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500 New Jersey Avenue, N.W.

Washington, DC 20001-2020

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**MICHELLE BRADLEY**

**2016 REAL PROPERTY VALUATION COMMITTEE CHAIR**

**NATIONAL ASSOCIATION OF REALTORS®**

**BEFORE THE**

**HOUSE COMMITTEE ON VETERANS AFFAIRS**

**SUBCOMMITTEE ON ECONOMIC OPPORTUNITY**

**HEARING TITLED**

**“ASSESSING VA APPROVED APPRAISERS AND HOW TO**

**IMPROVE THE PROGRAM FOR THE 21<sup>ST</sup> CENTURY”**

**APRIL 4, 2017**

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## **Introduction**

Chairman Arrington, Ranking Member O'Rourke, and members of the Subcommittee, my name is Michelle Bradley. I am a third generation REALTOR® with 31 years' experience as a state-certified general real property appraiser and a licensed real estate broker in Pennsylvania. I am here representing the more than 1.2 million members of the NATIONAL ASSOCIATION OF REALTORS® (NAR) who work in all aspects of real estate. NAR represents a wide variety of real estate industry professionals, including approximately 25,000 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 am currently on the VA appraiser panel and the FHA appraiser roster. In addition to being a full-time appraiser-practitioner, I am also a principal with Bradley Consultants, a real estate appraisal school. In this capacity, I author and present education courses for both real estate licensees and appraisers in multiple states. I am one of only 500 instructors certified by The Appraisal Foundation to teach courses on the Uniform Standards of Professional Appraisal Practice (USPAP). I have served as chair of the Pennsylvania Association of REALTORS® Appraisers' Forum, as well as the 2016 Chair of the National Association of REALTORS® Real Property Valuation Committee. I currently serve as the chair of the Appraisal Standards Board Issues Committee with The Appraisal Foundation Advisory Council (TAFAC).

NAR believes a strong and independent appraisal industry is vital to the home buying process and to the housing industry as a whole. A credible valuation provided by a qualified professional (1) ensures the property value is sufficient to collateralize the mortgage, (2) protects the buyer, (3) allows secondary markets to have confidence in the mortgage products and mortgage-backed securities, and (4) builds trust in the real estate profession.

NAR commends the Committee for holding this hearing on an issue that is key to the safety and soundness of the Department of Veterans Affairs (VA) Veterans Home Loan Guaranty Program. NAR is a strong supporter of housing opportunities for veterans and active-service members.

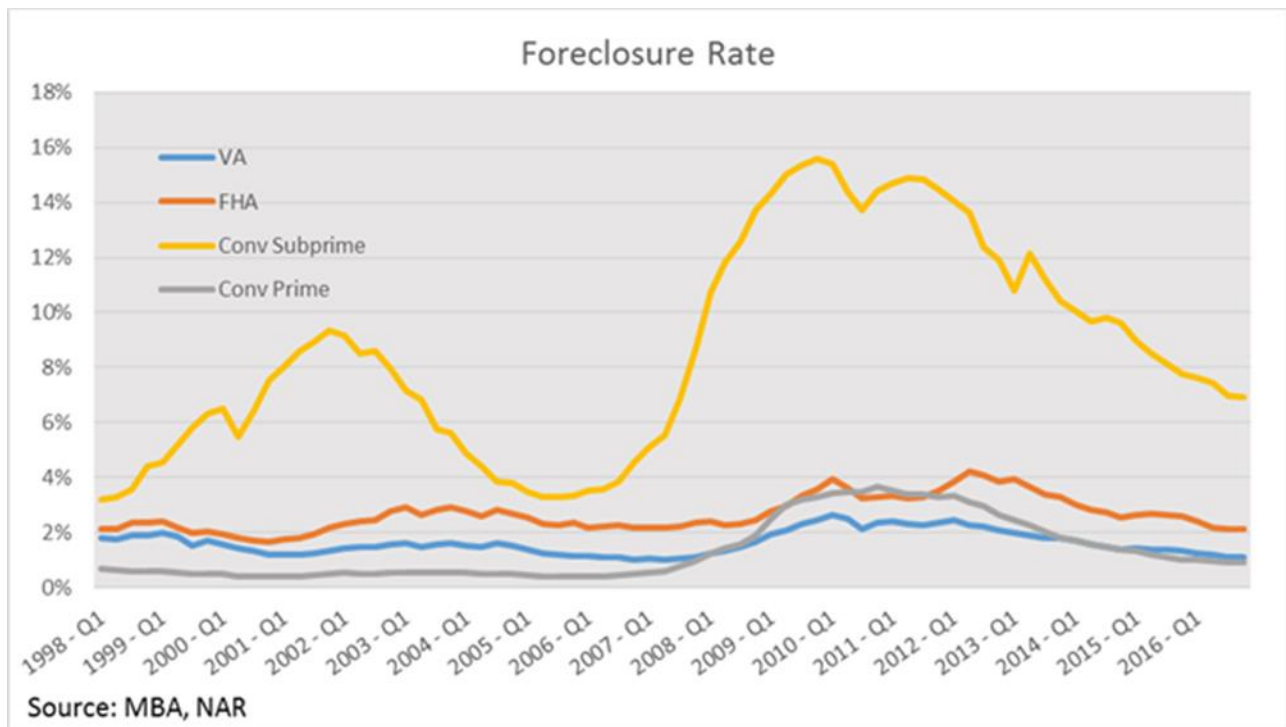
### **The VA Home Loan Guaranty Program and the Role of the Appraisal**

