



July 27, 2001

The Honorable Paul Sarbanes
Chairman
Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Sarbanes:

On behalf of its more than 19,000 members, I am pleased to submit the testimony of the Appraisal Institute to the Senate Banking, Housing and Urban Affairs Committee on the issue of Predatory Mortgage Lending: The Problem, Impact and Responses. Today and throughout its nearly 70-year history, the Appraisal Institute is the leading organization for professional real estate appraisers. Through its extensive educational programs, the Appraisal Institute's members are skilled in the latest methods of real estate valuation for commercial and residential properties. Reflecting their unbiased and objective approach to real property appraisal and analysis, members of the Appraisal Institute adhere to a strictly enforced Code of Professional Ethics and Standards of Professional Appraisal Practice. Appraisal Institute members hold the prestigious MAI, SRPA and SRA designations.

While the vast majority of appraisers perform their assignments ethically and properly, some have been party to faulty or fraudulent mortgage transactions. When an appraiser is involved in a premeditated property-flipping scheme, or has unwittingly been part of a fraudulent transaction, the Appraisal Institute is concerned for the victims and the economic consequences. This testimony will call your attention to a number of deficiencies within the real estate appraisal regulatory structure that allow bad actors to be involved in mortgage fraud, both in the conventional mortgage market and in the government-assisted market.

Current Appraisal Regulatory Structure

The Savings and Loan crisis of the 1980s led Congress, in August 1989, to enact the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, better known as

FIRREA or the "Savings and Loan Bailout Bill." Title XI of FIRREA, the "Real Estate Appraisal Reform Amendments," was targeted at solving appraisal-related problems. In general, Title XI required federally regulated financial institutions to use state-certified or licensed appraisers to perform appraisals in connection with federally related transactions. Of prime importance in this testimony is the fact that FIRREA requires the independence of an appraiser in a mortgage transaction, which will be discussed in more detail later in this testimony.

Title XI created a unique, complementary, yet complicated relationship between the states, the private sector, and the Federal government. Title XI recognized that the states were in the best administrative position to certify and license real estate appraisers and to supervise their appraisal-related activities. At the same time, Title XI authorized the private sector — a private not-for-profit organization, The Appraisal Foundation (and its two independent boards, the Appraiser Qualifications Board and the Appraisal Standards Board) — to establish uniform minimum appraiser qualifications and uniform standards of practice, which would be enforced by the states.

Title XI then created the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council to oversee the activities of the states and The Appraisal Foundation. State certified and licensed appraisers fund the ASC operations and a portion of the Title XI-related functions of The Appraisal Foundation through a \$25 annual fee assessed by the states. This fee is passed through to the ASC, which has amassed a sizable reserve of funds.

Title XI also authorized the Federal financial institutions regulatory agencies — the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision, and National Credit Union Administration — to adopt regulations regarding real estate appraisals made in connection with federally related transactions, including: when appraisals are required, who must perform the appraisals and the manner in which appraisals must be performed.

The Appraisal Foundation

The Appraisal Foundation is a private, not-for-profit corporation charged by Title XI with the responsibility of establishing, improving and promoting minimum uniform appraisal standards and appraiser qualifications criteria. The Foundation serves as the parent organization for two independent boards established to accomplish this mission: the Appraisal Standards Board (the ASB) and the Appraiser Qualifications Board (the AQB). These boards respectively promulgate and maintain the Uniform Standards of Professional Appraisal Practice (USPAP) and the Appraiser Qualifications Criteria. The Foundation is directed by a board of trustees, which appoints members to and provides financial support for the AQB and the ASB.

The work of The Appraisal Foundation is important to the appraisal profession, the financial and real estate industries, and to the consumer public. The Foundation's work

benefits the appraisal profession by standardizing the appraisal process and thus increasing the quality of appraisals, and by addressing issues critical to the advancement of professional valuation.

