Reengineering the Appraisal Process

CRN

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Introduction

The Collateral Risk Network met in Washington DC on February 17 & 18, 2009. The CRN is a group of 135 chief appraisers and senior risk management hosted by Allterra Group LLC. This group also meets at the Valuation conferences hosted by Allterra in November of each year. The CRN is represented by Wall Street, the GSEs, lenders, regulators, and appraisal management companies.

The purpose of the meeting was to address “Reengineering the Appraisal Process”. It would be a less complex task if there were a single issue facing the appraisal profession. The problems are widespread and each is intertwined. An immediate reaction might be to tackle these problems one at a time. That might seem practical on the surface. However, given the depth and breadth of the housing market meltdown there is an urgency to resolve the current crisis as well as create a forward looking plan to repair our crippled industry. The profession has historically applied “band-aid” solutions to individual issues. The failure to examine the industry holistically has exacerbated the problems.

What role did appraisers play in the housing crisis? Appraisers didn’t directly cause values to decline. They weren’t the catalyst for homeowners to cease paying their mortgage. But they did help create fictitious equity and were complicit in facilitating trillions of dollars of loans that never should have been made. There are varying degrees of valuation inflation performed by appraisers. On the lighter side, there was just that gray area where appraisers hit the highest possible value as opposed to the most probable value. On the dark side, there was blatant fraud. And then, somewhere in the mix, was the failure for appraisers to recognize an overheated market and report trends and risk to their clients.

Appraisal issues are rarely inserted in the conversations of the pundits, Treasury, the Federal Reserve, and others. That is just further evidence of how irrelevant collateral valuation has become. The “V” in LTV is “Value” yet our part of the equation has been virtually ignored. Bank regulators haven’t been paying attention. Many State Appraisal Boards have been remiss in their duties. It’s been the “Wild Wild West”. The Mortgage Backed Securities market has virtually collapsed because of lack of confidence. If we credibly valued the underlying collateral, I would submit there would be an active MBS market. The Mortgage Backed Security market is paralyzed, in part, because no one knows what the underlying collateral is worth.

We have chosen to approach the issues holistically as the problems are systemic. Wall Street, lenders, appraisers, mortgage brokers, rating agencies, regulators, and appraisal management companies have all played a role. The fail safes of any one of these segments could have prevented, or at least moderated, the collapse of the housing market.

Process, Practice and Procedures

The Valuation Question

Historically, the GSEs have sponsored residential appraisal forms for mortgage lending that have become the de facto standard. The current financial crisis has exposed many areas of vulnerability within the multifaceted process of residential mortgage lending. As the industry identifies weaknesses in the appraisal process, we must ensure the appraisal form guides the appraiser properly and "ask the right questions".

The new 1004MC addendum is evidence that we need to require the appraiser to not only detail subject property characteristics but report and analyze market conditions and trends.

Problem: Appraisers have been criticized for being "form fillers". The appraisal process has been defined by Fannie/ Freddie forms that walk appraisers through a series of procedures to arrive at an opinion of value. New forms should be considered that remove the time consuming processes of data collection that have no bearing on the value conclusion. Appraisers are wasting valuable time focusing on many of the wrong elements. As an example, many construction features of a home can easily be aggregated into a numerical scoring system.

Solution: Form filling is just fine and is in fact most conducive to standardization. The right questions must be asked. We should in fact be working towards a more automated process. Appraisals should be underwritten effectively. Appraisers should be able to complete an appraisal more efficiently.

Problem: We utilize Fannie/Freddie forms but what if we wake up tomorrow and the GSEs are no more? That's a scary question but one that must be asked. No one predicted conservatorship.

Solution: Consider the Appraisal Foundation to serve as the sponsor of appraisal forms. A committee representing all stakeholders (inclusive of FHA, VA, Fannie Mae, Freddie Mac, and Wall Street) should be formed.

Problem: GSE underwriting standards were developed to assist lender in identifying high risk properties. In some cases, properties are non-conforming in design, appeal, condition, and/or marketability. Yet, appraisers are forced, by underwriters, to attempt to make the property fit to inflexible standards.

Solution: Return to the intent of the guidelines. Expect not all properties to conform and not all appraisals will conform. Appraisers should be encouraged, not discouraged, from reporting the unbiased truth.