According to the U.S. Census, there were 19.3 million military veterans in the United States in 2014. The VA Home Loan Guaranty program serves a large veteran population and is doing it well. The homeownership rate for veterans was 76 percent in 2014 – well above the national average of 64 percent.

For over 70 years, the VA Home Loan Guaranty Program has been a vital tool that provides veterans and active-service members with a centralized, affordable, and accessible method of financing home purchases as a benefit for their service to our nation. This entitlement program

encourages private lenders to offer favorable home loan terms to qualified veterans and active-service members. According to NAR's *2016 Veterans and Active Military Home Buyers and Sellers Profile*, veterans make up 18 percent of all recent homebuyers, while active-service members make up 2.0 percent. Of these buyers, 74 percent of active-service members and 54 percent of veterans use a VA loan to finance their home purchase.<sup>1</sup>

VA's strong yet flexible underwriting standards allow veterans and active-service members the ability to purchase a home of their own without depleting their savings. More than 81 percent of veterans and active-service members utilize the zero-down payment option provided by VA. Yet, despite this, VA's foreclosure rate is very low:



In fact, during the height of the foreclosure crisis, VA's foreclosure rate was lower than that of conventional mortgages. For the second half of 2016, VA's foreclosure rate of 1.1 percent was comparable to that of conventional loans, which had a 0.9 percent foreclosure rate. Since 2009, more than half a million veterans, active-service members, and survivors kept their homes, at a savings to the U.S. Government of over \$16.3 billion.

The success of the VA Home Loan Program is the result of the strong underwriting standards expected of VA lenders. VA requires participating lenders to ensure that the loan payments are appropriate for the veteran or active-service member's present and anticipated income and expenses and solidly underwrite the loans using debt-to-income ratios and credit history. Additionally, in contrast to conventional lending and even FHA, VA also uses a residual income test. Residual

<sup>1</sup> National Association of REALTORS®, *2016 Veterans and Active Military Home Buyers and Sellers Profile*.

income calculates how much income a borrower will have left for other monthly expenses after home payments. This calculation considers the borrower's complete financial picture, and ensures money is available for emergencies or other contingencies. VA also requires the use of manual underwriting for those veterans and active-service members who marginally qualify. For these borrowers, lenders must look at non-traditional factors and give veterans and active-service members the benefit of the doubt when making a decision.

A major element of the strong underwriting provided by VA lenders is the well-developed appraisal system and high quality of VA appraisers that the VA employs to estimate the value of a given property. The VA appraisal is important because it assures the lender the property provides adequate collateral for the loan and protects the veteran or active-service member from overpaying for a property. The typical VA appraisal report will include the necessary data and analysis to estimate the market value for loan underwriting and determining the home meets the VA's requirements. The VA allows for two levels of appraisal scrutiny (1) the lender reviews the appraisal, and (2) the VA Regional Loan Centers then reviews the appraisal for any errors or concerns. This double oversight procedure creates a safety net for the veteran or active-service member that assures their home meets the VA's minimum property requirements and contains enough value to act as collateral against the loan.

The VA recognizes the value of qualified appraisers that create sound valuations, which protect VA buyers and lenders. Only appraisers that meet a high level of work quality and experience are able to become members of the VA appraiser panel. Every VA appraiser must be a state licensed or certified appraiser with a minimum of five years' experience in appraising residential properties. The VA also requires letters of recommendation attesting to the applicant's character and experience as a residential appraiser. As a result, VA appraisers are serious about their profession, their duty to the veterans and active-service members they are serving, and thus strive to produce well-documented, credible appraisal reports in a timely manner.

