

# NAR Issue Summary

## 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 a perceived shortage of appraisers, the increased use of automated or alternative valuation methods, and the challenge of attracting new appraisers to the business.

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

**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.

**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.

**Federally Related Transactions:** The current federal de minimus level for requiring an appraisal, rather than an alternative valuation method, in a federally related mortgage transaction is \$250,000. There is debate on increasing that threshold to \$500,000 to reduce unnecessary burdens on lenders. However, many in the industry, including NAR, are concerned that a reduction in the de minimus would have a negative effect on safety and soundness in the housing market.

**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.

### 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

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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. However, some in the real estate industry are frustrated by some appraisals coming in below the listing value, effectively ending transactions. Agents in certain geographic areas or with clients using certain types of funding, notably VA loans, suggest this happens more often than not. Some data suggests this affects only 10% of the mortgage transactions. This along with concerns that appraiser shortages are leading to "rush" fees and higher pricing, while also causing delays in the transaction, has increased the call for raising the Federally Related Transaction de minimus and promoting the use of alternative or data driven valuation methods.

### **Legislative/Regulatory Status/Outlook**

NAR closely monitors federal legislative and regulatory issues related to valuations. There is currently no legislation impacting the appraisal issues outlined above.

### **Past Legislative Action**

On November 16, 2016, the House Financial Services Committee, Subcommittee on Housing and Insurance, held a hearing entitled: "Modernizing Appraisals: A Regulatory Review and the Future of the Industry." The hearing focused on concern over a shortage of appraisers working in the field, improving the ability to appeal an appraisal while maintaining safety and soundness, concerns with over-regulation as a result of Dodd-Frank, and the regulatory oversight framework of the appraisal industry. NAR submitted a statement for the record.

On April 4, 2017, Michelle Bradley, the 2016 NAR Real Property Valuation Committee Chair, testified before the House Committee on Veterans' Affairs – Economic Opportunity Subcommittee at a hearing entitled "Assessing VA Approved Appraisers And How To Improve The Program For The 21st Century." The hearing focused on the Department of Veterans Affairs (VA) Home Loan Guaranty Program and concerns with long wait times to schedule a VA appraisal and a potential shortage of appraisers, especially in very rural areas.

### **Past Regulatory Activities**

On January, 26, 2015, Fannie Mae made Collateral Underwriter (CU), an appraisal risk-assessment tool, available to lenders. NAR members were concerned that this could add time to the appraisal process and force appraisers to use lower-value, lower-quality comps. Fannie Mae, however, feels that the tool is superior to current lender check-lists and engagement letters and that it will prevent some of the call-backs appraisers receive from underwriters for additional or lower comps. NAR has watched the roll-out of CU closely and have asked members to give NAR feedback about issues that may arise.

On September 30, 2016, following concerns brought up by NAR, FHA revised the Single Family

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Housing Policy Handbook. FHA removed the language that an appraiser “must operate all conveyed appliances and observe their performance,” and replaced it with “must note all appliances that remain and contribute to the market value.” FHA also provided a clear definition of which items are considered “appliances” for the purpose of an FHA appraisal. NAR continues to monitor the impact the Single Family Housing Policy Handbook is having on appraisers and the appraisal industry.

On October 24, 2016, Fannie Mae introduced Day 1 Certainty™ which offers lenders freedom from representations and warranties on appraised values through Collateral Underwriter® and enhanced waivers of property inspection requirements on refinances. The program went into effect on December 10, 2016, and NAR is currently assessing the impact on home transactions and valuations.

As of August 18, 2017, Fannie Mae allows lenders to receive a Property Inspection Waiver (PIW) on certain one-unit principal residence and second home purchase transactions with loan to value ratios up to 80%, rather than a traditional in-person appraisal. Home value is determined through Fannie Mae's data based valuation methods. Fannie Mae will require that the property in question have a prior appraisal in electronic format that has been analyzed by Fannie Mae's Collateral Underwriter®.

As of September 1, 2017, Freddie Mac will utilize their automated collateral evaluation (ACE) to determine home value for certain purchase transactions, rather than a traditional in-person appraisal. Freddie Mac uses data from multiple listing services and public records as well as their own data of historical home values to determine collateral risks. Homes must have an 80% or lower loan to value, be a one unit single-family residence, and the borrower's primary residence. Prior appraisals on the property are not required.

On February 1, 2018, the Appraisal Qualifications Board (AQB) adopted changes to the *Real Property Appraiser Qualification Criteria* at a public AQB meeting in Washington, DC. The changes include flexibility in education requirements, with the Licensed Residential certification no longer requiring a Bachelor's degree. The Certified Residential certification education requirements may be fulfilled through a Bachelor's degree in any field or an Associate's Degree and/or 30 credit hours completion in relevant subjects. Licensed Residential appraisers wishing to become Certified Residential appraisers may substitute five years of work experience for the education requirements. In addition, experience hours for all levels of appraiser credentials have been reduced.

### **Current Legislation/Regulation (bill number or regulation)**

[Final Rule on Appraisals for Higher-Priced Mortgage Loans](#)

[Final Rule on ECOA Free Appraisal Requirement](#)

[Final Rule on Minimum Requirements for Appraisal Management Companies](#)

[Update to FHA Single Family Housing Policy Handbook](#)

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