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STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

SUBMITTED FOR THE RECORD TO THE

UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

HEARING REGARDING

APPRAISAL OVERSIGHT: THE REGULATORY IMPACT ON CONSUMERS AND BUSINESSES

JUNE 28, 2012

INTRODUCTION

Madam Chair, Ranking Member Gutierrez, and members of the Subcommittee, I am Francois (Frank) K. Gregoire, President of Gregoire & Gregoire, Inc., based in St. Petersburg, Florida. I thank you for the opportunity to participate in this hearing on behalf of the one million members of the National Association of REALTORS® (NAR). NAR is America's largest trade association, including its eight affiliated Institutes, Societies and Councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®. 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.

I have been involved in appraising real property since 1977. I am a state-certified residential appraiser in Florida and have been awarded the Residential Accredited Appraiser (RAA) Designation by NAR and the Independent Fee Appraiser (IFA) Designation by the National Association of Independent Fee Appraisers. As a member of the Board of Directors of the Florida REALTORS® and NAR, I have been involved in their public policy committees since 1992. While serving on the Florida Real Estate Appraiser Board, I represented Florida on the Appraisal Foundation State Regulator Advisory Group and as a member of the Association of Appraiser Regulatory Officials Board of Directors. Specializing in one-four unit family residential properties, Gregoire & Gregoire offers a variety of services from appraisals for mortgage loans to providing expert testimony in administrative and judicial courts for disciplinary proceedings and litigation.

NAR believes a strong and independent appraisal industry is vital to restoring faith in the mortgage origination process. In my testimony today I would like to address a number of issues impacting the credible valuation of real property, which is one of the most critical and overlooked aspects of the recovery of our industry. The challenges faced in the appraisal industry can be broken into three areas: 1) challenges facing the appraiser; 2) challenges in the appraisal process; and 3) concerns in regulatory oversight. There are a myriad of issues hindering the appraisal process and, while we will offer some solutions, it is important to note that there is no "silver bullet" remedy. As we see markets stabilizing and improving across the country it is also paramount that we discuss the future of valuing real property.

We thank the House Financial Services Committee for holding this hearing on an issue that is paramount to restoring confidence in the U.S. housing market.

APPRAISAL ISSUES AND CHALLENGES

There are a myriad of circumstances and issues working to hinder the recovery of the nation's housing market. Among them, and often overlooked, are those related to the credible valuation of real property. A credible valuation provided by a licensed or certified professional 1) ensures the real property value is sufficient to collateralize the mortgage, 2) protects the mortgagor, 3) allows secondary markets to have confidence in the mortgage products and mortgage backed securities, and 4) builds public trust in the real estate profession. However, in today's world there are many road blocks in the way of valuing property and, as a result, allowing for a healthy recovery of the broader real estate industry. Because there are many roadblocks there is no one, "silver bullet" solution.

Appraiser Competency. An important component of the Uniform Standards of Professional Appraisal Practice (USPAP) is the Competency Rule. The rule requires the appraiser to be competent, acquire competency, or decline the appraisal assignment. Competency requires the appraiser to have the ability to identify the valuation problem to be solved, the knowledge and experience to complete the assignment competently, and to have a recognition of and compliance with, laws and regulations that apply to the appraiser and the assignment. Absent the competency required, the appraiser must disclose their lack of knowledge or expertise to the client before accepting the assignment, take all necessary or appropriate steps to complete the assignment properly, and make necessary disclosures in the appraisal report. The term "Competency" refers to a number of factors. Among them are familiarity with a specific property type, a specific market, a geographic area, specific laws and regulations, an intended use, and analytical methods.

Legislation and regulation in the 1980's forced changes to the real estate appraisal profession; many of them positive. Litigation, legislation, and regulations in the 2000's also have forced changes to the real estate appraisal business. Despite the good intent, the changes have diminished the importance of appraiser competency as a requirement for appraisal assignments to the detriment of the enterprises, lenders, mortgage insurers, and consumers. The insertion of middlemen or brokers of appraisal services between loan originators and appraisers resulted in a focus on fee and turn-around time rather than the appraiser's competency, knowledge, professional designations, and experience. Clearly, this was not the intent but it appears to be an unintended consequence.

