

NAR Issue Summaries

Valuation / Valuation Issues Update

NAR Committee:

Real Property Valuation Committee

What is the fundamental issue?

Over the past year, NAR members have identified several valuation issues impacting real estate transactions. Most concerns are related to appraisals, including allegations of discrimination in the appraisal process, the increased use of automated or alternative valuation methods, a perceived shortage of appraisers, and the challenge of attracting new and diverse appraisers to the business.

I am a real estate professional. What does this mean for my business?

Allegations of Discrimination in the Appraisal Process: Over the past several years there has been a large increase in media stories outlining discrimination in the appraisal process. A few studies seem to confirm there might be an issue with bias in the appraisal process, particularly as it relates to the choice of comparable sales based on the race of the homeowner/seller. Freddie Mac released a study in Fall 2021 based on their own appraisal data that suggests a property is more likely to receive an appraisal lower than the contract price if it is in a minority tract. Further research into actual appraisal reports and assessment of fair housing complaints is expected. The Biden Administration has taken a large interest in this issue and created the Interagency Task Force on Property Assessment Valuation Equity, or PAVE, led by Department of Housing and Urban Development Secretary Adrienne Todman. In addition, states are also developing policies related to the concern of discrimination in the valuation process. NAR takes all allegations of discrimination seriously and supports a full vetting of the issue. NAR urges any entity attempting to address or change the valuation process ensure appraisers and their representatives are included in the review and development process of any new standards, to ensure that the real estate market remains safe and secure in terms of determining the value of properties.

Automated or Alternative Valuation Methods: Many in the housing industry, including NAR, support the role of appraisals and their contribution to the safety and soundness of the mortgage lending industry. However, there is an increased reliance on AVMs for valuation purposes, as evidenced by the decisions of both Fannie Mae and Freddie Mac to allow data driven valuations, rather than traditional in-person appraisals, for certain, lower risk purchase transactions. NAR is supportive of technological advancements that support the housing market, but has some concerns with the use of automated valuations in purchase transactions.

Appraiser Shortages: Appraisers are leaving the profession at the same time that entry of new appraisers is dwindling. Entrepreneurial opportunities for appraisers are disappearing and many are concerned with over-regulation in the field. There are also barriers to entry, such as education requirements, that could be affecting incoming appraiser numbers.

Appraiser Qualifications: It is becoming increasingly difficult to attract new entrants into the appraisal profession. In an effort to bring more qualified trainees into the profession, the Appraisal Qualifications Board (AQB) revised the Real Property Valuation Criteria to allow for more flexibility in fulfilling the college-level education requirements for appraisers and reducing the number of experience hours in early 2018. The AQB is now exploring alternative methods to provide trainee appraisers with the required education, including exploring virtual property inspections and partnerships with other educational institutions.

NAR Policy:

REALTORS® support and encourage credible, independent valuations of real property because valuations are critical to the health of the overall real estate industry.

A trustworthy valuation of real property ensures the real property value is sufficient to collateralize the mortgage, protects the mortgagor, allows secondary markets to have confidence in the mortgage products and mortgage-backed securities, and builds public trust in the real estate profession.

[View the NAR's Responsible Valuation Policy](#)

Opposition Arguments:

There is no political opposition to NAR's support of credible, independent valuations of real property.

Legislative/Regulatory Status/Outlook

Current Legislative and Regulatory Activities

On July 26, 2024, NAR sent [a letter](#) to The Appraisal Foundation (TAF) in response to its concept paper on the educational requirements for appraiser licensing. While NAR has no position on the educational requirements for appraisers, in the letter NAR applauds TAF for a forward-looking approach in this effort, as fostering a process to developing new appraisers of high quality is key to the long-term success of the housing market. NAR suggests using existing data on appraisers with and without college degrees to quantify whether a college education is a meaningful requirement. The letter also urges the Appraisal Qualifications Board (AQB) of TAF to establish equivalency credit for education and experience in licensed and regulated fields involving valuation such as licensed real estate salespersons, real estate agents, and real estate brokers.