The AQB establishes minimum criteria for state certification of appraisers, and the ASB sets forth the rules for developing an appraisal and reporting its results. FIRREA requires that real estate appraisals used in conjunction with federally related transactions be performed in accordance with USPAP. These standards contain the recognized standards of practice for real estate, personal property and business appraisal. More than 80,000 state-certified and licensed appraisers are currently required to adhere to USPAP, the authority of which extends beyond FIRREA in states that made licensing mandatory for all appraisers. In those states, all appraisers are subject to USPAP. Since 1992, the Office of Management and Budget (OMB) has required federal land acquisition and direct lending agencies to use appraisals in conformance with these standards.

State Appraiser Regulatory Agencies

All state-certified appraisers must meet the AQB criteria, as imposed by the state appraiser regulatory agencies. In addition, state appraiser certification and licensing laws require certified and licensed appraisers to conform to USPAP when performing appraisals in connection with federally related transactions. USPAP is then used as the basis for enforcement actions.

Each state or territory has an appraiser regulatory agency, which is responsible for certifying and licensing real estate appraisers and supervising their appraisal-related activities, as required by federal law. Each appraiser regulatory agency is charged with licensing and certification requirements as well as oversight and enforcement over appraisers. These agencies are a part of the state regulatory structure, funded by the state legislature and appraiser licensing and certification fees, and are often found in the state departments of commerce or licensure and certification.

Regulatory Deficiencies

The regulatory structure for real estate appraisers is unique and very complex. It involves numerous boards and agencies at the state and federal level, all acting together to license, certify and provide oversight and enforcement of existing standards requirements and federal and state laws. Because the system is so complicated, it is ripe for loopholes and deficiencies.

The Appraisal Institute continually looks for these deficiencies and attempts to correct them through discussions and activities with the organizations within the current framework. The Appraisal Institute Government Relations Committee has also reviewed current laws and regulations over the past year and has compiled a list of deficiencies with these laws and regulations, that may contribute to appraisers' involvement in mortgage fraud. What follows is a listing of each of these deficiencies, as well as our recommendations on how to address the issues involved.

Revisiting the de minimis appraisal requirement

FIRREA requires that real estate appraisals used in conjunction with federally related transactions be performed by licensed or certified appraisers in accordance with USPAP. However, over the years the federal agencies and Congress have modified the law to exempt nearly 90 percent of all transactions in the residential mortgage market from being appraised by licensed and certified appraisers. Whereas originally contemplated, all transactions greater than \$15,000 would be required to be appraised by a licensed and certified appraiser, now a transaction must be greater than \$250,000 to require the use of a licensed and certified appraiser.

Higher Risk

The Appraisal Institute believes this has resulted in higher risk for fraudulent activity and abuse of consumers, and in the end, an increased risk to the safety and soundness of financial institutions. Unqualified individuals are now performing a large portion of the real estate valuation work throughout the country in the form of “evaluations,” or “broker price opinions” (BPOs), or through “competitive market analysis” (CMA) reports. In many cases, evaluations are done by staff of organizations that have a vested interest in a real estate transaction. This negates the benefit of having an independent third party involved in the real estate transaction.

We contend that these “evaluations,” estimating the value of real property are actually “appraisals” and therefore must be performed by appraisers who adhere to industry standards. Presently, there are more than 80,000 state licensed and certified real estate appraisers throughout the country available to perform appraisal assignments for federally insured financial institutions. These individuals perform appraisals in accordance with USPAP and are subject to state enforcement actions for failure to comply with these industry standards. An active state enforcement system is a necessary tool to help ensure qualified appraisal practitioners are involved in mortgage transactions. Omission of a licensing or certification requirement for properties under \$250,000 by federal agencies creates a disruptive gap in the enforcement of appraisal standards. When an individual performing an “evaluation” is not accountable and loses nothing by delivering a poor appraisal, you are putting out a welcome mat for fraud.

Only one federal financial regulator, the National Credit Union Administration (NCUA), has not raised its appraisal threshold to \$250,000. However, the NCUA is currently in the process of considering a Final Rule (generally called the Regulatory Flexibility Rule) that would raise the threshold to \$250,000. The Appraisal Institute called for a withdrawal of this proposal in May 2001.