Knowledge of the local market, more commonly referred to as geographic competency, is the most common concern cited by our members. USPAP requires appraisers to spend sufficient time in a local market to understand the nuances of a particular location. It is important to note that USPAP does NOT limit the distance an appraiser may travel to an assignment. While a distance traveled limit sounds like a simple solution it is far from effective. This is because markets vary widely – an appropriate distance limit in an urban market may not be appropriate in a nearby rural area. What is important is that clients retain services from appraisers with a level of geographic competence sufficient to complete the assignment with credibility

NAR offers some recommendations to address concerns with competency. The most effective solution to appraiser competency may be improved communication between the appraiser and others involved with the appraisal report. Communication between appraisers and real estate agents and their clients is not prohibited and should, in fact, be encouraged. Appraisers should feel compelled to offer their competency to stakeholders. Real estate agents and their clients should ask questions to get a better understanding of the appraiser's qualifications, education, experience, and professional designations. While communication should be encouraged; coercion and other attempts to influence value are, and should continue to be, prohibited. Another solution is enhanced education requirements for appraisers. NAR has long supported this as the key to ensure appraisers maintain the necessary skills to provide their critical services.

Appraisal Management Companies. According to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), an appraisal management company (AMC) is a third party that oversees a network or panel of more than 15 appraisers within a state or 25 or more appraisers nationally in a given year and has been authorized by lenders to recruit, select, and retain appraisers; contracts with appraisers to perform appraisal assignments; manages the process of having an appraisal performed; or review and verify the work of appraisers.[1] Services provided by AMCs may include identifying appraisers, reviewing appraisal reports as part of quality control, and managing the appraisal process.

Many AMCs provide legitimate services for legitimate fees, but a large number of AMCs are contributing to problems in the appraisal business, the appraisal profession, and the housing market. Although many loan originators have contracted with these third party brokers of valuation services in an attempt to comply with their Dodd-Frank related regulatory obligations to avoid conflicts of interest and ensure appraiser independence, there is evidence that appraiser independence is often being compromised by the AMC itself.

Some of our appraiser members have reported that working with a quality AMC, even for a slightly reduced fee, may be worthwhile because they offer a steady stream of work, offer competitive fees, promote and respect appraiser independence, and treat appraisers appropriately. However, these AMCs are not the problem. More often than not our appraiser members report that AMCs, particularly those owned by, or affiliated with lending institutions, are insisting appraisers provide appraisal reports with an unacceptable turnaround time, a burdensome scope of work, and for a significantly reduced fee. Less experienced appraisers are accepting these assignments and are often willing to skirt competency requirements in the process; experienced appraisers will not accept these assignments. The end result is a stain on the profession and home values that are not credible. Lenders and consumers are being underserved.

Prior to the fixation on perceived conflicts of interest related to appraiser selection and retention initiated by the Home Valuation Code of Conduct (HVCC), most licensed and certified appraisers typically maintained a wide and often diverse client base. As a service business, appraisers and firms competed on the basis of knowledge, skill, competency, reputation, price and service. Although market driven ebbs and flows affected the firm's client base, the principals cultivated their clients and business relationships. Contrary to the belief of many, most of these relationships were not sinister and based solely on an appraiser's willingness to compromise their ethics and professional responsibility by producing appraisal reports to "hit the number". Most appraisers value their license, are serious about their profession, their duty to the public, and would strive to produce well

[1] Dodd-Frank Act § 1473(f)(4) (codified at 12 U.S.C. § 3550(11)).

documented, credible appraisal reports. A large, diverse client base allowed the appraiser to be independent and to concentrate on professionalism.

