuation tools in the place of traditional appraisals for certain mortgages. NAR is engaged with both entities on this matter and will monitor and assess these programs as they progress. NAR urges caution with regards to any programs that rely solely on automated valuations, but will not be making a definitive statement at this time on Fannie Mae and Freddie Mac's initiatives pending further review.

## **Conclusion**

Thank you for the opportunity to submit these comments. NAR looks forward to working with committee members and the rest of Congress to maintain the safety and soundness of the appraisal industry while advancing growth in the appraisal field.