A recent clarification to USPAP, in our opinion, allows qualified and independent appraisers to offer a range of services to lending institutions, effectively eliminating the need to increase the appraisal threshold. One of the results of this will be that a lending institution, instead of seeking a service from a real estate sales person not adhering to professional valuation standards or trained in valuation theory, will be able to consult an

appraiser for an “appraiser price opinion” (APO) where the appraiser will adhere to appraisal standards and act responsible to the state appraiser regulatory agency.

HUD Recommendation

The report published in June 2000 by the Department of Housing and Urban Development and Treasury Department on “Curbing Predatory Home Mortgage Lending” recognized the need to address this problem. The Task Force that helped write the report recommended the following: “Under FIRREA, a licensed or certified appraiser must appraise properties with a value of above \$250,000. Since many of the abuses occurring with the recent cases of predatory lending and loan flipping involve high-cost loans and fraudulent appraisals, it would be beneficial to introduce qualified appraisers into the Home Ownership and Equity Protection Act (HOEPA) arena. With this, the requirement for a licensed or certified appraiser should be extended to a property that is intended to secure a HOEPA loan.”

Because of these reasons, the Appraisal Institute recommends that Congress conduct oversight hearings on FIRREA and the appraisal threshold, particularly now that the legislation has been fully implemented for 10 years. We also encourage Congress to review the NCUA plan to increase their appraisal threshold from \$100,000 to \$250,000. For too long, federal agencies have deviated from Congress’ original intent to have appraisals performed by licensed and certified appraisers, and it is time to revisit these policies.

Client pressure

The Appraisal Institute has placed a great deal of attention on an issue commonly referred to as “client pressure,” namely, the actions of a lender, broker or realty agent to pressure an appraiser to appraise a property at a predetermined value. Many appraisers have become increasingly concerned about this pressure, so much so that in January the Appraisal Institute requested Congress to conduct an investigation into the phenomenon because we have seen evidence that it can contribute to mortgage fraud. The Appraisal Institute is aware of cases of client pressure where an appraiser acting under duress has inflated the value of a home in order for a loan to be made that is greater than the actual value of the house. In these circumstances, a homeowner will enter the home with a negative equity position, which later can lead to an assortment of problems, including default. These “higher” values also serve to exacerbate and extend the obvious risks by becoming “comps” for future mortgage transactions. Such a cycle of ever escalating values adds unnecessary risk to our mortgage finance system.

In a letter to the Senate Banking Committee and the House Financial Services Committee, the Appraisal Institute pointed out that there are cases where mortgage creditors, lenders, brokers and realty agents apply undue influence on an appraiser to artificially “make the value” on a property being appraised. The letter also stated that appraisers believe they have nowhere to turn when productive communication between client and appraiser devolves into threats to withhold future work and other coercive tactics.

Following the letter to Congress, the Appraisal Institute continued to study the issue, reaching out to appraisal clients to discuss these complaints. Federal regulators and congressional investigative committees were also contacted. From March to May this year, the Appraisal Institute met with banking community trade associations to discuss how our organizations could work together to address the issue of client pressure on appraisers.

The meetings were the first step in an effort to solve the problem of client pressure internally, without new legislation or regulation. The banking trade associations have stated that the overwhelming majority of their members comply with all relevant regulations, but indicated support for working with the Appraisal Institute to develop a “best practices statement” on acceptable and proper communications and practices between a financial institution or client and an appraiser. The groups agreed to publish educational materials in their respective membership publications.

Through the course of these activities some general conclusions have been reached about the client pressure issue:

- Client pressure is a problem experienced most often by residential real estate appraisers, although commercial appraisers have reported cases as well.
- A client has the right to communicate with the appraiser. However, there are lines that, if crossed by the client, make that communication illegal, unethical or fraudulent.
- Communication between a client and an appraiser should be encouraged. However, blackballing, ostracism and defamation of an appraiser who fails to meet a predetermined value of a client should be prohibited.
- It is the appraiser’s responsibility to report client pressure to the appropriate agency when it occurs.
- Appraisers fear retaliation from clients if they report instances of pressure when there are no systems in place guaranteeing anonymity.
- Government agencies have reporting mechanisms to accept complaints against clients pressuring appraisers.
- When an appraiser reports an instance of client pressure, it must be in writing and the parties must be named with the circumstances clearly explained.