On July 18, 2024, the Consumer Financial Protection Bureau, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, National Credit Union Administration, and Federal Housing Finance Agency issued their [final rule on Quality Control Standards for Automated Valuation Models \(AVMs\)](#). The rule mandates that mortgage originators and secondary market issuers that use AVMs to determine the value of mortgage collateral adhere to quality control standards designed to ensure a high level of confidence in estimates, protect against data manipulation, seek to avoid conflicts of interest, require random sample testing and reviews, and comply with applicable nondiscrimination laws. This rule will become effective on the first day of the calendar quarter following 12 months after publication in the *Federal Register*.

On May 22, 2024, NAR sent a [letter](#) to the House Energy Committee on Building Codes. This letter expresses NAR's concern about additional regulatory burdens on new construction while supporting incentives and voluntary strategies to increase energy efficiency without exacerbating housing supply issues.

On May 15, 2024, Rep. Sean Casten (D-IL) introduced [H.R.8402](#), and Sen. Michael Bennet (D-CO) introduced [S. 4340](#). To provide for accurate energy appraisals in connection with residential mortgage loans, and for other purposes. The house bill was referred to the House Committee on Financial Services, in addition to the Committee on Veterans' Affairs, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned on May 15, 2024, and the senate bill was referred to the Senate Committee on Banking, Housing, and Urban Affairs on May 15, 2024.

On March 11, 2024, Sen. Jon Tester (D-MT) introduced [S. 3902](#), Appraisal Industry Improvement Act. This bill is to amend the National Housing Act to authorize State-licensed appraisers to conduct appraisals in connection with mortgages insured by the FHA and to ensure compliance with the existing appraiser education and competency requirements, and for other purposes. This bill was referred to the Senate Committee on Banking, Housing, and Urban Affairs on March 11, 2024.

On February 28, 2024, NAR sent a [letter](#) to HUD, OCC, FHFA, NCUA, FDIC, FRB, and CFPB advocating for solutions that will increase diversity, reduce bias and maintain the public trust in the appraisal profession. Among those solutions are legal clarity from HUD regarding claims of appraisal discrimination as well as transparency and accountability in appraiser compensation.

On September 22, 2023, NAR signed on to a joint [letter](#) with the Appraisal Institute, the American Farm Managers and Rural Appraisers, and the International Association of Assessing Officials, requesting

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that the Appraisal Foundation Board of Trustees refrain from acting upon the plan at the upcoming Board of Trustees meeting until all the costs and benefits of financial partners have been provided to stakeholders with sufficient time for each to conduct an independent review and analysis.

On September 19, 2023, NAR signed onto a joint [letter](#) with the Appraisal Institute, the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers, the Massachusetts Board of Real Estate Appraisers, and the National Association of Home Builders to collectively urge the agencies participating in the development of guidance on “Reconsideration of Value” (ROV) to recognize and adopt policies consistent with the U.S. Department of Veterans Affairs (VA) “Tidewater Initiative”.

On August 22, 2023, NAR sent a [letter](#) to the joint banking and finance regulators on their proposed joint rule to implement the statute on automated valuation models (AVMs) regulation mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

On August 19, 2023, NAR sent a [letter](#) to the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, the National Credit Union Administration, the Federal Deposit Insurance Corporation, and the Chairman of the Board of Governors of Federal Reserve System on improving the reconsideration of value (ROV) process for homebuyers seeking to finance their home purchase.

Past Legislative and Regulatory Activities

On May 30, 2023, NAR signed on to a coalition [letter](#) to the Federal Housing Finance Agency (FHFA). The signatories representing industry trade associations, consumer advocates, civil rights organizations encourage the Federal Housing Finance Agency to collaborate with relevant members of the Property Appraisal Valuation Equity (PAVE) Task Force and the GSEs (government-sponsored enterprises/Fannie Mae and Freddie Mac) to develop a uniform reconsideration of value (ROV) process for residential appraisals. The letter commends the Federal Housing Administration (“FHA”) for taking the first step by issuing a draft Mortgagee Letter but expresses concern that the benefits of an ROV process are minimized without interagency cooperation in the design and implementation of a standard ROV approach.