The appraiser–client business relationships built on the foundation of knowledge and trust have been shattered over the past few years. According to a recent GAO study, the market share of AMC appraisal business has increased from 15 percent to 60 – 80 percent[1]. An appraiser's disagreement that might have resulted in the loss of one client prior to HVCC or Dodd-Frank might now represent the loss of 20 – 60 percent or more of the appraiser's business. In the place of well-cultivated business relationships are panels of appraisers maintained by a relatively few AMCs, the largest of which are owned by the nations' biggest lenders. For the most part, the AMC is interested in a vendor rather than a professional. Their vendor is offered appraisal assignments often based on their willingness to accept a lower fee than a competing vendor, or their promise to deliver the completed appraisal report faster. For the more unscrupulous AMCs, their vendor must only meet the minimum standards of 1) having a license or certification as an appraiser, and 2) showing proof of errors and omissions insurance. Instead of selecting the best appraiser to complete the appraisal assignment on the basis of experience, knowledge and competency, the assignment is often awarded to the vendor responding first to an email blast sent to dozens or hundreds of appraisers that happen to be on the AMC panel in that state. Is it any wonder appraiser competency and appraisal quality is questioned when such tactics are employed?

In a stable market, with an abundance of arm's length transactions, it might be possible to quickly fill in the blanks on a form, decide on an opinion of value, and be reasonably accurate. Unfortunately, today's housing market is anything but stable and is replete with transfers of property tainted by circumstances that may have an effect on the eventual sales price; such as bank-owned properties, short sales, and tax sales. The development of a credible opinion of value requires research, verification, knowledge, analysis, skill and time. It is much more than merely filling blanks on a form. Often, the pressure on the appraiser to meet deadlines makes the research and analysis necessary for credible results impossible. At times, comparable sales tainted by distress are included in the appraisal report and fail to provide a reliable indication of the value of the property appraised.

[1] *Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry*. US Government Accountability Office. July 2011.

In short, unreasonably short time of completion requirements imposed by some AMCs contributes to unacceptable appraisal quality.

The independent judgment of the appraiser is compromised when AMC "reviewers" unreasonably question the use, or failure to use, specific transactions as comparable sales in an appraisal report, question individual adjustments made to the Comparable Sales, or suggest what would be considered "acceptable" adjustments. AMC personnel, who are often non-appraisers with only a cursory knowledge of valuation, and working from a checklist or printout from an automated valuation model (AVM), interfere with appraiser independence by asking or insisting that specific observations about the property, comparable sales, or market be excluded from the appraisal report. In one recent instance, an AMC reviewer's reaction to an appraiser's positive adjustment to comparable sales for an appreciating market was "you'd better rethink those date of sale/time adjustments". Other examples abound, but the day-to-day experience of appraisers in the field makes it clear the claim that AMCs ensure appraiser independence is a myth.

The altered business relationships between appraiser's and their clients, unreasonable completion time requirements, diminished appraisal fees, and interference in the appraiser's independence all contribute to the most recent issue identified as an obstacle to housing market recovery – the failure to recognize positive movement in prices and values in many market areas. Accurately estimating market value in a dynamic market has always been challenging, but not impossible. Unfortunately, the events of the past few years and the current regulatory environment tend to encourage lenders, underwriters, mortgage loan insurers, and AMCs to question an appraiser if the opinion of value is higher than that of a similar property six months earlier. Too many involved in the lending decision have forgotten that prices and values do actually rise. This is particularly true when inventories are low, demand is steady or high, and financing at reasonable rates is available. Competent appraisers are capable of extracting proof of an improving market, applying that proof by making adjustments to recently closed sales, and developing an estimate of value consistent with an improved market. This universe of competent appraisers is diminished when their independence is compromised, or when they choose to leave the business or abandon mortgage lending appraising because of unreasonable fees, unreasonable completion requirements, unacceptable assignment conditions, or scope creep.

NAR generally supported the appraisal provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act. NAR did not support the language that effectively regulates AMCs on two different tracks. The two-track approach has exacerbated many of the problems. AMCs not owned by a lender are required to register with the state appraisal regulatory body. However, Dodd-Frank exempts AMCs from the registration requirement if the AMC is a subsidiary owned and controlled by a financial institution that is regulated by a federal financial institution regulatory agency. Though it would require a legislative change, NAR continues to believe that all AMCs should be required to register with state appraisal regulatory bodies where they are providing appraisal management services. Further, NAR believes that lenders should be prohibited from retaining the services of an AMC where the lender maintains any level of ownership.

