August 3, 2018

Modernization of the Appraisal System: A Regulatory Review

By: Joan N. Trice

Introduction

On November 16, 2016, the Housing and Insurance Subcommittee held a hearing on "Modernizing Appraisals: A Regulatory Review". Joan Trice, founder of the Collateral Risk Network (CRN) was invited to speak before that hearing.

As a result of that hearing, the Executive Council of the CRN met on January 29 through February 2, 2017 to discuss proposed structural reforms of the appraisal system to bolster oversight of collateral valuation and risk activities. The comments within this document contain a summary of our conversations.

Those in attendance included the following:
Joan Trice
Alan Hummel
Greg Stephens
Leland Trice
Ernie Durbin
Penny Reed
Michael Simmons
Crispin Bennett

Background

The Collateral Risk Network (CRN) is a group of over 500 chief appraisers, compliance officers and risk managers from lending institutions as well as appraisal management companies. The recommendations provided herein represent a consensus opinion among the CRN Executive Council. The CRN Executive Council is represented by Chairs and Vice-Chairs from various committees.

The guiding principles in the development of our recommendations, focus on what is best for the health, safety and welfare of real estate finance. Our mission is to ensure that collateral valuation and risk maintain a prominent role in the broader discussions of real estate finance reforms.

The real estate appraisal profession in the US was formed in the aftermath of the Great Depression during a challenging economic environment when high unemployment, default of 90% of mortgages, high rates of foreclosure and the subsequent failure of 15,000 banks. The real estate price bubble and collapse during this period was found to be caused by a real estate industry fraught with conflicts of interest, fraud and other types of abuse, particularly among professionals receiving commissions tied to the outcome of real estate transactions. As a result, the bedrock principle which led to the founding of the appraisal profession – is the principle of independence. The objective of the real estate appraiser industry is to insert a professionally trained expert, who is not part of the transaction and with no compensation tied to the outcome of the transaction, as a means to help protect the public, ensure the legitimacy and pricing of transactions and to reduce the rate of fraud, conflicts of interest and abuse.

Executive Summary

The CRN Executive Council proposes the establishment of a new agency that represents a consolidation of the Appraisal Subcommittee (ASC) and the Appraisal Foundation (TAF). The goal is to simplify, streamline, strengthen and modernize the appraisal system to preserve safety and soundness in real estate finance. In addition to those functions currently managed within the ASC and the TAF, all real property valuation policy, regulation, and oversight should be directed by this new entity to ensure cohesive protocols to protect the public trust.

This new authority, the Collateral Risk Agency (CRA), would safeguard appraisal independence, transparency, and integrity in the collateral valuation process to enable proper and cohesive risk management for the largest asset class in the United States.

The historic mortgage crisis that crippled the US economy occurred due to the simple reality that profit motivation eventually supercedes risk management. The recent decisions by Fannie Mae and Freddie Mac to expand the valuation waiver policy, is another example of short memories and an example of removing prudent policy in order to expand loan production and profitability.

Simplify- Collateral valuation has experienced systemic failure as evidenced during the mortgage crisis. Subsequently, several modifications were made, most notably Dodd-Frank, that only anemically altered behaviors. The CRA is not a proposal to expand regulation but to consolidate several disjointed agencies into one unified entity. The CRA would oversee all valuation of real estate.

Streamline- By consolidation of what today is inconsistent, conflicting and often indecipherable policy, the "rules of engagement" become clearer and compliance less costly for all stakeholders.

Modernize- US real estate and all of its derivative products is the largest asset class in the world yet we know little about it. It is time to modernize one of the pillars of the real estate economy, collateral valuation and risk. Data standards must be set and systems constructed to ensure a scalable, secure infrastructure.

Strengthen- Oversight of appraisal practices becomes more effective when the rules are clear. Constant monitoring of appraisal reports, screening of participants, and monitoring of market trends will promote safe and sound lending activities as well as ensure the public trust.