Theory vs. Practice

There seems to be consensus that appraisal theory is sound. The three approaches to value remain the foundation upon which we value all real property. In fact, it was argued by many that the development of all three approaches to value be resurrected. Appraisal theory is intact. With the amount of data available today, in real time, we should be identifying new methods to analyze data and develop tools to help appraisers interpret market data.

Now with homeowners scrutinizing appraisals (and they should) we need to focus on a more consumer friendly product. We should not be exposing the appraiser to increased liability if they noted a window type incorrectly.

Problem: The process of three comparable sales on a grid is entirely outmoded. Given the availability of data in an electronic format we have few excuses. The presumed practice of "matched pairs" is just silly. There is nothing in this process that simulates the behaviors of a homebuyer.

Solution: Our practice needs to include interactive valuation models for the appraiser to define the appropriate market, be able to review large datasets, remove the outliers, and run regression tools. This process, in a transparent manner, as opposed to an AVM black box, would demonstrate to the lender all data examined as well as those sales not considered. An examination of historical sales going back to at least 24 months would allow for trending and a more thorough reporting of market conditions.
The weaknesses in this process would be lack of available data in some markets to obtain a credible result. But that holds true today with our highly manual processes. The clear advantages are that lenders would not need to order multiple products in an effort to collect data. By including the entire data set within the appraisal file this transparency allows the lender to truly review not only the final report but the logic behind the exclusion of some data.

Appraisals requiring an interior inspection should include photos of every room. There was discussion of separating the inspection from the valuation process. There are two different skill sets necessary to observe the "bricks and mortar" of a house as opposed to the analysis of market data. The valuation portion of any report should be performed by a licensed or certified appraiser. The inspection could be performed by a home inspector (using a standardized form), a trainee, or the appraiser. This would also allow the market to adjust fees commensurate with appropriate skills and training.

Most appraisers use the argument that an inspection is always necessary to provide a credible report. It is unlikely however that the appraiser has inspected the interior of each comparable sale. New appraisal forms should be created, in modules, to allow the addition or deletion of sections within a report. The forms should fit with the "Scope of Work". One-size-fits-all has helped to set the stage to allow competing products from unlicensed individuals to enter the market.

Market Value

There has been an argument made that the definition of market value needs to be examined.

"Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. parties are well informed or well advised and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

* This example definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, OTS, FRS, and FDIC on June 7, 1994, and in the Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994.

The flaws in the definition went mostly unnoticed during stable economic environments but became glaring defects when examined in the context of our current market. European markets recognize the concept of stabilized value (also referred to as “Mortgage Lending Value”.)This approach requires the use of all three approaches and places limits on how large the disparity can be between the approaches, before appraisers are required to report a lower value in frothy markets. Our markets have not recognized, until now, that residential appraisers are not just house appraisers. One by one, mortgages are collectively added to a pool. It was assumed that the risk of a single loan would not infect a pool of loans. It is much worse. The systemic disease of valuation inflation has infected the entire housing market and beyond.

The group believed that the concept of a stabilized value, i.e. value that had a longer-term perspective was viable and elevated the appraiser to not simply a reporter of market activity but a trust advisor. Having a three-year window into the future provides the lender with a greater understanding of how value changes. The short and long-term can be reconciled. Similar systems in Germany, specifically known as “Pfandbriefs” provide lenders with an alternative to traditional market value definitions. In addition, this type of perspective also considers and adjusts for the impact of volatility in the housing market. In this scenario, any value that is above the stabilized three years value is considered unsecured. This would also lead to a different set of underwriting criteria that lenders could use to properly partition risk.

We need to carefully examine the need for various types of value and risk. It has been frequently reported by lenders that appraisers are not trained well in how to complete appraisals for properties in default. Enter BPOs (Broker Price Opinions). Appraisers have been trained to look in a rear view mirror. REO appraisals require one to look at current market conditions, inventory, and the value needed isn’t market value but a quick sale value. And it is as much the fault of the lender for not communicating properly with the appraiser and providing. Valuation products and scope of work need to match risk.

While the definition of “market value” has served the lending community adequately until the recent past, what is apparent is that new value definitions must be provided in order to effectively meet the challenges of an uncertain and volatile marketplace. To that end, it is likely a good goal to have multiple values that are presented to clients. That may include, stabilized value, REO value, disposition of quick sale value, etc. All of these values can be presented to a client, based on their needs and their desire for greater understanding of market risk. Appraisers are the experts in market analysis, and they can bring this strength to their clients by understanding and presenting the nuanced indications that typifies the marketplace.