FIRREA requires the independence of an appraiser in a mortgage transaction. However, our members say that lenders, brokers and realty agents often pressure them to meet predetermined values to help finalize a mortgage transaction. If an appraiser fails to meet the predetermined value, he or she may not receive future work from that lender and can face ostracism from others in the marketplace. Appraisers can report instances of this type of pressure to state banking regulators or to any of the five federal financial regulators when it involves officials within a lending institution, such as a loan officer. However, the appraiser must report the instance in writing and it must be addressed to the correct regulatory agency. Because of the myriad of federal and state regulators, determining which agency to report the instance of client pressure can be a daunting task.

The Appraisal Institute understands that this pressure can come not only from loan officers or bank officials but also from other parties involved in the transaction, such as a mortgage broker, realty agent or even a consumer. The client pressure problem does not always necessarily come from the "lender" who orders the report or connected with the underwriting of the loan, but rather someone connected with the "production side" of the lending process, e.g. mortgage brokers, mortgage bankers and realty agents. These parties are not regulated the same way as banks, thrifts and other financial institutions. Their production staff has incentives to produce deals. In many cases they are the underwriter of the loan as well. For these reasons, regulations could be amended to require separate individuals with different reporting structures handle the production and underwriting functions. In the end, it is important that someone who has no incentives on loan volume order the appraisal.

Unfortunately, there are no mechanisms in place for appraisers to report instances of client pressure when it comes from a broker, a realty agent or even buyers and sellers. One single location should be established to receive these types of complaints. In addition, a reporting mechanism should be established to accept complaints against brokers and realty agents.

The Appraisal Institute supports the intent of a legislative provision contained in H.R. 2513 introduced by Rep. Janice Schakowsky, D-Ill., which is meant to address pressure from lenders and mortgage brokers. It states: "No creditor or mortgage broker may compensate, directly or indirectly, coerce, or intimidate an appraiser for the purpose of influencing the independent judgment of the appraiser with respect to the value of real estate that is to be covered by a conforming home loan or is being offered as security according to an application for a conforming home loan." While this provision attempts to address client pressure, it does not assure the appraiser that other realty agents or mortgage brokers will not blacklist them. It is this risk that will keep most appraisers silent.

Recognizing the need for industry consensus, and realizing that a federal prohibition of client pressure will likely not halt its occurrences, the Appraisal Institute has reached out to mortgage banking, mortgage broker and other banking associations to plan a coordinated response to this challenge. The Appraisal Institute hopes to have a best practices statement completed in the fall of 2001. Nevertheless, it would be beneficial for Congress to review the extent of this activity through hearings or through consideration of the Schakowsky client pressure provision in H.R. 2513.

Greater uniformity among state appraisal licensure standards

As indicated earlier in the testimony, there is no requirement that all appraisers performing appraisal work be state-licensed or certified. Approximately one half of the states have a mandatory licensing requirement for appraisers, while the remainder have "voluntary" licensing. Optional licensing is a serious flaw within our profession's regulatory structure. This is evident in facts uncovered through testimony given by the Federal Bureau of Investigation at a hearing on predatory lending held by Senator Barbara Mikulski, D-Md., in Baltimore in March 2000. While Maryland ranks fifth in

the nation in mortgage fraud, New York, California, Florida and Illinois have larger problems in this area. It is interesting that these five states, those with the most egregious property flipping problems, are all “appraiser-licensing-optional,” or non-mandatory states.

The Appraisal Institute believes that licensing of all real estate appraisers doing business in the state must be mandatory. This will put all real estate appraisers doing business in a state under USPAP standards and make them liable to state appraiser regulatory agencies. These state regulatory agencies should be encouraged to adopt uniform licensure requirements to help address the problem of unqualified appraisers performing appraisals. Greater uniformity among the states would solidify standards within the profession and decrease the probability of unqualified individuals performing appraisals, and hence, potentially damaging consumers.