The CRA would be responsible for:

1) Establishing a federal appraiser licensing program with disciplinary handled at the state level
    a. Education guidelines and approvals
    b. Fund state disciplinary and peer review programs
    c. Minimum licensing standards
    d. Practice, procedures, policy
    e. Ethics
    f. Defining value definitions
2) Data & Technology
    a. Data standards
    b. Unique identifier for appraisers, AMCs, and all real estate
    c. Registration of all participants and maintenance of a registry
3) Oversight & Enforcement
    a. Monitor appraisers, AMCs, lender appraisal programs, and subscribers to repository
    b. Impose fines and deny access to repository to fraudsters and/or incompetent appraisers or AMCs.
    c. Oversee the activities of a repository of all valuations and subscribers

Current State

<u>The Appraisal Subcommittee</u>

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council (FFIEC) was established in August 1989 pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act. Title XI's purpose is to "provide that Federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision."

The FFIEC is responsible for oversight of appraisal activities within housing finance. The Consumer Finance Protection Bureau (CFPB) seems to have little oversight of the nonbank lenders' appraisal activities. The other agencies have no bank examiners on staff who are appraisers. This was not true several decades ago. There are some large national banks who do not have a chief appraiser. The last appraiser on staff with a FFIEC agency retired a few months ago. The FFIEC, by its very nature, has not been responsive to writing final rules as mandated by Dodd- Frank.

Systematically the rules have been relaxed surrounding appraisal issues by raising the transaction threshold and modifying the definition of a Federally Related Transaction (FRT) to exempt approximately 95% of transactions, which nullifies the intent of FIRREA. Given that "safety and soundness" is the mission of the FFIEC, these actions are incomprehensible.

State Oversight of Appraisers

The existing appraisal regulatory structure involves licensing of appraisers at the state level. Most states do not have an independent appraisal agency. Many fall under a Real Estate Commission while others fall under a general licensing bureau that may include cosmetologists, barbers, and undertakers and so on. Some state agencies' have their funds swept into a general fund. Most states do not have someone with an appraisal background heading up the appraisal agency.

Each state has a unique renewal process. An appraiser in the Mid Atlantic, for example, will find that their Delaware license renewal period does not coincide with their Maryland renewal cycle causing them to take duplicative continuing education courses. If you are a commercial appraiser doing business in multiple states, you can apply for a temporary license. The application and approval process can take months causing the opportunity to be lost. If the property is a specialty type property, finding a local appraiser is often not an option, leaving the lender and the borrower at a disadvantage.

Many states pass legislation that is more restrictive than the policies implemented by the Appraisal Subcommittee (ASC). For example, some states require that a review appraiser be licensed in the state where the property is located. This requirement imposed upon a national lender would require them to hire reviewers in each state or require them to maintain multiple licenses. And then of course, there is a jurisdictional question. Can the Arizona state appraisal agency act against an appraiser in California? There is no restriction imposed by federal banking regulators. The guidance is simply to abide by state laws.

While real estate is local, lending is national, and in many cases, global. We have an appraisal regulatory structure that has not kept pace with the changes in housing finance over the past several decades. The maze created by state and federal agencies create conflicts and lack of accountability. Many of the rules within Title XIV of Dodd- Frank have remained unenforced or unenforceable. The weaknesses magnified during the housing finance crisis have yet to be cured. Risks to the housing finance system created by a complicated structure are the subject of frequent CRN Executive Council discussions. Structural reforms must include appraisal reform issues to restore safety and soundness to the housing finance system.

The Role of the Appraisal Foundation

The Appraisal Foundation (TAF) is a non-profit organization established in 1987. TAF maintains the Uniform Standards of Professional Appraisal Practice (USPAP). Appraisers are required to take a 7 hour USPAP course every two years. TAF modifies USPAP every two years to mandate course renewals and fees. Approximately 80% of the TAF budget is derived from the sale of USPAP courses. Unfortunately, this misaligned incentive may be one of the primary reasons the document increases in complexity. The appraisal community and stakeholders would be better served if this document was published in a more dynamic environment.

The USPAP book is 378 pages long. It is a highly complex document that, according to a recent survey by Appraisal Buzz, is not understood by 60% of appraisers. That is an astounding failure. Following basic standards and ethics should not be that complex. USPAP should be free and readily available and on the corner of every stakeholder's desk.