Price vs. Value

When a sale occurs appraisers are expected to get a copy of the contract and analyze it. There has been so much effort to in some markets to hide the true terms of the contract that it is impossible for the appraiser to know the legitimacy of what they have been provided. The liability to the appraiser is tremendous. The appraiser should not be expected to be the fraud investigator. It should be incumbent upon the appraiser however to determine what effect sales concessions had on comparable sales. The appraiser’s role is to estimate market value. It is the lender’s role to determine risk associated with the collateral.

The appraiser should not be expected to confirm a contract price with their appraisal. They should be free from pressure to overlook repairs and deficiencies. The appraiser should analyze trends and report market conditions as they see them.

Reporting a range of value as opposed to a single value would shift the risk responsibility to the lender. The appraiser could report the most probable price with a confidence score, within a range. The practice of hitting the highest price would become a moot point. The lender would have that number and if they want to make a 125% LTV that would be their call. This would help set the appraiser apart from the valuation inflation practices.

Single Point of Value vs. a Range of Value

A consideration of ranges of value is a concept whose time has come. Just as the earlier section discussed new types of value definitions, so too must appraisers be allowed to provide ranges of values to clients. The point values that are presently pushed to clients are too restrictive, and ultimately unrealistic from the standpoint of the true nature of the marketplace. At present appraisers are hindered by client requirements that push point value requirements. Lenders would prefer a range of values but are presently precluded from requesting such because of the requirements of the GSE's-Freddie Mac and Fannie Mae. "Systems" don't allow for a range. The lender will need to make a risk decision. In the current economic environment, a single point of value is extremely difficult to estimate even by the most experienced appraiser.

Value ranges ultimately make more sense and are more in keeping with the realities of the market. Our recommendation is that the GSE's should consider changing the system to allow value ranges.

Policy

Appraisers do not have a clear road map to complete an appraisal for a mortgage transaction. There are Fannie Mae Guidelines, Freddie Mac Guidelines, HVCC, Interagency Guidelines, FHA rules, VA rules. There are individual lender guidelines. There are State requirements. There is USPAP. There are numerous education providers, each of whom has a slightly different approach to application of theory. The communication and interpretation of policy, procedures and practice can be highly variable.

There should be one unifying set of policies and procedures. And this one set of rules needs to be part of the educational offerings. The suggestion is not that there should be singular minimum property standards, loan product types and so on. Lenders may have a different set of qualifications required of their vendors. The proposal is not to homogenize all things appraisal but to communicate a concise set or procedures.

A set of forms and product offering should be modular and expansive and run the gamut of scope yet there should be a single rule set from a single source.

Practice

With better data, appraisers would be in an enhanced position to utilize and perform predictive forecasting, which could then lead to the ability to provide stabilized values as detailed previously.

One of the key problems with tools in the past is that they separate the appraiser from the process. AVMs and other tools lack the "touch" that an appraiser brings to the process, yet they offer sophisticated analytics. Appraisers, on the other hand, provide the ability to understand nuances that an automated appraisal process cannot. What makes sense in overcoming this "disconnect" is that appraisers should be utilized to do what a model cannot. In melding appraisers more intently into the analytics of property valuation, ultimately the best of both worlds can be achieved.

There is no real change to the approaches to value under any of these scenarios. In actuality, what is required is an evolution of the traditional approaches to value. To accommodate the plethora of data and analytics that are possible today, appraisers must re-invent what is probable and what is required from the marketplace. The approaches remain relevant. What is critical is that they adequately reflect the totality of data and analysis that is possible and important to clients.

As part of this process, it is critical to note that what appraisers need is more turn-key software that can assist them in the valuation process. Appraisers can be empowered if they have the software than can consume large amounts of data, and in so doing, can provide the analytics that the market demands. It is unlikely that appraisers will develop appropriate software on their own. What is necessary is for appraisers to demand of software providers that such products be developed and pushed to the market. In this manner, appraisers can more fully utilize all of their skill sets that both empower appraisers and ultimately serve clients best. A solution of this type is more likely to occur from the top down approach being implemented from lenders or AMCs. A ground up approach is not impossible but improbable.

From this perspective, tools can help with analysis; the appraiser remains the validator, the “boots on the ground” local market expert and the client is provided with a better understanding of risk and volatility.

Technology

Problem: The practice of appraising has been trapped in the Depression Era in which it was borne.