Model state appraiser laws

Currently, the Appraisal Subcommittee has a reserve fund with the U.S. Treasury with almost \$5 million in funds that are sitting idle. The Appraisal Institute, in reviewing how that money might be used for greater benefit, recommends that the ASC use a portion of those funds to conduct a study to foster the development of model state laws for registration, licensing and regulation of appraisers. Such a study could be conducted using the knowledge and expertise of the appraisal professional organizations or The Appraisal Foundation. Currently, there is no model legislation available to the 50 state appraiser regulatory agencies.

Financial regulatory communication

H.R. 1408, sponsored by Rep. Mike Rogers, R-Mich., is meant to encourage communication between state and federal regulators, so as to prevent fraudulent financial services professionals from exiting one field and entering another. The Financial Services Committee passed an amendment in June 2001 to include the Appraisal Subcommittee to become a part of a network of information sharing to facilitate greater communication among investigative bodies. In doing so, it would require the ASC to be a liaison to the network of financial regulators to share information available through its National Registry of real estate appraisers. The Appraisal Institute encourages Congress to pass this legislation.

Automated valuation models

The real estate industry recognizes that human error or bias even under the best of circumstances may influence the appraisal of properties using traditional approaches. The sales comparison approach is the most commonly used technique in the appraisal of residential real estate. It is based on the principle of substitution. A property is worth approximately the same as a similar property offering analogous benefits and amenities (i.e., a comparable utility). The sequence proceeds methodically, with the appraiser identifying the subject property and finding comparable properties in the same or similar neighborhoods from which to draw a comparison.

Automated valuation models (AVMs), or computer-generated databases that arrive at estimates of value, can greatly reduce the time to complete a value estimate. AVMs may also be used to ascertain trends in the market before these trends are readily discernible by traditional fee appraisers and may be used to review fee-based appraisers. AVMs come in a variety of forms. They have prevailed in the academic literature for some time, but only recently have the benefits of such models gained the attention of practicing appraisers.

The two major participants in the secondary markets, Fannie Mae and Freddie Mac, are strongly encouraging the development and use of automation in appraisal services. The increased popularity of AVMs is evident by the number of firms providing such services. Unfortunately, many of these firms' models are constructed with incomplete data, tax data, or data based on some unreliable market index, calling the accuracy of the value result into question. This directly impacts the mortgage fraud issue in that if AVM-generated values, and the data within the AVMs are flawed, it raises the possibility of widespread and even catastrophic losses in the residential mortgage market.

AVMs will most certainly change the work of appraisers. Routine assignments, such as refinancing or home equity loans in which there is little doubt that the property will carry the debt, may require less of an appraiser's services and expertise. In many ways, use of AVMs is analogous to driving an automobile. The biggest and most expensive automobile in the world is of little or no value without fuel. The fuel required to run AVMs is data, and appraisers are the best sources to provide data. Opportunities for the use of AVMs exist in other areas of the real estate industry. Brokers might employ AVMs to conduct competitive market analysis, while homeowners and prospective homebuyers might use AVMs to search for specifically priced property.

AVMs are generally less expensive than the services of a traditional fee appraiser but cannot be used on every property. They require an abundance of accurate data on the sales of a significant number of similar types of properties. AVM technology cannot replace the experience and expertise a professional real estate appraiser provides to buyers, sellers, lenders and investors. Studies have shown that having an appraiser involved in the AVM process increases the degree of accuracy. The Appraisal Institute believes Congress should carefully monitor the use of AVMs in the residential marketplace to avoid misuse.

Federal Housing Administration Reforms

The Department of Housing and Urban Development, through the Federal Housing Administration, as well as the Veterans Administration, provides government-assisted mortgage insurance in an effort to increase homeownership in low-to moderate-income neighborhoods and in the veteran community. FHA is the larger of the two programs, so it is more appropriate to discuss programmatic reforms in FHA rather than the VA. That is not to say the VA program does not deserve our attention or that it does not have flaws, for the Appraisal Institute is aware of a number of deficiencies within the VA appraisal

program. Rather, the FHA program is simply larger and thereby represents greater challenges.

