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Mr. Gary Taylor
Chairman
Appraisal Practices Board
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005

Dear Mr. Taylor:

On behalf of the 24,000 members of the Appraisal Institute, thank you for the opportunity to provide comments in response to the Appraisal Practices Board's (APB) First Exposure Draft – *Residential Appraising in a Declining Market*.

We have reviewed the Exposure Draft and we are pleased to note that it liberally references Appraisal Institute publications as authoritative sources on this important issue. This is an affirmation of the Appraisal Institute as an industry leader in real estate valuation and demonstrates great respect for the Appraisal Institute's Body of Knowledge that has been developed and maintained over its almost 80-year history. Of particular note, the *Appraisal of Real Estate, 13th Edition*, is widely considered the authoritative text on real estate appraisal, having been cited in nearly 700 U.S. court decisions.

Beyond textbooks and articles, the Appraisal Institute offers an array of educational offerings that are relevant to Exposure Draft's topic. Examples of courses that delve into adjustment of comparable sales for seller concessions include the following:

- *Basic Appraisal Procedures*;
- *Residential Sales Comparison and Income Approaches*; and
- *Real Estate Finance, Statistics, and Valuation Modeling* (which includes cash equivalency for special financing).

Seminars are another avenue that the Appraisal Institute uses to provide guidance to its members and the appraisal profession-at-large. It is worth noting that several years ago the Appraisal Institute developed a seminar – *Appraisal Challenges – Declining Markets and Sales Concessions* – covering this very subject. Other seminars that directly relate to this topic include:

- *A Lender's Guide to the New URAR*;
- *Appraisal Curriculum Overview*;
- *Introduction to FHA Appraisal*;
- *Supporting Sales Comparison Grid Adjustments*; and
- *Real Estate Finance and Investment Performance*.

As the premier education provider and holder of the Body of Knowledge, the Appraisal Institute stands ready to continue providing guidance and education on these and other subjects.

It is also worth noting that the Appraisal Institute publishes voluntary Guide Notes to its Standards of Professional Appraisal Practice. This guidance is available to all appraisers, free-of-charge, on the Appraisal Institute website. Last month, the Appraisal Institute Board of Directors approved *Guide Note 11, Comparable Selection in a Declining Market*¹. Additionally, last year the Appraisal Institute issued a public awareness document entitled,

¹ Available at http://www.appraisalinstitute.org/membership/downloads/cpe/guide_notes_nov2011.pdf

"*Making Sense of the Nonsense – Providing Credible Appraisals in a Declining Market*,"² that also discusses this issue in detail.

Representatives of the APB have indicated one of the motivations behind the APB was that many appraisers choose not to affiliate with a professional appraisal organization and therefore do not have access to timely guidance. In fact, most appraisers actually do seek out guidance and education from the Appraisal Institute. For example, since 2005 more than 80,000 individually licensed or certified appraisers took a course or seminar from the Appraisal Institute. This figure includes 60,000 non-members.

We are confident that the AI Body of Knowledge and instructional courses are well-respected and at the top of the profession, and we again invite any and all appraisers to take advantage of our educational offerings. We also would welcome and appreciate the APB encouraging appraisers to seek out such education from the AI.

Further, we encourage the APB to include an appropriate disclaimer, such as the one found below, which makes clear that the guidance it provides is truly voluntary in scope. In reading this exposure draft, it is not clear that the APB is limiting the use of these documents for this purpose. This concern is elevated by a recently proposed amendment³ offered by The Appraisal Foundation during consideration of the Dodd-Frank Act, which actually proposed to codify such works.

We have heard that some state appraisal regulatory agencies may consider codifying APB guidance documents. This, and the amendment offered by The Appraisal Foundation, gives us pause for great concern, as we believe that voluntary guidance should not be codified for regulation. Regulatory bodies have sufficient powers within USPAP itself to provide for the regulation of appraisers. Financial resources have long been the most persistent challenge facing state enforcement agencies, particularly for hiring qualified reviewers and investigators. The Appraisal Institute continues to address this concern head-on through legislation at the federal level (Dodd-Frank Act), which authorizes grant funding to state appraisal boards, and at the state level by working to direct appraiser licensing fees to appraiser licensing and enforcement.

However, codification of guidance or best practice documents places the quality of appraisal reports at risk, as it likely would cause appraisers to fixate on procedures, rather than analyzing and reporting the market. With appraisal, there may be more than one "right" way to approach a problem, and these may not be fully captured in guidance documents.

Codification also may stunt development of legitimate methods and techniques that are developed in response to new technologies and client and consumer needs. Already, several states⁴ have adopted through regulation Advisory Opinions from the Appraisal Standards Board for enforcement purposes. Advisory Opinions are not part of USPAP and, therefore, should not be treated as enforceable.

In light of this history, the Appraisal Institute urges the APB to remove the statement in paragraph 3, page 1 and the disclaimer found in a text box on page 3 acknowledging that guidance documents may be adopted by government agencies. Additionally, all guidance documents – including the current Exposure Draft – at a minimum, should include a clear statement in the preamble along the following lines:

This voluntary guidance for appraisers is not intended for enforcement purposes or for direct incorporation or incorporation by reference, into state laws affecting the standards by which opinions of value of real property are developed.

Appraisal Foundation involvement in the development and delivery of education is a final point of concern, and it is one that we have addressed in other forums, including before the U.S. Congress earlier this year.

² Available at http://www.appraisalinstitute.org/about/downloads/Distressed_Sales.pdf

³ See Appraisal Foundation Letter to the Subcommittee on Capital Markets. April 22, 2009. Available at <http://www.appraisalinstitute.org/newsadvocacy/downloads/TAFbestpracticesproposal.pdf>

⁴ The following states have adopted Advisory Opinions through regulation – the District of Columbia, Massachusetts, Maryland, Montana, Nebraska (property tax purposes), New Jersey, Utah, and Wyoming.

Residential Appraising in Declining Markets
December 5, 2011 (updated December 9, 2011)

Representatives of the APB have indicated in public meetings that The Appraisal Foundation has no intention of developing or delivering education, either directly or indirectly, around works of the APB. We encourage the APB to codify this policy relative to its publications.

Thank you, again, for the opportunity to provide comments.

Sincerely,

Appraisal Institute