Credible Valuations in Recovering Markets. Perhaps the single biggest valuation issue that will hinder or help the recovery of real estate and the nation's economy is valuing real property in markets that are no longer declining. As mentioned earlier, it has always been a challenge for appraisers to identify value and support their opinions of market trends where neighborhood prices are in a state of transition. Identification of the transition and trend is possible if the appraiser is competent, and is afforded the opportunity to conduct the appropriate research, complete the necessary market data verification, and conduct the proper analysis. Roadblocks to housing recovery are erected when lenders, underwriters, mortgage loan insurers, and AMCs interfere with the appraiser's independence, and neglect to recognize their market derived opinions and conclusions.

Scope of Work is Critical. Scope of Work refers to the type and extent of research and analysis conducted by an appraiser to complete an appraisal assignment. At a minimum, the Scope of Work must include the research and analysis necessary to develop a credible opinion of value, and meet or exceed 1) the expectations of parties who are regularly intended users for such appraisal assignments, and 2) what the appraiser's peers would do when completing a similar appraisal assignment. Although the expectations and requirements of the client and regular intended users are considered by appraisers in deciding on the appropriate Scope of Work, interference in appraiser independence is possible when client-imposed conditions either define or limit the scope of work to a degree that assignment results (opinion of value) are not credible. The Appraisal Standards Board of the Appraisal Foundation advises appraisers that "while it is common and reasonable for the client to provide input to the appraiser regarding a desired scope of work, the responsibility for determining the appropriate scope of work resides with the appraiser."[2]

Some appraisers are leaving the industry because of unwarranted scrutiny and scope of work creep. This is a symptom of a larger buyback issue facing lenders. Lenders report that mortgages that are backed by the federal government are often required to go through additional review because the currently regulatory environment indicates that lenders will be required to re-purchase or buyback any loans with underwriting errors of any kind. Lenders have said that in the past it was accepted practice that loans that defaulted after three years generally did not default because of poor underwriting.

Lenders, underwriters, mortgage loan insurers, and the government sponsored enterprises generally are the parties who are regularly intended users of appraisals completed for mortgage loans. These parties expect sales used as comparables to be recent and to reflect current market conditions. Appraisal guidelines published by the enterprises specify broad selection criteria and specifically allow use of comparable sales that have been settled or closed up to 12 months prior to the effective date of the appraisal. The same published guidelines specifically state that "Time adjustments must reflect the difference in market conditions between the contract date of the comparable and the effective date of appraisal for the subject property. The adjustment may be either positive or negative."[3]

The unfortunate reality is that some lenders and AMCs impose assignment conditions that may prevent the appraiser from producing an independently developed, credible opinion of value. Clients can stipulate conditions in the appraisal development which can influence the appraisal conclusion. This means lenders may instruct an appraiser to include or exclude certain data such as short sales or other distressed sales as comparables. It is not uncommon for lenders and AMCs to improperly instruct an appraiser to include or exclude certain data such as short sales or other distressed sales as comparables. Appraiser members tell us that the scope of work requires upwards of 6 comparable sales located within a couple of blocks of the property and must be less than 90 days old. After receiving the report, lenders and AMCs are asking for additional comparables and analysis.

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[2] *Uniform Standards of Professional Appraisal Practice*. 2012. Advisory Opinion 28 – Scope of Work Decision, Performance, and Disclosure
[3] *Fannie Mae Selling Guide* – 5/15/2012, Date of Sale and Time Adjustments, Page 581

Eventually, an appraiser has no choice but to include the distressed property regardless of whether it is appropriate for the subject property. The Appraisal Foundation warns that when a "client stipulates the inclusion or not of a particular type of comparable, the appraiser may have to revisit, with the client, the type of value developed"[2]. This will help ensure that a misleading analysis or assignment result is not reported. In other words, the opinion of value developed under such conditions may not be Market Value. Lenders, underwriters, and the enterprises, however, expect a Market Value opinion when evaluating the collateral for a mortgage loan.