Appraisal courses are approved at both the Appraisal Foundation level and at the state level requiring course providers to pay multiple fees. Hosting a national appraisal conference requires applications to each of the states. This process is inefficient, stifles the development of new courses, and increases expenses to all stakeholders. While the Appraisal Foundation has a national course approval program only approximately half of the states accept it on a reciprocal basis while others charge an additional fee and require state submission for approval rendering any effort to standardize the continuing education process useless.

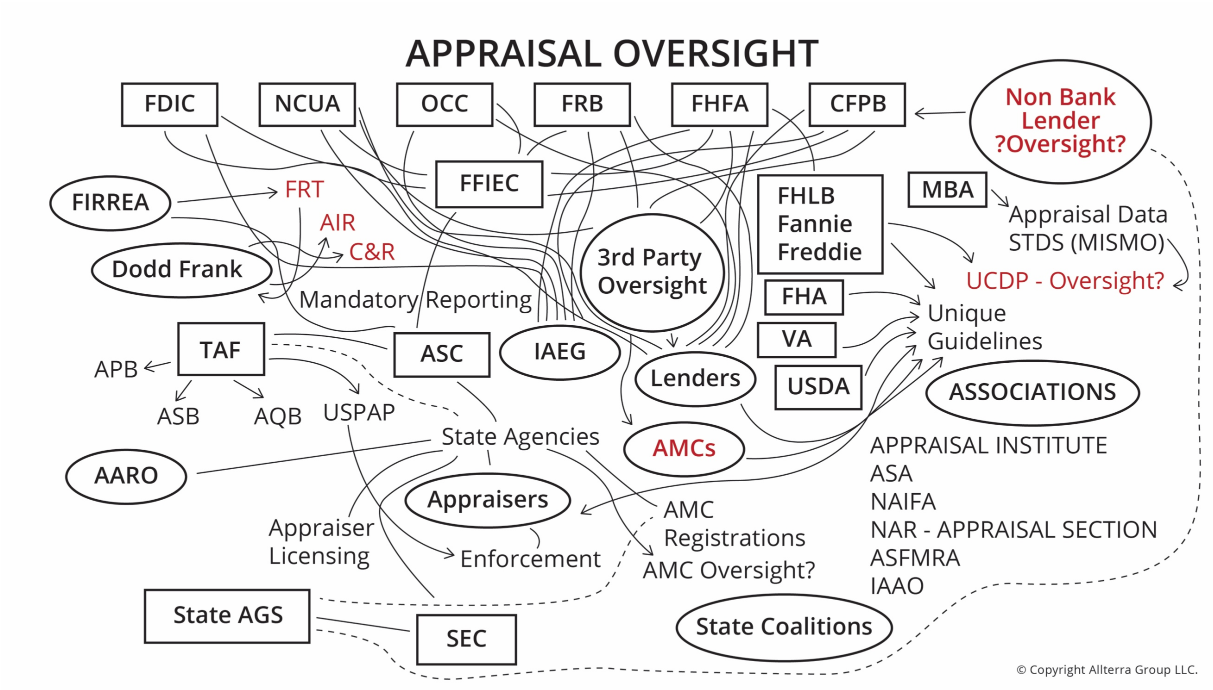
Fannie Mae and Freddie Mac guidelines sometimes collide with USPAP. USPAP fails to recognize a secondary market and hinders the ability for enforcement actions against bad actors. For example, due to confidentiality clauses in USPAP an appraiser cannot be held accountable by the investor. The GSE's certifications state the opposite. One of the many failures of our current regulatory system is the inability to remove bad actors from doing further harm. And during the period leading up to the mortgage crisis, bad actors actually flourished.

The stated mission of TAF is to ensure the public trust in the valuation profession. A pointed question was posed at the hearing… (paraphrasing) "what did TAF and ASC do in the years leading up to the mortgage crisis to stem the tide of appraisal fraud and overvaluation? And what has TAF or ASC done since"? The public trust in the appraisal profession is not in any better place today than during the housing crisis. While certainly overvaluation by appraisers was not by itself a catalyst for the mortgage meltdown it was assuredly a contributing factor. And while TAF was not solely responsible either, there are no records of proactivity by TAF defending appraisers from appraisal independence violations and protecting the public trust.