To be eligible for placement on the FHA Roster of Appraisers, and thus be eligible for selection by a lender to appraise a property that will be security for FHA insured mortgage financing, an appraiser must:

- be state-licensed or certified in accordance with the minimum licensing criteria established by the AQB of the Appraisal Foundation;
- not be listed on the General Services Administration's Suspension and Debarment List, HUD's Limited Denial of Participation List or HUD's Credit Alert Interactive Voice Response System; and
- pass a HUD/FHA examination on appraisal methods and reporting.

The examination focuses on applied knowledge of the HUD Valuation Handbook, 4150.2. The examination consists of 50 questions in a computer-based multiple-choice format and is essentially an open-book examination.

The Appraisal Institute continually monitors the operation of the FHA Roster of Appraisers and fields comments and complaints about its operation. Our members report that there are a number of deficiencies with the operation of the Roster, which will be explained below.

Lender select v. fee panel

In 1994, HUD moved from what was generally referred to as the “Fee Panel of Appraisers” to the system called the “Roster” or “Lender Select of Appraisers.” Rather than having the appraisal (and appraiser) randomly ordered by FHA, the authority to order appraisals now resides with the originating lender. This change also granted full responsibility over the accuracy and integrity of the appraisal to the originating lender.

Since this modification, Appraisal Institute members report that instances of client pressure have increased greatly. This, our members say, comes as a direct result of granting the appraisal ordering authority to the lender. For example, under the previous Fee Panel system, when an appraisal was ordered, FHA would randomly select from an approved panel of appraisers. The appraiser would perform the appraisal and send it to FHA and the originating lender. The appraiser was insulated from most forms of outside pressure to hit a predetermined value.

Under Lender Select, the appraisal is ordered by the lender who keeps a roster of approved appraisers that it can tap to perform the appraisal. The assignment is then given out to the appraiser the lender chooses. The Lender Select system has handed significant power to a lender to coerce an appraiser to meet a predetermined value or deliver a report designed to facilitate the approval of the transaction. Appraisers working in FHA-generated mortgage transactions collect appraisal fees for their services. These fees range from \$275 to \$500 per appraisal. If an appraiser fails to meet or conform to the lender's desires, the appraiser mysteriously stops receiving work from that lender. This

creates a system whereby there are incentives for appraisers to conform to the wishes of lenders.

Unfortunately, this has tended to dissuade appraisers with the highest education and experience requirements from performing FHA appraisals. A recent survey of Appraisal Institute members indicates that fewer members are performing FHA appraisals. Of Appraisal Institute members that report performing fewer appraisals for FHA, 44 percent claim that client pressure is the culprit, which was far and away the greatest complaint. Then, who is performing work for the FHA? Too often, it is the least qualified and least experienced appraisers in the profession.

The Appraisal Institute is aware of individuals who were forced to leave the profession as a result of pressure being exerted through the Lender Select program. One appraiser in Louisiana followed HUD guidelines and would not succumb to client pressure. Unfortunately for him, he became known in the industry as an appraiser who could cause a problem for the client. Once the Fee Panel was changed to Lender Select, he could not secure a sufficient number of assignments to justify remaining in the real estate appraisal profession.

If HUD is to be seen as a leader in the housing industry, the Appraisal Institute believes the agency should have the most qualified appraisers performing appraisal work. With this, FHA should consider modifying its Fee Panel appraisal ordering system. The Fee Panel that existed prior to 1994 was not perfect. Largely, complaints against the Fee Panel revolved around the difficulty in being accepted on the Fee Panel or that the Fee Panel acted like a “club” of appraisers. Some of these allegations were true. If HUD were to revert back to the Fee Panel, it should allow new appraisers to be accepted on the Panel and be removed when it is shown the appraiser acts improperly.