AMCs often require appraisers to accept any and all liability if a loan defaults if there is any claim related to the value of the property. Appraisers should bear the responsibility for producing credible appraisal reports based on reliable data and strong analysis. Insisting the appraiser accepts all liability for a process that is otherwise out of their control negatively impacts the appraiser's ability to complete a credible report. This also adds unnecessary risk to the mortgage transaction and to the broader real estate market's still fragile recovery.

NAR supports the independence of the appraisal process and believes this independence should be strengthened to ensure that appraisals are based on sound and fair appraisal principles. Federal rules and regulations from Truth in Lending (TILA) to guidelines published by the government sponsored enterprises (GSE)[4] to Interagency Guidelines work to ensure independence in the valuation process. In practice, there is little independence in valuation of real property. Appraisers are beholden to their clients, fear being black listed, and are often improperly blamed for loan defaults and other losses.

Appraisal pressure undermines the integrity of the mortgage lending process if the result is a mortgage loan made based on inaccurate property valuation. Such interference with appraiser independence must cease.

Establishing a Trend - Statistical Tools for Analysis. Identifying and proving a trend has always been a challenge for appraisers because most of the data is retroactive. Housing price indexes published by government agencies, trade groups, and data aggregators are helpful, but have significant lag times,

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[2] *APB Valuation Advisory #3: Residential Appraising in a Declining Market*. The Appraisal Foundation. May 7, 2012.

[4] Government sponsored enterprises (GSE) refers to Fannie Mae and Freddie Mac.

and rarely have the specificity to identify trends in incredibly local, granular housing markets. It takes time to develop a trend – spotting a trend and proving it are very different things.

Identifying trends can be assisted with technology. Recent publications have noted that appraisers increasingly have access to automated valuation models (AVM) or Computer Assisted Mass-Appraisal (CAMA) models. This technology can allow appraisers to access and develop their own statistical tools to support opinions about market trends. NAR offers REALTORS® Property Resource (RPR) as a member benefit, which includes tools specific to appraisers. Advanced reporting features offered by RPR allow the REALTOR® to create custom reports to provide to clients and customers. These reports, sourced from a rich database of public and private multiple listing service information, will be available to all NAR members, regardless of their professional specialty. We expect our appraiser members will use these reports to provide more credible, and well supported, appraisal reports and valuation products.

Limitations of Forms and Appraisal Report Delivery. In a dynamic market the intended users of the appraisal are looking to the information and conclusions stated in the Market Conditions (MC) Addendum form to support the appraiser's opinions about demand, supply, inventory mix, and price trends. Unfortunately, because the Market Conditions Addendum form was developed and implemented to identify declining markets, it appears there is reluctance to accept the form might reveal the opposite. NAR's Valuation Committee anticipated this problem, and has been working with RPR to develop a means to auto-populate the Market Conditions Addendum form. The initial approach was to do it "by the book" and stick to populating the fields that are provided in the form. According to Committee members, the overall implementation RPR was proposing - the possibility of extracting different types of analytics from the RPR site to create graphs and charts to clearly illustrate and "make the case" to lenders, underwriters and AMCs would make the appraisal report much more useful to lenders, underwriters, AMCs, and consumers. This discussion clearly illustrated the limitations of the current reporting format.

Our efforts to enable our appraiser members to provide more information and make graphical content more useful and meaningful to clients and consumers may not have the intended effect. Appraisers routinely supplement the standard appraisal form and Market Conditions Addendum with narrative comments, explaining the characteristics and conditions of the market in detail. Some are already supplementing their narrative with spreadsheets and graphs to further illustrate not only the trend, but the data and analysis considered in developing the appraiser's conclusion. It is unfortunate that this additional information is often never delivered to the AMC, lender, or underwriter due to the limitations imposed by some of the appraisal report delivery portals. In other words, in many cases, it is not uncommon for the intended user to receive an appraisal report containing less information and supporting documentation than the appraiser produced. This shortcoming must be corrected.

