

### 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 Marcia Fudge. 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 Activities

**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.

### Past Legislative Activities

**On February 26, 2021**, NAR submitted comments to the Federal Housing Finance Agency's (FHFA) Request for Information on Appraisal-Related Policies, Practices, and Processes (RFI). NAR provided input on several of the questions posed by FHFA in the RFI, focusing mainly on concerns related to risk in the valuation space, the role of technology, and discrimination in appraisals and other valuation products. In general, NAR believes a traditional, in-person appraisal continues to provide the most comprehensive and thorough

opinion of value for a real estate transaction. NAR also supports innovation in the valuation field and allowances for various forms of appraisal type depending on the need of the transaction. Continued work in improving the valuation field must ensure fair and sound appraisal practices and processes.

**On September 27, 2019**, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively "the Agencies") adopted a [final rule](#) increasing the threshold for requiring an appraisal in residential real estate transactions from \$250,000 to \$400,000. Federally related transactions under \$400,000 will require an evaluation, rather than a full appraisal, to determine value of the real estate in question. A federally related transaction is a non-Fannie Mae or Freddie Mac transaction and a non-federal financed transaction, such as loans under the Federal Housing Administration, the Rural Housing Service or the Department of Veterans Affairs.

**On July 18, 2019**, The National Credit Union Administration (NCUA) Board issued a [final rule](#) increasing the threshold below which appraisals are not required for commercial real estate transactions from \$250,000 to \$1,000,000. The rule also incorporated into the regulations Section 103 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. This will exempt from appraisal requirements certain federally related, rural real-estate transactions valued below \$400,000 if no state-certified or state-licensed appraiser is available.

**On July 5, 2019**, Rep. Wm. Lacy Clay (D-MO) introduced H.R.3619, Appraisal Fee Transparency Act of 2019. The bill adds trainee appraisers to the National Registry of Appraisers, allows the Federal Financial Institutions Examination Council's Appraisal Subcommittee to adjust annual registry fees for appraisal management companies, requires the disclosure of appraisal fees in the case of an appraisal coordinated by an appraisal management company, allows nonprofit organizations and institutions of higher education to receive certain grants, and adds a designee of the Department of Veterans Affairs to the Appraisal Subcommittee. The bill passed the House of Representatives on September 19, 2019.

**On June 20, 2019**, the House Financial Services Committee, Subcommittee on Housing, Community Development and Insurance, held a hearing entitled "What's Your Home Worth? A Review of the Appraisal Industry." The hearing focused on recent research suggesting homes in majority black neighborhoods are valued at roughly half the price as homes in neighborhoods with no black residents. NAR is actively exploring this issue and working with partner organizations to ensure fairness in home valuations.

**On June 5, 2019**, U.S. Sens. John Thune (R-S.D.) and Jon Tester (D-Mont.) introduced the Federal Housing Administration (FHA) Appraiser Eligibility Expansion Act (S. 1722), legislation that would give licensed residential appraisers the ability to conduct appraisals on FHA properties. The bill would increase the pool of appraisers who are eligible to conduct appraisals on FHA properties, but would not place additional education, training, or competency requirements on any appraiser that is currently conducting FHA appraisals, nor would it place additional requirements on appraisers not wishing to conduct FHA appraisals. NAR supported this bill.

**On May 20, 2019**, U.S. Rep. Brad Sherman (D-CA) introduced the H.R. 2852 Homebuyers Assistance Act of 2019, legislation that would allow licensed residential appraisers the ability to conduct appraisals on FHA properties. Appraisers would be required to obtain specific educational requirements in order to perform the FHA appraisals. The bill passed the House of Representatives on September 10, 2019. NAR supported this bill.

**On May 22, 2018**, Fannie Mae and Freddie Mac, at the direction of the Federal Housing Finance Agency, announced a multi-year initiative that will explore options and make recommendations regarding changes to the Uniform Appraisal Dataset (UAD) and uniform appraisal reporting forms. As part of a greater appraisal process modernization, both Freddie Mac and Fannie Mae will be looking at ways to support emerging technologies and data updates over the next few years. Fannie Mae and Freddie Mac are working closely with NAR and other stakeholders in this process, including holding engagement sessions with REALTORS® and NAR staff.

**On April 2, 2018**, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively the Federal Banking Agencies) agreed with prior comments sent by NAR and issued a final rule increasing the appraisal threshold for commercial real estate Federally Related Transactions from \$250,000 to \$500,000. Commercial transactions that do not meet the new \$500,000 threshold must still obtain an evaluation of the real property that is consistent with safe and sound banking practices.

**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)**

[Real Property Appraiser Qualification Criteria](#)

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

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

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