Greater accountability of lenders over quality of appraisals

Alternatively, there are some modifications that can be made to the Lender Select program to help it run more effectively. Under Lender Select, FHA gave responsibility to lenders over the quality of appraisals being performed. Yet, FHA has sanctioned very few lenders that have failed to oversee their appraisers responsibly. Enforcement activity and penalties for lenders should be increased. In addition, Congress should clarify the authority of HUD to terminate mortgage origination approval for poorly performing mortgagees. This clarification is made within S. 1195, sponsored by Sen. Sarbanes, and the Appraisal Institute supports its passage.

Requiring mortgage reductions

HUD recently stated that it would demand lenders reduce mortgages to appropriate levels when it found loans that exceeded 120 percent of fair market value. Unfortunately, lenders have refused to voluntarily make these mortgage reductions. Meanwhile, the FHA apparently has no authority to force them to do so. To make matters worse, if those inflated mortgages end up in default and foreclosure, FHA must make good on the entire mortgage amount through the insurance fund.

The Appraisal Institute believes this system needs to be changed. Currently, lenders have no incentive to be more diligent in checking values on lending, and secondary market purchasers have no incentive to do more due diligence with regard to the loans they are purchasing. Legislative authority should be granted to FHA to induce such mortgage reductions.

Increase standards for acceptance on the appraisal roster

HUD should have only the most qualified and experienced appraisers performing appraisals on its behalf. Given this, the test for acceptance on the appraiser roster should be modified to allow for the most qualified and experienced appraisers to be accepted on the roster.

The qualifications criteria should be clarified to ensure that only those appraisers meeting AQB criteria be accepted on the Roster. A recent loophole within the FHA guidelines allowed numerous individuals on the FHA Appraiser Roster who did not meet AQB criteria and additional FHA-specific training. We understand the FHA is working to address this problem by removing those appraisers; however, it is likely that many of these individuals will be “grandfathered” onto the current Roster. Meanwhile, the Appraisal Institute has great concern over what kind of damage may have already been done by those individuals who clearly were not qualified to perform FHA appraisal work, not to mention what damage will occur if these unqualified individuals are permitted to continue preparing FHA appraisals. Congress should actively monitor this problem until a solution guaranteeing greater safety and soundness has been found.

More resources for review appraisals

HUD is required to review 10 percent of the appraisals performed for the agency. Yet, the agency has rarely been able to perform a 10 percent review. This is mostly due to the lack of resources available to HUD, which has gone through considerable downsizing over the last few years. The Appraisal Institute believes more resources should be granted to the FHA Real Estate Assessment Center so that FHA can perform a greater number of appraisal reviews. In addition, current fees paid for FHA reviews are below market for review work. The Appraisal Institute believes the FHA should raise the fees paid for review appraisals to encourage more qualified appraisers to perform review appraisal work.

There are a number of other reforms that can take place within FHA; however, most of them are geared towards greater enforcement of existing laws and modifying currently accepted programs and practices. The Appraisal Institute is committed to help HUD

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solve the appraisal-related problems having an impact on mortgage fraud, and we hope these efforts bear positive results. We will be happy to apprise the Committee of our progress along these lines.

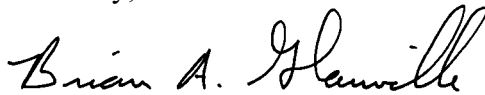
Conclusion

Predatory mortgage lending and mortgage fraud are very serious issues, damaging the lives of many people. They are also very complicated issues that will require great diligence in exposing fraudulent participants in the marketplace and developing proactive solutions.

The appraisal-related issues that are contributing to mortgage fraud are extremely complicated as well. The Appraisal Institute hopes that this testimony provides you with some background information on our concerns. In addition, the Appraisal Institute urges Congress to take up our recommendations to begin investigating these deficiencies and help craft solutions.

We look forward to working with you in developing these solutions, and thank you for this opportunity to testify. If you should have any questions, please contact Don Kelly, Vice President of Public Affairs, at 202-298-5583 or dkelly@appraisalinstitute.org.

Sincerely,

A handwritten signature in cursive script that reads "Brian A. Glanville".

Brian A. Glanville
President