In summary, the current regulatory schema is confusing, with no central authority and no apparent accountability to any stakeholder. Few of the weaknesses identified and magnified during the housing finance crisis have been resolved. Dodd-Frank set up appraisal independence as its primary focus in Title XIV however there has been virtually no enforcement. It remains unclear with whom the enforcement authority falls.

We propose that FIRREA Title XI and Dodd-Frank Title XIV (appraisal sections) be repealed and replaced with a new law establishing the Collateral Risk Agency as the single authority for valuation. The modernization of the appraisal regulatory structure is long overdue. Continuing to operate with a legacy regulatory system is hampering a recovery that is genuine.

The diagram below is an illustration of our current regulatory structure:



Federally Related Transactions

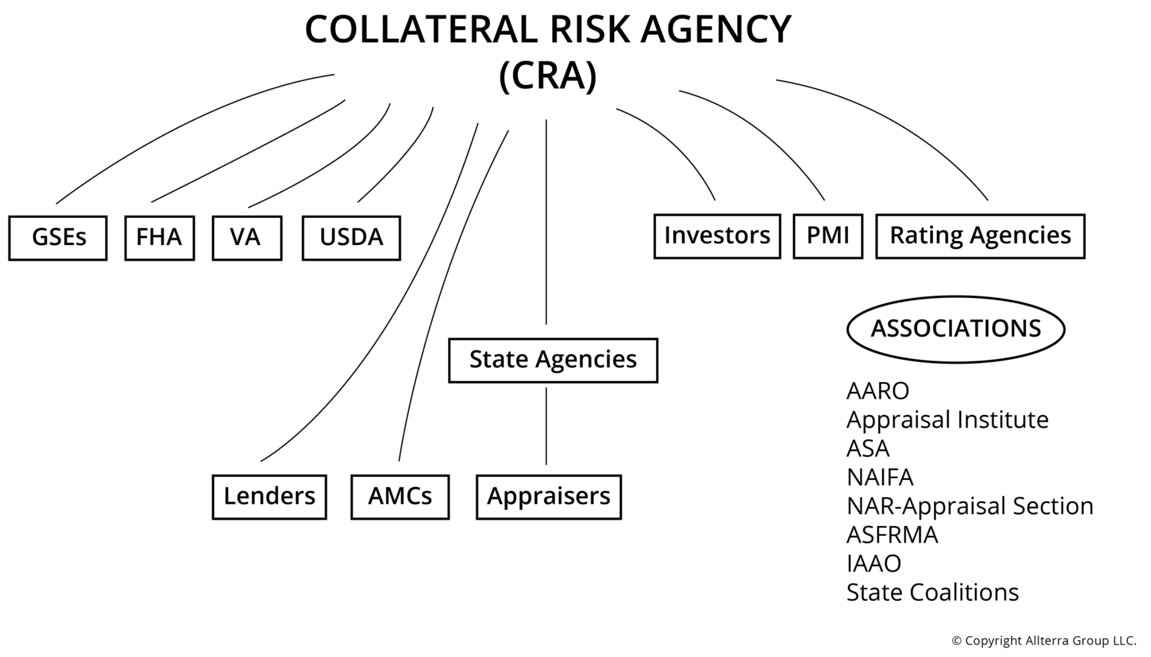
A report to the FFIEC by The Economic Growth and Recovery Paperwork and Recovery Act (EGRPRA) issued March 21, 2017 is a stunning example of the failures of our current regulatory structure. The EGRPRA report concludes that a federally related transaction (FRT) excludes transactions by Fannie Mae, Freddie Mac, USDA, the VA and FHA. This is absurd at face value. The threat of the banking agencies' actions cannot be overstated. Unless this interpretation is undone the oversight of 95% of the residential mortgage transactions are exempt from protections that an appraisal affords to the safety and soundness of the housing finance system. This appears to be a de facto unwinding of FIRREA, Title XI.