Definitions May Impact Value. The scope of work for most mortgage loan valuations requires the appraiser to indicate if the market is declining, stable, or increasing. The appraiser's opinions and conclusions are often measured or tested by lenders, mortgage insurers and AMCs by comparison to a published national or proprietary index of complied data. These often lag actual market trends and are not specific to the market or neighborhood identified by the appraiser in the report. Pressure on the appraiser to make their report conform to old data and published conclusions is inappropriate, interferes with appraiser independence, and will produce misleading results.

There are often discrepancies between areas identified as "markets" by publishers of information and appraisers. It's not uncommon for published sources to identify broad areas such as MSAs, regions, counties, zip codes and census tracts. Appraisers may define the market by neighborhood, school district, geographic boundaries, or property type. With varying definitions of "markets" it's easy to understand how an appraiser's observations, opinions and conclusions are sometimes at odds with what some lenders, underwriters, mortgage loan insurers, and AMCs believe. The actual market may be improving, despite a published index stating a different trend.

Funding State Regulators. One of the most significant challenges to the regulation of appraisers is the current funding structure of appraisal programs at the state level. In most states and jurisdictions, licensing and certification fees paid by the appraisers to the state are to be used for funding state appraisal boards. However, in many cases these fees are directed to a state's general fund, causing the state appraisal board to compete with other state discretionary programs for funding. Inadequate funding of state appraisal boards means that recommendations offered by ASC through site visits and Compliance Reviews are difficult, if not impossible, to implement. States are struggling financially but reducing funds for appraisal regulatory agencies results in insufficient protection for the public.

The regulatory burden imposed on state appraiser regulatory agencies is also affected by regular and constant changes to appraisal standards. The Uniform Standards of Professional Appraisal Practice has been amended and new versions published nineteen times since 1990. To maintain compliance with the Financial Institutions Reform, Recovery, and Enforcement Action of 1989 (FIRREA) and avoid sanctions by the Appraisal Subcommittee some state regulatory agencies must seek regular legislative action to incorporate the modifications. Resources devoted to legislative activity reduce those dedicated to their mission of appraiser regulation and consumer protection. Banks, lenders, underwriters, the public and appraisers might be better served if the standards were standard.

Human Capital Turnover. The number of appraisers in the industry is in decline. According to the Appraisal Subcommittee[5], the number of credentialed appraisers is down more than 5,000 since the peak in 2006. The Subcommittee notes that it is not uncommon for appraisers to hold multiple state credentials, and the number of individuals is likely down even more. NAR appraiser members report that their colleagues are leaving the industry for many reasons. Perhaps the most cited reason is that experienced appraisers refuse to work under the current AMC imposed climate.

The level of scrutiny and blame being placed on appraisers is unprecedented. The scope of work continues to expand while fees and turnaround times are diminishing. After a report is submitted it is often compared against an automated valuation model (AVM) or a broker price opinion (BPO). If the report is not within the threshold determined to be acceptable by the client it is the appraiser and their report facing the scrutiny, regardless of whether the report is or is not credible. The appraiser is the party expected to justify their work with additional sales, additional listings, explanations, and data. Experienced appraisers are choosing retirement or new fields of work.

At the same time, it is more difficult than ever to become an appraiser. Individuals interested in becoming appraisers must meet education requirements, experience requirements, and pass state-administered national examinations. To become a state-certified appraiser individuals are required to take 200 hours of education coursework and complete 2,500 hours of experience within a 24 month

[5] Appraisal Subcommittee Annual Report 2011. Appendix D. National Appraiser Credential Statistics.

period. These are minimum standards as established by the Appraisal Foundation's Appraisal Qualifications Board. States may require additional training. The experience requirement, which is effectively an apprentice program, is extremely difficult to meet. Simply stated, the apprentice system is in need of reform. Experienced appraisers are often unwilling to train young appraisers because the trainer assumes all liability for work completed by the trainee.

