

**Oral Statement of Sara Stephens, MAI, CRE**

**President Elect, Appraisal Institute**

**Before House Financial Services Subcommittee on Investigations and Oversight**

**July 13, 2011**

I'd like to thank the Chair, Ranking Member and members of the Subcommittee for the opportunity to be with you today. Professional real estate appraisers are analysts of local real estate markets. Their research and opinions help protect the safety and soundness of our banking system and provide a tool that defends mortgage lenders.

Today, many lenders, enabled by government policies, continue down a treacherous path toward the commoditization of appraisals, promoting "collateral validation" over collateral valuation. This puts banks, homebuyers and taxpayers at risk.

Unfortunately, for many years, appraisal has been viewed as an impediment to the "closing of deals." Like other risk management functions, appraisal has been marginalized within many financial institutions, as evidenced by recent investigative reports which tell how loan production ruled and financial institutions lacked a "risk chromosome." New policies intended to correct past regulatory failures have concentrated power over appraisal decisions in the hands of a few. Coercion of appraisers has taken on new forms, where some are proposing to dictate the outcome of appraisals by actually legislating how to conduct an appraisal. All of these actions serve to effectively tie the hands of appraisers.

Strangely, real estate agents have reported that consumers are paying higher appraisal fees, yet fees actually paid to appraisers have declined in some cases by more than 40 percent. How can this be? Simply put, lenders have added, administration expenses onto the backs of consumers through the Appraisal line of the HUD-1 form. Further, many lenders have chosen to outsource the appraisal management function to third party management companies who pass only a fraction to the appraiser actually performing the appraisal service. Current policy leaves consumers completely in the dark. Here, we need transparency between appraisal and appraisal management fees, especially since it is the consumer who pays these fees in nearly all transactions.

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Given the diversity of real estate, appraisal cannot and should not be developed like a "cookbook" with a set of recipes that dictate how an appraisal is to be developed. The Appraisal Institute's 80 years of experience has taught us that a credible appraisal process does not lend itself to a step-by-step, by-the-numbers, how-to guidebook. Instead, what is required is that the practitioner is sufficiently trained and to understand the process that is appropriate to the specific assignment. For many appraisal problems, there is more than one solution. Take the valuation of "green" properties or appraisals in declining markets. These are complex issues that require some flexibility of approach. Rules of thumb don't work. Credibility requires rigorous research and analysis, as for every rule there is an exception.

It also requires expertise by those using an appraisal or establishing policies around it. To this point, Federal agency policies have resulted in caps on appraisal fees and propped up a business model of third party middlemen. Unfortunately, the Federal Reserve's Interim Final Rule is not faithful to Congressional intent. The Appraisal

Institute thinks Congress' intent was right on target. We urge Congress to guide the regulators' aim, directing them to correct the Interim Final Rule to promote credibility over speed and cost.

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We must also look at the process under which appraisal policies are overseen and implemented. Congress directed and funded the Appraisal Foundation to perform two functions – developing uniform appraisal standards and establishing minimum appraiser qualifications. Without direction from Congress, the Foundation has created a new board with no clear purpose or boundaries. Congress authorized the Appraisal Subcommittee, the federal oversight agency of our profession, to monitor and review the activities and structure of the Appraisal Foundation, but not to direct or overrule its activities and structure. The Appraisal Subcommittee may have exceeded its Congressional authorization with respect to the creation of the new board. Such potential regulatory overreach is a huge concern.

At a minimum, the recent actions of the Appraisal Subcommittee and Appraisal Foundation should be examined by Congress, and we urge this Committee to bring clarity and accountability to the relationship between the Appraisal Subcommittee and Appraisal Foundation where it does not exist today.

In conclusion, last year, Congress passed the most significant legislative update of the appraisal regulatory structure in two decades. In our view, this was only a beginning. Moving forward, Congress must maintain an active role in oversight of appraisal regulators and build on these reforms to address ongoing weaknesses. We can ill afford to allow another twenty years to pass without a thorough audit of appraisal regulations. Consumers, lenders, and taxpayers deserve much better than they have been given to date.