On May 3, 2023, NAR sent a [letter](#) to the Federal Housing Finance Agency (FHFA) regarding appraisal modernization, oversight, and the use of data collectors.

While NAR is supportive of modernization, REALTORS® believe a licensed appraiser is the best option. In addition, NAR notes in the letter that:

- More information about data collectors should be collected and shared;
- A full review of automated valuation models (AVMs) is needed;
- More oversight of the data collected, and privacy issues should be explored;
- The rollout of the data collection program could have impacts on competition in the valuation space and consumer impacts; and
- The GSEs need to take steps to prevent internalizing the valuation risk.

On April 20, 2023, Rep. Barry Loudermilk (R-GA) introduced [H.R.2771](#), and on July 27, 2023, Sen. Jon Tester (D-MT) introduced [S. 2692](#), Portal for Appraisal Licensing Act of 2023. The bill establishes a central portal for real estate appraisers and real estate management companies to apply for and renew certain licenses, certifications, and registrations. The portal must provide connectivity with state agencies and include the ability to pay fees. The Department of Justice must provide access to criminal history information to state officials for required background checks. The house bill was referred to the House Committee on Financial Services on April 20, 2023, and the senate bill was referred to the Senate Committee on Banking, Housing, and Urban Affairs on July 27, 2023.

On March 29, 2023, NAR wrote a [letter](#) to the Department of Housing and Urban Development (HUD) thanking the agency for its commitment to improving the appraisal process for all homebuyers. Credible and fair valuations are key to sustainable financing and REALTORS® commend HUD as well as the Property Appraisal and Valuation Equity (PAVE) task force for their ongoing efforts to eliminate discrimination in the valuation process. NAR has actively advocated for solutions that will increase diversity, reduce bias and maintain the public trust in the appraisal profession. Legal clarity from HUD is needed, however, to build the tools to best educate the appraisal community.

The letter:

- Recommends that HUD move forward quickly with its outstanding investigations, requests that the agency provide legal clarity both in cases where discrimination was found and also in cases where discrimination was not found;
- Provides an NAR summary on how appraisal bias affects appraiser- and agent-REALTORS® and;
- Offers academic analysis of the magnitude of the effect of appraisal bias and emphasizes NAR's efforts to help eliminate it.

On February 10, 2023, NAR submitted [comments](#) to the Appraisal Subcommittee in response to its hearing on appraisal bias that took place on January 25th, 2023.

The letter lays out NAR's commitment to fair housing and efforts to confront racial bias and discrimination in real estate. It discusses NAR's work to recruit diversity into the appraisal profession, to improve the reconsideration of value process, to require fair housing education among appraisers, NAR's own code of ethics specific to appraiser-members, and NAR's support of legislation that would provide funding for more impactful enforcement and testing activity.

On February 3, 2023, NAR joined a group of industry and consumer groups in a [response](#) to the Federal Housing Administration's (FHA) request for comment on its proposed revision to a mortgagee letter on reconsideration of value (ROV).

This response is in addition to NAR's individual response to the FHA.

The coalition requests in the letter:

1. A pause in the FHA's revision until they engage with other regulators to create a uniform policy;
2. Efforts to Improve education with consumers about the ROV process;
3. Clear guidance for all parties on the new rule; and
4. Compliance with current law where the FHA would monitor for bias and share any concerns with enforcement agencies as well as other guarantor agencies and the government-sponsored enterprises (GSEs).

On January 20, 2023, NAR [wrote to the U.S. Department of Veterans Affairs \(VA\)](#) regarding implementation of H.R. 7735, the Improving Access to the VA Home Loan Benefit Act of 2022, which passed Congress and was signed into law on December 27th, 2022.

The bill provides 90 days from enactment for the VA Secretary to review and propose changes to its requirements for an appraisal as well as its qualifications for appraisers and the use of waivers. It then stipulates an additional 90 days to implement them.