That irony shouldn’t be lost on many. In an era of instant access to information, as a profession, we have advanced very slowly. Real estate is the largest asset class in the world. Certainly the residential collateral valuation world has remained more art than science. While highly complex instruments involving mortgage backed securities have evolved the real estate practitioner is manually analyzing three comparable sales on a grid.

From a broad perspective, the real estate markets need to aggregate data into a national property database. From a local government perspective each county and local jurisdiction needs to maintain real property databases for the purposes of levying taxes. There is no single standard from county to county, let alone state to state. The quality of the data contained within these public records databases varies greatly.

Generally speaking, real estate appraisers do not use public records as their primary data source. Multiple Listing Services (MLS) are more current and supply competing listings as well as sales. Public records are often used only to verify the MLS transactions. The multiple sources of data including economic data need to be merged under a single integrated data standard to give the appraisal community better access to facilitate the analysis of micro market trends.

From a lending perspective, Google and other public facing websites are better sources of information in our current environment. Lenders should be able to access a national property database to discern even the most minimal needs such as property type. At present, that is not uniformly possible. **Solution: The Obama administration should consider this project an “infrastructure” initiative.** The benefits would be enjoyed by government, consumers, as well as financiers of housing. It became quite apparent after hurricane Katrina that local governments as well as federal, need a geocoded national real property database. An inventory of all land and improvements thereon tied to the mortgage instrument would allow a measure of “all things real estate” in real time. The real estate market has not kept pace with the stock or commodity markets. Real estate is the largest asset class in the world yet we haven’t effectively measured it, studied it, or analyzed it, or applied it.

MLS data needs to be standardized and made available on a retail level. Local owners of data have always had fear of having their data mined and aggregated and being removed from the process. That includes real estate agents as well as real estate appraisers. Local market knowledge and analysis of the data will always be needed. Once the data is aggregated new tools and services will emerge for agents and real estate appraisers. These tools would include interactive valuation models, photo databases, economic forecasting, and predictive modeling.

Problem: There is no universally adopted appraisal data standard. The appraisal community operates in a world of competing proprietary standards which has stifled the development of new tools and services. New forms should be designed to collect information that is necessary to the valuation question. A significant amount of data is collected from the inspection of the real estate that is not essential. Economic data, however, has been overlooked and an effort to collect these data points is underway with the 1004 MC addendum. A standardized data dictionary needs to be established to deploy drop down menus within the appraisal forms. Insert the rule sets within a “mouse over” or help button relevant to each section of the report.

Solution: MISMO standards need to be mandated by Fannie Mae and Freddie Mac and FHA and VA.

It would also be advisable to move data standards as well as forms under the auspices of The Appraisal Foundation. Given the tenuous nature of the GSEs, forms should be under the ownership of TAF and should be created from a committee comprised of FHA, VA, ERC, Fannie Mae, Freddie Mac, Lenders, Wall Street and other stakeholders.

Because there is no data standard, it is rare for the underwriting of appraisals to be automated. The GSEs do not receive a copy of the appraisal until and unless the loan is in default. The lack of technology within the appraisal profession has facilitated the lack of transparency within the transfer of the appraisal files from appraiser through the chain of intended users. A repository, or clearinghouse, would ensure the safety and soundness of appraisal transactions. A ping on an appraiser registry would confirm the identity of the appraiser and a secure platform would ensure a tamper proof file.

Problem: The Internet. The Internet has done amazing things for the appraisal profession in two primary ways. First, the delivery of appraisal reports has been expedited via email delivery. Secondly, access to information (MLS, public records, maps, etc) is immediate. The problem however, is that this, and admittedly other forces, have pushed appraisers out of the cluster of professionals in an office environment, into their homes where they are isolated.

Solution: Although the advantages to disseminate information over the Internet are obvious it should be mandatory that appraisers take a minimum number of hours of continuing education in a classroom among their peers. USPAP requires appraisers to consider their peers’ actions in their individual assignments. Appraisers however are isolated from their peers.

Problem: Many transaction platforms are lender centric and not vendor centric and do not have the functionality (and in some cases scalability) to adapt to a more diversified mode of operation. The appraisal ordering processes are highly manual and create lack of efficiencies with the VMC and ultimately the appraiser practitioner.

Solution: Lenders, AMCs and their technology providers need to develop transaction platforms that assist appraisers with efficient processes, not hinder them. Once again, this can’t happen effectively without a data standard.