Another approach would be to rewrite the law to mandate that any transaction to be securitized on the secondary market must include an appraisal performed by a licensed or certified appraiser. These transactions would be regulated by the Collateral Risk Agency which would have purview over the valuation and collateral risk policies and activities of the GSEs, lenders, appraisers and other stakeholders.

More recently the GSEs have begun programs for appraisal waivers. It began with just rate and term refinances but has quickly devolved into waivers on purchases as well. These waiver programs, sanctioned by FHFA, appear to have no basis in safety and soundness, but merely marketing gimmicks in competition with each other in a "race to the bottom". This is reminiscent of waivers offered to WAMU and Countrywide during the early 2000s competitive death match. The GSEs should not be allowed to violate safety and soundness in exchange for sales goals. These are inherent conflicts of interest that their current regulator is enabling.

The inability of the appraisal community to garner any attention to the gap created by the FRT exemptions shines a bright light on the ineffectiveness of our current regulatory schema. A return to pre-FIRREA and pre-mortgage crisis practices is an open invitation for abuses and fraud where catastrophic losses were incurred, the very outcome Congress intended to avoid with the passing of Title XI and Title XIV. Bank regulators' collective amnesia suggest they should not be the caretakers of appraisal oversight.

The diagram below is an illustration of the proposed regulatory structure:



Structural Reform as a Single Authority

The CRN Executive Council unanimously agreed that the best solution to address the structural failures established by FIRREA would be a single regulator with authority over all valuation. Upon establishment of the Collateral Risk Agency (CRA) as the single authority, functions of the ASC and TAF would be merged under this single agency. The goal of the Collateral Risk Agency would not be to expand regulations but to merge and consolidate all valuation of real estate under one authority. This streamlines the regulatory system, allows for more effective oversight and expands the role of valuation in a more responsive manner to market demands.

The CRN Executive Council researched the Securities and Exchange Commission (SEC) as an applicable model to the CRA. The SEC was designed to have independent oversight of a critical financial market. In volume, the US real estate market and all of its derivative products is estimated to far exceed the equities market. The SEC manages standards, oversight, education and is responsible for preserving the public trust.

This new entity, the Collateral Risk Agency, will be responsible for:

- National qualifications and licensing program
- Education approvals
- Data standards and reporting standards and formats
- Data repository oversight
- Setting practice and procedures and ethics standards (a modernization of USPAP)
- Registration of AMCs, appraisers, and capital markets participants
- Oversight and enforcement of AMC activities
- Authority to impose suspensions of appraisers for high risk circumstances
- Examination and enforcement of lender appraisal practices and capital markets
- Establishing definitions of value

CRA's responsibilities would include oversight of all appraisal activities. All appraisal guidance, much of what is now issued by FFIEC, would become the role for the CRA. Having a single regulator for appraisal would remove the conflicts that occur between agencies. It would also provide a vehicle for responsiveness in dynamic markets. In historical models, the appraisal profession has experienced piecemeal legislation and guidance from a number of sources, many of them conflicting. The consolidation of valuation practice, policy and procedure under one authority with rational and consistent oversight would result in easing the burden of compliance.

Currently the ASC reports to the FFIEC yet that has proven to be an inverted regulatory structure. Generally speaking the FFIEC, comprised of six agencies, has been comprised of low level staff who have not been knowledgeable about appraisal matters. There is virtually no appraisal "brain trust" within these agencies who are tasked with oversight of appraisal activities at banks. Non-bank lenders appear to have no oversight at all with respect to appraisal activities. Given that approximately 80% of all lending is through the non-bank lender channel this inserts huge risks into the system. Oversight of the valuation functions with lenders should be the purview of the CRA.

There was vigorous debate as to where to situate this new entity. All agreed that for independence reasons, the entity should be free standing and not placed within an existing agency. Independence from the influences of loan production and political pressures are of utmost importance.

The structure of the CRA would model one similar to the Federal Reserve with a board of regional chief appraisers. We propose, in fact, that the regions mirror those set forth by the Federal Reserve. The Collateral Risk Agency would work closely with federal financial regulatory agencies and would share market data, and risk analytics. Risk alarms could be broadcast in real time to other regions. For example, if New York City is attracting foreign cash buyers that are money laundering schemes, this may create a bubble in certain sectors of a market. This appears to have also occurred in Miami almost simultaneously. New York state responded. Florida has not. To the uninitiated, statistics might indicate that the Miami condo market has fully recovered. The statistics are deceiving. Risk alerts could be disseminated to real estate professionals, regulators, and to lenders and investors.