The VA maintains a closed panel of appraisers that receive VA appraisal assignments on a rotating basis. This ensures strict appraiser independence by removing the possibility of collusion between the lender and the appraiser. An independent and impartial analysis of real property is a critical component of the mortgage transaction, which is consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act that implemented rules and regulations to protect the independence of the appraiser.

### **The Perceived Appraiser Shortage**

NAR has been closely following the growing concern over a perceived shortage of appraisers reported by real estate professionals from various geographic areas, including markets with quickly increasing home values such as Portland, OR and Denver, CO, as well as rural areas in Kansas and Texas. NAR members report long waits to schedule an appraisal, increasing turn-around times for

appraisals, and the need to pay rush or expedited fees to obtain an appraisal in a timely manner. NAR is also aware of difficulty in recruiting new appraisers into the field and the growing frustrations of current appraisers with the state of the appraisal industry.

All this suggests a drop in the number of appraisers in the U.S. Yet, the data provided by David Bunton, President of The Appraisal Foundation, shows less than a 1,000 person reduction in appraisers from 2004 to 2015. Digging deeper into the data, the number of licensed appraisers decreased by several thousand while certified appraisers increased by roughly 20 percent.<sup>2</sup> So why are many markets facing situations that suggest a much greater shortage of appraisers? To gain a richer understanding of these matters, NAR conducted a survey of REALTOR® appraisers in early 2017.<sup>3</sup>

NAR found that appraisers are generally dissatisfied with most elements of their job. Over 50 percent felt dissatisfied with their level of compensation and overburdened by the level of regulation in the appraisal industry. Those appraisers intending to leave the profession in the next five years cited excessive regulation and insufficient compensation as the two main reasons for their departure.



2017 Appraiser Trends Study

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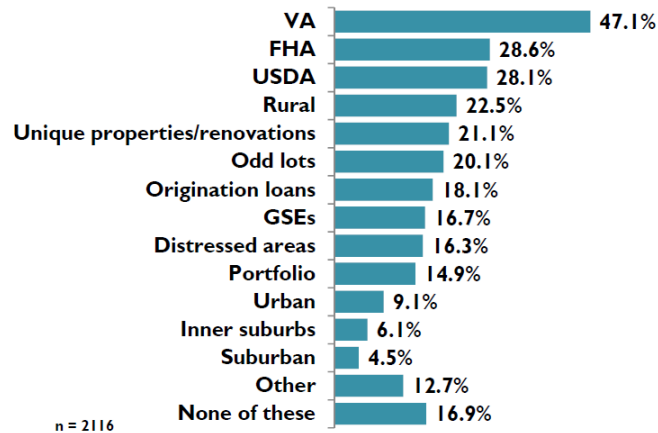
One element of this issue is that appraisers, like individuals in any free-market based profession, have the ability to choose the assignments based on their skills, limitations, financial needs and interests. Many qualified appraisers indicated a reluctance to take on certain assignments.

<sup>2</sup> <https://www.appraisalbuzz.com/a-shortage-of-appraisers/>

<sup>3</sup> National Association of REALTORS®, 2017 *Appraisal Trends Survey*.

# Assignments Foregone

VA loans are the appraisal assignments that respondents were most likely not to perform.



2017 Appraiser Trends Study

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NAR found that 47.1 percent of the survey respondents chose not to perform VA appraisals. Of course, some of the appraisers surveyed are likely not qualified to be a member of the VA appraisal board. However, it is also likely that some appraisers who are well qualified to join a VA appraisal panel may be unwilling to accept VA assignments. Given the current low-interest rate environment, growth in the economy, and the resurgence of a demand for housing<sup>4</sup>, the opportunity for appraisers to be selective in choosing assignments has likely increased. The VA should consider whether the current VA Appraisal Fee Schedules provide adequate and reasonable compensation in light of the work and competence necessary to perform a VA appraisal. While the VA allows for the appraiser and the lender to negotiate a mutually acceptable fee for complex assignments, that can be a time-consuming, cumbersome, and thus costly endeavor. There is also no guarantee that the parties will reach an agreement or that VA will even consider or agree to a fee that is inconsistent with those set forth in the VA schedules.

## Overly Burdensome Trainee Appraiser Requirements

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 in a minimum of 24-month period.<sup>5</sup>

<sup>4</sup> <https://www.nar.realtor/news-releases/2016/11/nar-2017-forecast-existing-home-sales-up-a-turning-point-for-first-time-buyers>

<sup>5</sup> Real Property Appraiser Qualification Criteria. 2015.

