



**Statement
of
THE NATIONAL ASSOCIATION of REALTORS®
Before the
UNITED STATES HOUSE OF REPRESENTATIVES
Committee on Veterans Affairs
Subcommittee on Benefits
June 11, 2003**

Mr. Chairman, Members of the Subcommittee, the NATIONAL ASSOCIATION of REALTORS® appreciates the opportunity to submit written testimony regarding H.R.1500, the Veterans' Appraiser Choice Act. The NATIONAL ASSOCIATION of REALTORS® is the nation's largest professional trade association with more than 900,000 members and is comprised of 1,539 REALTOR associations and boards at the state and local levels. NAR membership includes brokers, salespeople, appraisers, property managers and counselors, as well as others engaged in every aspect of the real estate industry.

The NATIONAL ASSOCIATION of REALTORS® commends the Subcommittee for its leadership and efforts in fashioning comprehensive legislation that improves the efficiency and effectiveness of the VA Home Loan Guaranty Program and results in broader homeownership opportunities for our nation's veterans. The NATIONAL ASSOCIATION of REALTORS® is particularly grateful for the Subcommittee's leadership this session in achieving full Committee approval of H.R.1257, the "Selected Reserve Home Loan Equity Act", and H.R.1949, the "Vendee Loan Restoration Act". The NATIONAL ASSOCIATION of REALTORS® is fully supportive of these bills and H.R.1735 which increases the veteran's guaranty amount to \$81,000.

The NATIONAL ASSOCIATION of REALTORS® has a long tradition of support for the VA Home Loan Guaranty Program and we work diligently with the Subcommittee and the Congress to advocate policies that ensure the program meets its mission and objectives responsibly and efficiently. As we celebrate National Homeownership Month it is important to note that the VA home loan program has guaranteed approximately 17 million home loans totaling about \$760 billion to veterans to purchase or construct a home, or refinance another home loan on more favorable terms. In just the last four years 1.3 million veterans have been able to obtain loans amounting to approximately \$148 billion under the VA home loan guaranty program.

The VA home loan program has made mortgage credit available to many veterans whose loans otherwise would not have been made. Similar to the FHA single-family mortgage insurance program, the liberal terms and features of the VA home loan program have helped many deserving veterans realize the American dream of owning a home. And like the FHA program, the impact of the VA home loan program to our nation's economy and our mortgage markets vastly exceeds the actual volume of VA home loans.

Recognizing that it is absolutely vital and appropriate that Congress continuously scrutinize the functions and operations of federal mortgage and guaranty programs, the NATIONAL ASSOCIATION of REALTORS® wholeheartedly supports legislative and regulatory initiatives that sharpen the focus of federal programs, facilitate maximum efficiency, and enhance administration and operations. Within that context we welcome this opportunity to share with you our observations and viewpoints regarding the VA appraisal system and H.R.1500 as a potential alternative.

■ VA Fee Panel Appraisal System

As background, the Department of Veterans Affairs (DVA) is required by statute to develop and maintain lists of appraisers, to prescribe uniform qualifications for those appraisers, and to assign appraisers from its list on a rotational basis. Each VA field office has the responsibility to maintain a fee panel of appraisers who have satisfied DVA's qualification requirements. Additionally, field offices must ensure that the number of fee appraisers on the fee panel is sufficient to ensure that appraisals are provided on a timely basis. Currently, there are approximately 4500 VA appraisers.

The DVA has long believed that the rotational assignment process is the most appropriate method to ensure the quality of its appraisals and to protect the interests of the federal government. The DVA believes a rotational system of appraiser selection limits the opportunity for fraud and abuse, assuring the integrity of the appraisal process on behalf of the veteran. Further, the DVA believes it is vital that it maintain control and management of its appraiser selection system to remove the ability of clients to "shop" for an appraiser who will provide the "numbers" to satisfy the purchase.

Until 1996 the practice of utilizing fee panels was the norm for both VA and HUD appraisals. The panel was comprised of appraisers who had passed a rigid screening process and were required to attend regular seminars to remain on the panels. Field offices monitored the recruitment and training of appraisers, with appraisal assignments allocated by rotation that equally and impartially distributed the work orders to fee panel members. The lenders did not select the appraiser; a computer did.