We discussed that leadership at the top would be a director, appointed by Congress to a ten year term. Qualifications of the Director would include advanced degree and/or experience in economics, real estate, valuation, risk or finance. The Board of Chief Appraisers would be comprised of certified appraisers, past or present. The Board would be established by Presidential appointment and serve a term of four years (staggered), renewable terms not to exceed 14 years. Other key positions would be data and analytics and risk experts.

National Licensing

Congressman Douglas Barnard, during the crafting of Title XI of (FIRREA), originally intended for there to be a national appraiser licensing program. The “state’s rights” argument prevailed which is one of the principle weaknesses in the current structure. Today, we have minimum standards established by the Appraisal Subcommittee and adopted by the states, not uniform standards. The result is that in addition to bank regulations, each state imposes their own set of rules. Insert GSE guidelines, unique VA and FHA guidelines and the impact upon the appraisal profession is an expanded scope of work that has rendered the appraisal process confusing at best, unenforceable for the most part, and allows fraud and incompetence to flourish at its worst. An appraisal should be uniform regardless which agency is involved in the financing.

Create a national license program but with state oversight of discipline. Each state should maintain peer reviews of licensee work product to bring the appraiser along in their professional development. We currently have a system of punishment rather than a more constructive approach. If a state fails to act in a responsive manner to criminal or risky behavior by the licensee, the CRA should have the authority to suspend the licensee pending adjudication. States that adopt the federal standards would receive funding for their oversight functions.

The Collateral Risk Agency would oversee a federal registry of all appraisers’ credentials and disciplinary records. Each appraiser would be assigned a unique identifier. It should be noted that the CRA would be responsible for establishing minimum criteria for licensing but would not relieve either the lender or their third parties from performing their own due diligence and fitness of the appraiser for an assignment.

AMC Registration and Oversight

Appraisal Management Companies (AMCs), third parties, flourished with the establishment of HVCC and consequently the passing of Dodd-Frank. Lenders (especially nonbank lenders) engage AMCs as a method to ensure independence from loan production. AMCs became the implicit safe harbor. The ASC was charged with creating a national registry of AMCs but the oversight of AMCs was to occur with state appraisal agencies.

This has essentially returned the appraisal process to an unregulated area, placing housing finance at risk. Current estimates are that 80% of valuations flow through an AMC. States are ill prepared to monitor the oversight of national companies. Requiring AMCs to register with each state individually creates an undue burden on AMCs to comply with unique state licensing laws. This adds inefficiencies and expense for no meaningful purpose. AMCs should be registered at the federal level and would be within the purview of the CRA.

The CRA would annually audit AMCs and have the authority to randomly spot check based upon complaints or indications of risky behavior. Site visits would be required periodically. AMCs would be monitored for adherence to appraisal independence to ensure loan production plays no role in the appraisal process. This can be done by a review of each client, loan volume, loan originator for each file and assignment of an appraiser for each order. Each "actor" would be assigned a unique identifier so that imbalanced relationships can be monitored. An audit of the AMC panel would assist in the discovery of a bad actor who is potentially abusing the system.

No lender, bank or non-bank, would be allowed to own their own AMC. If a bank or a non-bank lender is too small to separate loan production from appraiser selection, an AMC would be required to establish a firewall to maintain appraiser independence. The CRA would monitor assignments and require certifications that no one in loan production can influence the selection of the appraiser by nomination to a panel, referral, or placement for an order. All conflicts of interest would be monitored. For example, some mortgage brokers have their family members establish an AMC and have used LLCs to obfuscate true ownership. This activity would be concerned fraudulent and would be enforced. The CRA would monitor the blind ordering processes of appraisal transaction platforms to ensure independence.