Regulatory and Legislative Issues

Problem: Incomplete regulation that does not comprehensively consider all elements of the valuation services industry creates its own set of problems and inconsistencies.

Solutions:

- **Broader enforcement powers for the ASC** are desperately needed. The ASC currently has limited ability to ensure the States correctly and effectively manage their mandated duties. The system would benefit greatly from centralized federal standards that are implemented and enforced at the State level in a uniform manner. Require greater due diligence from federal financial institutions.

Requiring state board members and investigators to meet minimum qualifications and verification managed by the Foundation is consistent with appraiser certification itself. Requiring states to immediately report adjudications to the ASC is paramount for the ASC registry to function effectively for validation and oversight.

- **Exemptions. Lowering the de minimus** would correct one of the more egregious errors in the original FIRREA legislation. A $50,000 threshold, as the intent of any de minimus, should be to exempt only modest loan amounts. Even this level leaves many of the most vulnerable borrowers, low income and first time home buyers, at greater risk. No lender should be exempt.

- **Require State Certified Appraisers-** Another error in the current version of Title XI of FIRREA is the lack of any mandate to use a State Certified appraiser. Certified appraisers should be required for any lending transaction above the (reduced) de minimus.

- **AVM Standards** are needed. AVMs have a role in the valuation marketplace. However, the relevant context is not the use of an AVM but when that use is appropriate and what the user of AVM products must do to utilize appropriately. The regulation of “appraisals” should be broadened to encompass “valuation services”.

- **BPOs** as currently used should be correctly identified as an appraisal and be subject to all relevant regulatory standards and authority. Competition is healthy when conducted on a level playing field. Any broker who wishes to engage in valuation services outside of the real estate listing process should be a Certified Appraiser. That requirement is consistent with the need for any Appraiser who wishes to list and sell real estate to maintain a salesperson or broker’s license and be subject to the appropriate compliance and oversight. Many users of BPOs assert that they are utilized primarily as source for data and not for the value conclusion. If that is true then the creation of a standardized form that excludes a valuation conclusion would remove it from the realm of being an appraisal. BPOs, if modified to be “comp checks” would be in regulatory harmony.

- **Chief Appraisers -** Each federal banking agency should be mandated to establish a “Chief Appraiser” position. The current mortgage crisis has clearly identified a lack of understanding or blatant disregard for the need for fundamental collateral due diligence and best practices.

- **Funding -** Improve enforcement among the States. States should be required to maintain separate Appraiser Commission funds distinct from the general fund. Funding for appraisal regulatory activities could be effectively enhanced by a loan transaction fee. $10.00 may be sufficient. Surplus fees can be used by the Appraisal Foundation to consider other duties including the IVPI and other data/repository projects.

- **Appraisal Management Companies-** Implement national licensing or registration requirements for Appraisal Management Companies (AMCs). Consistent with the comments above on AVMs and BPOs, it is important that our regulatory environment expand to include all valuation services. AMCs should not be burdened with disparate and inconsistent regulation at the state level. Consistent with the appraiser related elements of the white paper, any AMC regulation should be federally mandated for consistency and ease of compliance with enforcement administered at the state level. While a complex business issue the impact AMCs have had on fee degradation is real. Perhaps divorcing the appraisal fee from the management fee would create transparency needed for lenders to acknowledge that these are two independent activities. AMCs as agents of the Lenders should be subject to external audits of their entire book of business.

- **AQB-** Make AQB licensee, trainee, and supervising guidance mandatory for the states. Again inconsistently applied regulation can become its own problem. Each state should follow the exact same regulatory road map.

- **State Appraisal Boards-** Improve Temporary Practice and Reciprocity between the states. If we advocate federally driven standards and consistency, an appraisal license should function across jurisdictions. USPAP already requires an appraiser to assert geographic competency, therefore the requirement to hold multiple appraisal licenses is moot. An appraiser should be required to be licensed in the state where they reside but subject to enforcement by any state in which they conduct appraisal services.

- **Investigations of complaints -** There is no consistency of investigations and no recognized standard for investigations of real property appraiser complaints. Real property appraiser investigators must have familiarity, knowledge of, and experience in real property appraising. The investigators should be required to have received regulatory investigative training, received USPAP training and regular USPAP update courses.

  Each real property appraiser complaint should be investigated and settled with effective and fair action, by the State Appraisal Board, in no less than 12 months. In the absence of timely settlement of complaint cases, appraisers who may be the cause of deficient appraisal assignments will continue to practice without interpretation, all the while creating more potential for problems.