In 1996 HUD implemented legislation allowing its lenders to select their own appraisers to improve the efficiency of FHA lenders and eliminate reliance on HUD's field office staff to assign appraisers and to improve the quality and reliability of appraisal services for HUD's mortgage assistance programs. Additionally, the number of staff in HUD's field offices had been reduced and the remaining staff had difficulty assigning, maintaining, and monitoring the fee panel appraisers. HUD/FHA believed that devolving this responsibility to lenders freed its field office staff to perform other duties and functions. It also furthered HUD's goal to privatize some of its functions and to help the Department modernize this function to conform with the conventional market since lenders were already adept at selecting appraisers for conventional home loans.

As can be expected, the change to a lender select in the HUD/FHA program was met with support from the lending community but opposition from the appraiser community. And, the change to a lender select system relegated the VA as the last entity to utilize a rotational fee panel system.

The NATIONAL ASSOCIATION of REALTORS® recognizes that the current rotational system is outdated and flawed and is in need of an overhaul to address several problems. The principal concerns to our members pertain to imbalances in the number of appraisers in differing regions of the country that have contributed to delays well beyond DVA's expected response time of four to seven days. Additionally, because the fee panel "guarantees" work, it is viewed as secure employment and often contributes to unprofessional conduct or behavior of some fee panel appraisers since they don't have to market themselves to lenders or compete with other fee panel appraisers for work.

■ H.R. 1500, The Veterans' Choice Appraiser Act

The NATIONAL ASSOCIATION of REALTORS® commends Representative Adam Smith (D-WA) for his leadership in introducing legislation proposing an alternative to the VA appraiser fee panel system. While H.R. 1500 does not alter the VA fee panel assignment process, it does provide the veteran the opportunity to select an appraiser from the list of fee panel

appraisers. Although the DVA would retain control of the process, the NATIONAL ASSOCIATION of REALTORS® is concerned with this approach. Very simply, most veterans will not know the work or reputation of VA fee panel appraisers. As a result, the goal of obtaining a properly conducted appraisal and appropriate market valuation could be jeopardized placing the veteran at risk of some unfortunate consequence.

Additionally, H.R. 1500 could erode the objectivity necessary in an appraisal assignment. Veterans involved in the appraiser selection process may wrongly presume that the appraiser has some fiduciary duty to the borrower. This could result in unfair or undue instructions to the appraiser contrary to the appraiser's obligations to the DVA and/or the lender. It may also result in inappropriate client pressure on the appraiser to either meet a target value or ignore repairs required by DVA regulations.

The latter is noteworthy because reports of undue client pressure against appraisers motivated HUD to issue a proposed rule January 2003 holding lenders equally responsible for the quality of appraisals in meeting FHA guidelines under its lender select appraisal system.

■ Conclusion

The NATIONAL ASSOCIATION of REALTORS® believes the independence of the appraisal process is fundamental to assure participants in the mortgage transaction that the value of a home is unbiased and reflects a true market valuation. This protects both the lender and the buyer in the mortgage transaction. Within the context of the VA fee panel appraisal system a changing mortgage marketplace and continuous reports of insufficient fee panels, professional misconduct, and processing delays warrant appraisal processing improvements and corrective measures.

The NATIONAL ASSOCIATION of REALTORS® recommends an immediate expansion of the VA fee panel to include more qualified appraisers from which to select, particularly in markets where there are acute shortages. We also recommend that the DVA promptly undertake and implement internal control quality procedures such as directing its field offices to randomly select a percentage of completed appraisals for field and desk review by DVA Headquarters staff for mathematical accuracy, reasonableness, logical conclusions, and the adequacy of any adjustments made in determining the appraised value. The results of these reviews could be used to rate the appraiser's work and identify appraisers who may not be adhering to DVA's appraisal guidelines.

Finally, the NATIONAL ASSOCIATION of REALTORS® wants to share with the Subcommittee that, stemming from a REALTOR policy discussion of H.R. 1500 during our May 2003 MidYear Legislative Meetings, we are forming an internal task force comprised of REALTOR -appraisers and REALTOR residential members to identify constructive solutions to the problems pertaining to the VA fee panel system. We welcome the opportunity to share with you our findings and recommendations.

The NATIONAL ASSOCIATION of REALTORS® appreciates the opportunity to share its views and observations and we stand ready to work with the Subcommittee to improve the VA fee panel appraisal system.

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6/28/2010

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