NAR's letter to the Secretary of the VA and the Executive Director of the Loan Guarantee Program articulates NAR's support for modernization of the appraisal industry and process. However, it describes NAR's concern that the rapid timeline for analysis and implementation would not allow the VA to vet internal process for potential innovation or the veracity or applicability of options used in the private sector. Furthermore, modernization should be balanced against risk to the Loan Guarantee Program, seeking to maintain a sound fund for generations of active duty and veteran buyers to come.

On November 21, 2022, NAR sent a [letter](#) to the Appraisal Foundation's President David Bunton urging the Appraisal Foundation (TAF) to review the experience and education of workers in parallel professions and consider it for potential credit to satisfy the accreditation requirements of appraiser licensing.

NAR's Board of Directors adopted this policy at the annual NXT meeting in Orlando, Florida. REALTORS® believe that this change, particularly recognizing the experience and education attained by REALTORS®, could expand the pool of entrants to the appraisal profession, while maintaining the solid standard of competency the profession demands.

On July 14, 2022, NAR sent a [letter](#) thanking the Appraiser Qualifications Board's efforts to support fair housing and to eliminate bias in valuations. NAR believes regular fair housing training is essential for those involved in the business of real estate. To this end, NAR urges the Appraiser Qualifications Board of the Appraisal Foundation to revise the real property appraiser qualification criteria to require fair housing and valuation bias training for both qualifying and continuing education.

On March 31, 2022, NAR sent a [letter](#) to the White House and the Department of Housing and Urban Development (HUD) providing comments to the Biden Administration's Action Plan to Advance Property Appraisal and Valuation Equity (PAVE Action Plan) created by the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE Task Force). NAR developed these comments under the guidance of a work group made up of members from NAR's Real Property Valuation Committee and Fair Housing Policy Committee. Overall, NAR is supportive of many of the recommendations in the PAVE Action Plan including those related to increasing consumer education and awareness of appraisal bias, improving data collection and research on appraisal bias, and creating quality controls for the use of automated valuation methods (AVMS) in developing property values.

While NAR is supportive of improving diversity in the appraisal profession, there is concern that reducing education requirements in an effort to bring in a wider diversity of appraiser trainees could adversely impact the quality of appraisals going forward. Focus should be on exploring alternative paths to becoming an appraiser that do not sacrifice the quality of appraiser education and training.

At this time NAR does not support a legislative proposal to change the current governance structure of the

appraisal industry. The current oversight of appraisal standards and appraiser education under the Appraisal Foundation allows for the implementation of new requirements to improve transparency, increase public participation, and provide engagement with consumer-focused groups. NAR suggests the Administration work with the Appraisal Foundation to continue current initiatives to improve diversity and develop new initiatives and partnerships as well.

On March 29, 2022, the House Financial Services Committee held a [hearing](#) entitled “Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color.” The hearing focused on appraisal industry stakeholders and their responses to issues and ideas brought up by the Action Plan of the Biden Administration’s Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). NAR was engaged with the Biden Administration PAVE Task Force throughout the development of the Action Plan and sent specific recommendations to the Biden Administration following the release of the Action Plan.

On March 24, 2022, the Senate Committee on Banking, Housing, and Urban Affairs held a [hearing](#) entitled, “Strengthening Oversight and Equity in the Appraisal Process.” The hearing focused on the Action Plan of the Biden Administration’s Interagency Task Force on Property Appraisal and Valuation Equity (PAVE) and featured regulatory representatives from the Task Force. NAR was engaged with the Biden Administration PAVE Task Force throughout the development of the Action Plan and sent specific recommendations to the Biden Administration following the release of the Action Plan.

Current Legislation/Regulation (bill number or regulation)

[Final Rule on Quality Control Standards for Automated Valuation Models \(AVMs\)](#)

[Real Property Appraiser Qualification Criteria](#)

[Final Rule on Commercial Appraisal Threshold Level](#)

[Final Rule on Residential Appraisal Threshold Level](#)

[Final Rule on Automated Valuation Models \(AVMs\)](#)

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