  Appraiser regulatory agencies should be staffed with either real property appraisers or individuals who are knowledgeable of the appraisal of real property and with the intent of USPAP. All monies collected by the appraiser regulatory agencies in fees and penalty fines should be used only for the agency enforcement program. The funds should never be co-mingled within a general fund and allocated for any use other than appraiser enforcement.

  Enforcement by many states has been anemic at best. The creation of model legislation would be an ideal beginning, and further that a requirement be made that each state appraiser enforcement agency must adopt and enforce that model legislation, including a consistent disciplinary matrix for similar violations.

- **Continuing Education-** Once again the debate over states rights over a federal system rages on. The current system of over 50 sets of rules and 50 + different processes and fees to develop an educational offering is non competitive. The current system encourages local schools which in some cases propagate opinions rather than factual information. The Appraisal Foundation has made an effort to standardize this practice however in doing so CE providers now have a dual system. To get a single 7 hour class approved costs tens of thousands of dollars. The educational and training providers will not be able to succeed in offering timely, relevant, and well developed courses under the current regiment.

- **Standards-** Establish the Appraisal Foundation as the "standards bearer". We need data standards, best practices, reporting standards (forms), ethics (USPAP) in a format that is clear and concise. All GSE, VA, FHA and other appraisal requirements should be merged into a single guide for appraisers and users of appraisals.

- **Repository –** Mandate a single clearinghouse for delivery of all valuations related to a mortgage transaction. This will ensure the safe delivery and manipulation of the original file by any third party. It will allow for complete transparency in the valuation process.

- **Title XI** should be amended including the following:

    1. The Appraisal Subcommittee (ASC) should be given greater oversight authority over State appraiser regulation, including the ability to levy fines for continued deficiencies of the policy statements, and other possible actions that go beyond the only current action available to the ASC, the decertification of a State enforcement agency and all appraisers in a State. That action has never happened and there is no high probably that it will ever happen. It would halt mortgage lending in an offending State and is not considered a reasonable remedy.
    2. The Appraiser Qualifications Board (AQB) should be recognized, in an amended Title XI, as the authority for setting the minimum criteria for real property appraiser trainees. The AQB should be recognized as the authority for establishing mandatory supervisor training, education, and experience requirements. There should also be a mandate that each state appraiser regulatory agency must develop and regularly provide a supervisor/trainee course. The AQB should be given the authority to set the number of unsuccessful attempts, no more than 3 to 5, an individual may have to take the national examination without some type of remedial assistance. That assistance could be the requirement to complete all current qualifying education for the examination type he or she is seeking.
    3. Title XI should be amended to require all Board members, regulatory compliance officials, investigators, attorneys and staff responsible for reviewing complaint hearings and cases to complete the 15-hour national USPAP course, and to complete the 7-hour USPAP update course every two years.
    4. States should be required to establish regulatory agencies that are dedicated to the regulation of real property appraisers, and not be under the authority or control of an agency that is dedicated to other agencies or regulated groups.
    5. The Licensed Real Property appraiser classification should be removed and not recognized in Title XI. However, if the credential is not removed, the AQB should be given the authority to establish criteria similar to that of the Certified Residential appraiser criteria.
    6. The group was of the opinion that the threshold, noted in Title XI with no specific amount, should be set within Title XI as $50,000 instead of permitting the federal financial institutions examination council agencies to set the minimum that will be required before an appraisal, by a certified appraiser, is required.
    7. Any valuation provided by an individual (as opposed to a computer generated model) must be performed by a certified appraiser
    8. Title XI should be amended to require that all state appraiser regulatory agencies must recognize another State's certified appraisers if the appraiser is in good standing with the state in which he/she is certified, and if that state has adopted laws and regulations to

Mentoring and Training

Appraisers are the most fractured group under the mortgage umbrella. The vast majority of appraisers are unaffiliated with any professional appraisal association. As a result there is no consistency in outreach, training and education. There is no single voice. There is no cohesive, coordinated leadership despite efforts of the professional organizations.

The concern by many in the appraisal profession is that once we finally set aside appraisal bias, with the advent of HVCC, the lack of competence will become more apparent. It has been estimated that the average age of an appraiser is approximately 54 years old. There are business reasons as well as regulatory requirements that would discourage the training and mentoring of the next generation of appraisers. And then there is the assertion that perhaps we aren't even training the right things. There is virtually no practical training in place except the generational transference between family members of the trade. The "business" of appraising seems all but dead.

