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The Government Accountability Office and residential appraising

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The Government Accountability Office (GAO) issued a report in July titled "Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry." The report covered recent legislative changes affecting the appraisal industry and outlined opportunities for future regulation and policy guidance on appraisal rules resulting from Dodd-Frank.

Specific areas covered include:

* the use of different valuation methods and their advantages and disadvantages;
* policies and other factors that affect consumer appraisal costs and requirements for lenders to disclose appraisal costs and valuation reports to consumers; and
* conflict-of-interest and appraiser selection policies and views on the impact of these policies on industry stakeholders and appraisal quality.

Salient points follow.

"Available data and interviews with lenders and other mortgage industry participants indicate that appraisals are the most frequently used valuation method for home purchase and refinance mortgage originations. Appraisals provide an opinion of market value at a point in time and reflect prevailing economic and housing market conditions." The report states that appraisals are used in the vast majority of transactions by the five largest residential lenders surveyed.

The GAO determined that the sales comparison is the overwhelming approach of choice. "The enterprises and FHA require that, at a minimum, appraisers use the sales comparison approach for all appraisals because it is considered most applicable for estimating market value in typical mortgage transactions." The sales comparison approach is used "99%" of the time and the cost approach 2/3rds of the time. The income approach is rarely used.

The study goes on to say that "some appraiser groups and other appraisal industry participants have expressed concern that existing oversight may not provide adequate assurance that AMCs are complying with industry standards. These participants suggested that the practices of some AMCs for selecting appraisers, reviewing appraisal reports, and establishing qualifications for appraisal reviewersâ€”key areas addressed in federal guidelines for lenders' appraisal functionsâ€”may have led to a decline in appraisal quality."

The report states rather mildly that "while the impact of the increased use of AMCs on appraisal quality is unclear, Congress recognized the importance of additional AMC oversight in enacting the Dodd-Frank Act by placing the supervision of AMCs with state appraiser regulatory boards."

The report wraps up by recommending "that the heads of the federal banking regulators (FDIC, the Federal Reserve, NCUA, and OCC), FHFA, and the Bureau of Consumer Financial Protectionâ€”as part of their joint rulemaking required under the Dodd-Frank Actâ€—consider including criteria for the

selection of appraisers for appraisal orders,
review of completed appraisals, and qualifications for appraisal reviewers when developing minimum standards for state registration of AMCs. In written comments on a draft of our report, the federal banking regulators and FHFA agreed with or indicated they will consider this recommendation."

The issue of customary and reasonable fees is addressed blandly but with an optimistic (for appraisers) cast. However, some lenders are evaluating the possibility of no longer using AMCs and engaging appraisers directly, which would eliminate the AMC administration fee from the appraisal fee that consumers pay.

In summary, the report provides very mild sounding signals to some of the major issues afflicting the residential appraisal process. A stronger report would have been more useful to use a lever for change. On the other hand, the study demonstrates clear understanding of the central issues. The question is, will this report get some action. There's more to come on these issues.

William Pastuszek, MAI, SRA, MRA heads Shepherd Associates, Newton Mass.