While NAR does not have an official position on appraiser turnover, it may be time for the industry to explore alternatives. The Appraisal Foundation continues to discuss a four year college degree as an alternative to some or all of the education requirements. In fact, some college education enhancements have already been incorporated by the Foundation. Perhaps similar alternatives can be created that would offer greater opportunity for trainees to meet the experience requirements. Any alternatives to the experience requirement must continue to meet the current standards required by the Appraisal Foundation.

NAR ROLE IN VALUING REAL PROPERTY

While some organizations focus on appraisals only, the National Association of REALTORS® is the only real estate trade association that can speak with authority on appraisals and alternative valuation products. Some of our members provide broker price opinions (BPO) and comparative market analyses (CMA). Some of our members are appraisers and provide the full range of appraisal services. NAR's subsidiary, REALTORS® Property Resource (RPR), offers an AVM. NAR is positioned, along with its RPR subsidiary, to provide one of the most comprehensive sets of data and tools for determining home values.

NAR has long been proactive in seeking to ensure credible valuation of real property for our industry. In 2007, we adopted the Responsible Lending Policy that included policy positions on appraisals. The policy recommendations include the following measures to strengthen the appraisal process:

- Require lenders to inform each borrower of the method used to value the property in connection with the mortgage application, and give the borrower the right to receive a copy of each appraisal.
- Enhanced penalties against those who improperly influence the appraisal process. Those with an interest in the outcome of an appraisal should only request the appraiser to consider additional information about the property, provide further detail, substantiation, or explanation for the appraisal; and correct errors.
- Federal assistance to states to strengthen regulatory enforcement activities related to appraisals.
- Support for enhanced education requirements for appraisers.

Beginning in 2010, NAR embraced an all-encompassing approach to real property valuation. NAR Leadership recognized the shifting landscape within the industry and the demand for alternative valuation products and services. Today, NAR believes there are a variety of valuation products, each with a critical role to play in the future of homeownership. Appraisals are the "gold standard" for mortgage origination but there is an important role for BPOs, CMAs, and AVMs as well.

In February 2012, NAR adopted the Responsible Valuation Policy, which serves as our statement of federal policy on valuing real property. It serves as a guide for members and staff in advocacy efforts for federal legislation and regulatory policy. As a reminder to all members who provide these services, the policy document contains Standards 11-1 and 11-2 of the 2012 National Association of REALTORS® Code of Ethics. These standards ensure that services "REALTORS® provide to their clients and customers shall conform to the standards of practice and competence which are reasonably expected in the specific real estate disciplines in which they engage."

According to industry estimates, more than 10 million BPOs are performed annually. BPOs provide critical information for decisions, and have been widely adopted as a valuation tool in the mortgage industry and – increasingly – for government programs intended to aid the economy and help homeowners avoid foreclosure. Among other uses, these non-appraisal services can help determine listing prices and are used to estimate potential selling prices of a property. Evaluating properties depends more than ever on professional expertise and competence, the best use of technology, and a commitment to approach the valuation assignment from all pertinent perspectives. NAR now offers the Broker Price Opinion Resource (BPOR) Certification for members providing this valuable service. "BPOs: The Agent's Role in the Valuation Process" is a course specifically designed to help residential real estate agents and brokers enhance their skills in creating BPOs, reducing risk, and applying alternative valuation techniques.

BPOs and comparative market analyses (CMA) performed by REALTORS® contain, at a minimum, the information specified in Standard of Practice 11-1 of our Code of Ethics except where the party requesting the opinion requests a specific type of report or different data set, or where the opinion is developed in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer.