Problem: Downward fee pressure coupled with the prevalence of Appraisal Management Company business and fee split arrangements have created an environment where the gross fees paid to appraisers have declined considerably over the past decade. The decline in the fee structure, increased educational requirements, over supply, and favor of service over quality has created unhealthy conditions.

Solution: Simply pay appraisers a respectable professional fee. In the short term there is no guarantee that increasing fees will produce more credible appraisals. There is a foregone conclusion however that without fee increases that we will indeed lose the talent pool within our ranks. It is impossible to estimate the damage done of rewarding the poorly trained and ethically challenged within the appraisal community over the past several years. The repression of fees has been maintained under the guise of consumer sensitivity to origination costs. In the end it is the consumer who pays for the tremendous losses in this housing market depression. We have tripped over trillions to save a few hundred dollars.

Problem: How do we identify a qualified appraiser? Lenders and AMCs need to do a much better job of vendor management. Less emphasis on service and greater focus on competence are essential. Licensing and certification are minimum standards.

Solution:

1) **We create a registry of appraisers that collects all credentials**
2) **Create "Certification" programs for each specialty are such as Mortgage, REO, Relocation, FHA,VA, and Secondary Market, Economic Market Analysis, etc**
3) **Establish an SRO (Self Regulating Organization)**

Testing should be done in modules and should be for the purpose of elevating the level of competency among real estate appraisal professionals. Failing scores would remain confidential. A Self Regulating Organization (SRO) could be established or The Appraisal Foundation, if appropriately chartered, could assume the responsibilities. This could be funded at first by sponsoring lenders and appraisal management companies and other stakeholders. Fees for membership, education and testing should make it self-sustaining. It would present an opportunity for lenders to invest in the future of reliable collateral valuations by professionals.

Training is quite different from education. There are an abundance of theoretical courses available to those entering the profession. There needs to be a two week intensive hands-on practical school that allows one to be marketable to a mentor of at least having the foundational skill set to be productive.

We need to establish a Mentoring Program that could be funded by the SRO. A "certification" would be necessary before one could be engaged as a mentor. Best practices need to be written around the Mentoring Process. A body of knowledge needs to be created around many specialty areas of appraising.

A Wikipedia type site needs to be established to engage the "wisdom of crowds" to study and collect a centralized resource for reference.

None of this can happen in a vacuum. The SRO must be fully supported financially as well as practically in terms of adoption. Lenders and AMCs need to consider these programs mandatory. Without a mandate the concept is not likely viable.

We have had every possible pressure put upon appraisers over the past decade and certainly in the past 18 months to ensure the systemic failure of the appraisal profession. Honest, competent appraisers have been set aside to favor those “more agreeable” with whom to do business. Appraisers are angry and they have every right to be. They are unrepresented and powerless to effect change except by simply saying no to the unethical or unreasonable requests made upon them. At a time when we need to rely heavily on the skills of the collateral valuation community we are turning elsewhere. The large lenders and Fannie Mae and Freddie Mac write the rules and control the appraisal ecosystems. The GSEs are also the largest consumers of unregulated valuation services including AVMS and BPOs.

Summary

Confidence in the markets and valuations with integrity are critical components to a housing market recovery. We’ve allowed the independent voice of the appraiser to be quelled. The appraisal became file fodder; a “speed bump” on the road to the American Nightmare. Transparency has been woefully lacking in collateral valuation matters. The symbiotic relationship between the cogs created a “Black Swan” event that has forced all to reevaluate the entire mortgage industry.

Common sense has exited the equation and in light of the current economy we need to set a new path. A common thread among many problems within the appraisal world involves lack of standards- consistent education and training with regards to those standards, proprietary data standards, inadequate reporting standards and any enforcement of standards. No one has stepped up to take ownership.

Appraisers are unrepresented or worse, misrepresented. First, we must repair the weaknesses within the regulatory structure. A SRO (Self Regulating Organization) must be established by Congress to include all parties touching collateral valuation for the mortgage industry- appraisers, AMCs, Wall Street, rating agencies. Within that structure will be educational support, training, and mentorship. The SRO would review the process, practice and procedures. A forward looking focus will include a review of technology that will allow us to evaluate collateral valuation to the next level. It will take leadership and unity of purpose and we are a professional devoid of both.

The mission should be to bring integrity back to the collateral valuation profession.

Joan N. Trice

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