One of the components of Dodd-Frank was the Customary & Reasonable fee provision. This has never been enforced due to an interim final rule written by the Federal Reserve which contradicted the law. This has left confusion in the marketplace. The simple approach would be a repeal of the interim final rule on C&R. The modification to the rule would require the lender to pay for the services of any third party they engage. The law should be amended to require that the fee collected by the lender be the fee paid to the appraiser and duly transparent and reported. These fees would be established by market studies of fees by government agencies or independent private sector fees surveys, or lender fees paid (in the absence of a third party). The lender would then, just as they do with other vendors, issue a Request for Proposal (RFP) and respond to competitive bids. This would remove the misaligned incentive for an AMC to engage the cheapest appraiser, not the best appraiser. This would encourage use of technology to enhance efficiencies, promote quality appraisal reports, and more accurately inform the consumer of the true cost of the appraisal process.

A lender must maintain an appraisal department that is entirely independent of loan production or they may engage third parties or a combination of both. The lender must choose a path that serves their risk management best practices. The practices, policies and procedures of the lenders and their third parties will be overseen by the CRA.

Data & Technology

Appraisal forms, which drive the appraisal process are the domain of Fannie Mae and Freddie Mac. VA and the FHA adopt these forms as their own and add additional addenda. In the 1960s these forms were the domain of the Savings & Loan League and were co-opted by the GSEs sometime during the 1970's. As a result, the forms have not been updated to accommodate legacy systems internal to the GSEs. The GSEs, rather than adopting the Mortgage Industry Standards Maintenance Organization (MISMO) standard, created their own standard. In order for the GSEs to modernize appraisal forms they would have to scrap the Uniform Collateral Data Portal® (UCDP) and start over. While there are over 300 data points contained with the residential report only 23 are currently accepted into UCDP. In short, UCDP was outmoded the day it launched because they did not take the time to create a "data centric" system. They instead created a "form centric" database.

UCDP was established post mortgage crisis as a result of the HVCC agreement between the NYAG, FHFA and the GSEs. Within that agreement was a $24 million penalty to be imposed upon the GSEs and to be used to establish the Independent Valuation Protection Institute (IVPI). The details of the IVPI were never defined. By mutual agreement between the NYAG and the FHFA, these monies allocated for IVPI, were used to establish a repository of appraisal data instead.

The original plan for UCDP was for each stakeholder to be afforded access to this repository based upon access rights and permissions. The stakeholders included:

Lenders
AMCs
Servicers
Investors
Appraisers
Rating agencies
Private mortgage insurers
Regulators
Government agencies

The original plan for UCDP was never executed. Complaints by many stakeholders are that Fannie Mae and Freddie Mac have a monopoly on the data. As intended, the property information and valuations are not ending up as a part of the securitization offering. Mortgage backed securities today still do not benefit from transparency into the underlying valuation or risk metrics. Our proposal is that a 501(C) 3 is established to create the public utility of a data repository of appraisals, real property registry, and registry of all real estate participants.

Revenue from this repository would ensure that the CRA remains financially self-funded. There would be a registration fee required to be a recipient of the data. Additionally, transaction fees would be instituted to ensure that the database is dependable and secure. The purpose of the repository would be to promote safety and soundness of the appraisal process through transparency. This data will be leveraged for appropriate collateral risk analysis.

Today one of the weaknesses of the UCDP is that the GSEs have no mechanism to verify data or reconcile conflicting data. Fannie and Freddie have no “hard stops” at the gateway. Known bad actors should not be allowed to deposit appraisal reports into a data repository. Access to better data will make collateral risk decisioning a science for the next generation of housing finance.

CRA would develop new reporting formats to accommodate a less stringent format than today’s “one size fits all” forms. The reporting format would be predicated upon the risk profile of the collateral and its market. Data standards have already been established with MISMO. There are other standards that have never been established. For example, the square footage of a home would seem to be one that was well established, yet it is not. The GSEs have never set a standard on how to measure a home yet they score appraisers against their peers for square footage. The square footage of a home should become fact based and not malleable depending upon regional differences.

The collection of and access to standardized reliable data will be revolutionary. It is astounding, given that US real estate and all of its derivative loan products, is the largest asset class in the world, yet we know little about the underlying collateral. Establishing a unique identifier, cataloging each parcel and improvements, and establishing data standards will promote responsible lending and investing. Appraisal data is a critical component of the broader “real estate super highway”. This is the foundation necessary to create a scalable housing finance system.