Except where exempted or prohibited by our Code of Ethics, state, local or federal law, a BPO should include the disclosure of a review of the subject property, subject neighborhood review and analysis, local and regional market information and trends, and a description of comparable properties that are similar to the subject property. NAR policy states that any BPO or CMA that does not provide the aforementioned components shall be disclosed by the provider of the service. Non-appraisal opinions must make it clear to the intended user that it is not an appraisal. Per our Responsible Valuation Policy:

- Non-appraisal opinions, such as BPOs, shall be prepared by a real estate licensee or registered, licensed or certified appraiser. A licensee completing these services for a client is not necessarily assured of receiving the listing of the property.
- Generally, in conjunction with the purchase of a consumer's principal dwelling, BPOs may not be used as the primary basis to determine the value of real property for the purpose of a loan origination of a residential mortgage loan secured by such property.
- When not restricted by law, non-appraisal opinions may be appropriate for many real estate transactions, such as short sales, foreclosures, and loan modifications.
- In adhering to Article 11 of the REALTORS® Code of Ethics, consideration must be given to the intended use and intended user when developing any valuation.
- A CMA is generally used to provide information to sellers or buyers in determining listing price or offering price.

NAR's policy with respect to AVMs applies to individuals, organizations, or corporations that develop AVM software and related algorithms. The end user, whether a consumer or REALTOR®, should not be held liable for the product or results provided by any AVM owned or developed by a third party. Individuals or companies that create AVMs should ensure that AVMs: 1) protect against the manipulation of data, including disassembly and redistribution without explicit authorization; 2) employ appropriate quality control measures, including disclosure of a confidence score calculated using a statistical methodology, such as forecast standard deviation; 3) utilize only data which has been explicitly licensed and authorized; 4) avoid conflicts of interest; 5) require random sample testing and reviews; and 6) not be used as the principle method of valuation in mortgage origination.

The unique value of RPR's AVM is that it incorporates real-time market information from more than 400 Multiple Listing Services (MLS) nationwide, comprising approximately two-thirds of NAR's membership. Much of this MLS data contains more than 10 years history on most properties. RPR's AVM, known as the REALTORS® Valuation Model (RVM), is more accurate than most other AVMs when tested on both the national and local levels. Incorporation of MLS data combined with accuracy allows the RVM to offer the strongest value proposition in today's market. Here are some highlights of its value:

- Captures loan performance data including delinquencies, short-sale status and REO (transparency for the REALTOR® and consumer).
- Provides extensive reporting capabilities and comparable analysis.
- Provides recent trend data on home prices in both macro and micro markets.
- Uses properties sold not currently listed for sale.
- Data is refreshed frequently to keep pace with changing markets.

Through RPR, REALTORS® have access to comprehensive tools to improve comparable property selection to determine the tradeoff between days on market and price. This also allows for improved disposition of distressed properties based on local trends and connections to REALTORS® equipped to sell these unique properties. RPR is an investment in capabilities that ensure a

REALTORS® expertise in local markets remains a critical component in improving and enabling a viable housing finance system from the point-of-sale to the mortgage investor.

As a demonstration of their commitment to appraiser members, valuation, and the importance of competency, since 1993 NAR has encouraged their appraiser members to demonstrate their professional competence by earning one or both of their appraisal designations. The Residential Accredited Appraiser (RAA) and General Accredited Appraiser (GAA) designations are awarded to certified appraisers with education and experience in excess of the minimum qualifications specified by the Appraiser Qualifications Board of the Appraisal Foundation for state-certification.

RAA and GAA designated appraisers are kept up to date on valuation policy and regulation with regular correspondence developed by NAR and provided opportunities to participate in exclusive NAR provided education and seminars.

CONCLUSION

Developing and reporting property values more accurately is critical to market performance, reducing risk, and strengthening the housing finance system. There are no easy, "silver bullet" fixes to the problems facing credible valuation of real property. The issues mentioned in this testimony are further complicated by a market that nationally appears to be slowly recovering but with many local markets less healthy than others.

The National Association of REALTORS® believes that homeownership matters. We see a bright future for the housing market and the overall economy. However, our members are well aware that the future we see rests on the industry's and the economy's ability to successfully navigate some continuing and persistent obstacles. Congress and the housing industry must maintain a positive, aggressive, forward looking partnership if we are to ensure that housing and national economic recoveries are sustained. NAR stands ready to work with you on this most important issue.