These are minimum standards as established by The Appraisal Foundation's Appraisal Qualifications Board (AQB). States may require additional training. The experience requirement, which is effectively an apprentice program, is extremely difficult to meet. This is compounded by the fact that some appraisers do not take on trainees. For example, less than one in five appraisers surveyed by NAR currently take on trainees. Of the appraisers that currently do not take on trainees, over half previously did so. The lack of compensation for teaching and the refusal of lenders to accept work product done by trainees are the main reasons cited for refusing to take on new trainees.<sup>6</sup> Simply stated, the apprentice system is in need of reform.

The AQB is in the process of revising the qualification requirements as a way to help bring new appraisers into the industry. Recent proposed changes include introducing alternative way to comply with the current Bachelor's degree requirement and the practical experience components. NAR has engaged with the AQB on these matters for over a year and is hopeful that non-class based alternatives to the education requirement and reconsideration of the structure of the experience requirements will be developed in a way that creates highly skilled and competent new appraisers.

### **How VA Appraisals Function in Rural Areas**

Rural real estate transactions have always presented their own unique appraisal challenges. Many of the properties in rural areas are "unique" and do not easily fit into a well-defined metric for determining the value. In some cases, an appraiser is dealing with a farmhouse or ranch on several hundred acres of land with the closest neighbors miles away. It is common for an appraiser serving a rural area to drive over an hour just to view a comparable home sale. Rural appraisers have to factor in time and gas costs that exceed those of suburban or urban appraisers. According to NAR's Appraiser Trends Survey, appraisals for unique or odd lots, which many rural properties are, take nearly 50% longer than a standard appraisal.

It is important to note that Uniform Standards of Professional Appraisal Practice (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. Geographic competency entails more than a deep analysis of the sales and demographic data. Appraisers must take the time to learn the characteristics and qualities of the specific market, including the current housing supply and demand for that area.

REALTORS<sup>®</sup> from rural Michigan document the challenges faced. For example, a REALTOR<sup>®</sup> working with veteran clients in rural Michigan is aware of only two VA appraisers that take on assignments in their area. One of these appraisers comes from one hour away. The other works in a

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<sup>6</sup> National Association of REALTORS<sup>®</sup>, 2017 *Appraiser Trends Survey*.

town a three-hour drive away. Unfortunately, the experience of REALTORS® in Michigan is that the appraisals in VA transactions have recently been coming in well below the agreed upon selling price, in one situation \$60,000 lower. REALTORS® across the country, including Texas and Oklahoma, have shared similar anecdotes.

Recently, many home purchase transactions across the country have come undone due to a difference in the sales price and the appraised value of a home. Unlike with other forms of financing, in a VA loan transaction, when an appraiser realizes that the appraised value of a property is coming in below the sales price, they are to stop work and notify the lender's point of contact. This process is called the Reconsideration of Value, often referred to as the "Tidewater Initiative". After notification by the appraiser, the lender's point of contact has two days to provide support for the sales price, which can include additional comparable home sales. The appraiser reviews any information provided and then completes the appraisal report. In some cases, it may result in a revised appraised value for the property. In the Michigan example cited, it did not; the appraised value remained below the listing value and the deal fell apart.

NAR's members understand the reality is that sometimes real estate deals will fall apart over a difference in appraisal value versus the agreed upon selling price. Nevertheless, there are best practices to address these situations and ideally reach a satisfactory conclusion. An effective solution to these conflicts with the appraisal and the buyer's expectation is to improve the understanding between the parties. Contact between appraisers and real estate agents and their clients is not prohibited and should, in fact, be encouraged by the VA. Appraisers should feel comfortable with offering 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 understanding should be encouraged, NAR also believes that coercion and other attempts to influence value are, and should continue to be, prohibited. If all parties feel that contact and information was received properly, the ability to understand the difficult outcome of failing to purchase a particular house is much easier for the veteran or active-service member to handle.

### **Conclusion**

The NATIONAL ASSOCIATION OF REALTORS® strongly supports housing opportunities for our nation's veterans and active-service military professionals. The VA Home Loan Guaranty Program appraisal system is an imperfect but necessary element to ensure our veterans and active-service members are protected when using a VA home loan. NAR is willing to work with the VA and the members of this Committee to address many of needs of the current system, including the re-evaluation of requirements for trainee appraisers, ensuring good understanding between the appraiser and the veteran or active-service homebuyer, and recognizing the realities of the market in terms of appraiser choice in assignment. NAR firmly believes that the VA Home Loan Guaranty Program will continue to provide a vital benefit to the men and women who bravely fought for our country, so they may find a home that serves them and their needs.