Policy, Practice and Procedure

One of the ongoing debates within housing finance has been surrounding the role of the appraiser- who must perform one, when is one done, and fundamental questions such as what is an appraisal. FIRREA established licensing of appraisers and mandated that each “federally related transaction” or FRT required an appraisal by a licensed or certified appraiser. Later exemptions were added, transaction thresholds increased, and evaluations introduced to allow for valuations to be performed by real estate agents and unlicensed or unregulated parties.

In a new regulatory schema, there should be unequivocal boundaries that limit valuations to be performed by licensed individuals only, appraisers, subject to regulatory oversight. This is essential to provide safety and soundness to housing finance.

The definition of market value was defined in FIRREA. The definition is flawed. A lot of blame has been placed upon appraisers for failing to report credible values during the crisis. There is evidence once again that bubbles are forming in some overheated markets. The CRA would be charged with modifying the definition of market value. The definition should remain dynamic and should be the purview of the CRA to modify. The most likely model to emulate is the European one, "mortgage lending value", MLV. MLV is focused upon a sustainable value, with less emphasis on price which is subject to irrational behaviors by borrowers and irresponsible lending practices by lenders.

At present appraisal practices are driven by the requirements in the GSE's forms and their policies. Fannie Mae has become the de facto regulator and ultimate authority for appraisal practice. With the Collateral Risk Agency as the new authority the conflicting guidance would be unified into one cohesive set of rules. This new authority will be able to be responsive to the needs of the market and reactive to crises. The goal would be to moderate bubbles and avoid major catastrophic events as much as possible.

Science of Collateral Risk

With the aggregation of information, the CRA would provide market data to local appraisers as well as to investor analysts. Modeling could be developed at the zip code level and market segmentation. For example, analysis of the data may indicate that three bedroom homes in 21811 are increasing in value while four bedroom homes are not.

The CRA would proactively partner with universities that offer real estate programs to provide data for research and modeling. The CRA would also cooperate with other government agencies to offer access to data when appropriate.

Revenue

The CRA would be financially independent once the technology buildouts are completed. Registration fees of appraisers, AMCs and stakeholders who would be provided access to information. Transaction fees would be accessed upon upload and download. Registration fees would be assessed to stakeholders who would have access to the repository-rating agencies, investors, securitizers, lenders and private mortgage insurers. Estimates for revenue are as follows:

80,000 appraisers x $300=$24,000,000
500 AMCs x $5000= $2,500,000
7000 lenders, investors, PMI, rating agencies @ $20,000= $140,000,000
20,000,000 transactions @$10 each= $200,000,000

Based upon estimates to construct UCDP the cost to engage a technology provider to build the repository would be estimated at $50 million.

States would receive grants for maintaining a disciplinary program and peer review board provided they adopt the federal criteria, and do not expand the scope of the guidance. This would not be an unfunded mandate that exists in many states today. The unfunded mandates have caused some states to expand their roles to justify a layering effect of service fees. This has resulted in regulatory confusion and burdensome expense.

Conclusion

If the housing finance system is to move forward progressively and safely, solutions to the valuation component need to be put forth. It is the vision of the CRN Executive Council that the valuation component is but one segment of an overhaul of the broader housing finance reforms of regulatory structure as well as technical infrastructure.

Ultimately the “real estate superhighway” must be constructed for our housing finance to be scalable in a safe and sound manner. Appraisal data and information gathered during a site inspection would help establish and maintain a registry of every parcel of real estate and the improvements thereon. The investor market needs access to “point of origination” valuation information as well as “real time” data to properly access the risk of any given portfolio at any point in time. Every stakeholder benefits by the transparency afforded by a central repository of data. The CRA would provide oversight of the standards, methodology and access to this public utility.

In conclusion, the Collateral Risk Agency should be established an independent agency to be the custodian of the appraisal process. A holistic solution serving all stakeholders would set us on the right path for returning confidence in the markets for consumers, private mortgage insurers, rating agencies, lenders, home builders as well as investors.