

TEMPLATE LETTER TO FHA, FANNIE MAE AND FREDDIE MAC ON APPRAISALS

The Honorable David H. Stevens
Assistant Secretary for Housing / FHA Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW, Suite 9100
Washington, DC 20420

Mr. Michael J. Williams
President and Chief Executive Officer
Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Mr. Charles E. Haldeman, Jr.
Chief Executive Officer
Freddie Mac
8200 Jones Branch Drive
McLean, VA 22102-3110

Dear Sirs:

I would like to bring to your attention an urgent matter regarding appraisals and to urge you to take actions to immediately address this situation.

Appropriate Selection of Comparable Properties

I am hearing increasing complaints from my constituents of appraisers using foreclosed or other distressed sales as comparables in determining values of single family homes, particularly new homes, without properly adjusting the comparable property values to reflect the relative condition of the properties. If foreclosed and/or distressed property sales are used as comparables, appropriate adjustments must be made to reflect the condition of such properties as compared to the subject property. Improper or insufficient adjustments to the comparable values of foreclosed and/or distressed homes results in the undervaluation of new sales transactions. Such practices contribute to a continuing downward spiral in home prices and forestall economic recovery.

Often, properties that have been subject to foreclosure or distressed sales have issues relating to deferred maintenance or internal damage that an external inspection simply cannot reveal. A prospective purchaser would most assuredly recognize the differences in the value proposition between a well-kept home and a distressed property that is damaged or not properly maintained, and the same should be true of an appraiser.

I am requesting that you issue and enforce guidance that instructs lenders and appraisers on the proper procedures for the use of distressed and/or foreclosed properties as comparables. Any

such guidance should encourage appraisers to expand the area and/or the time frame from which comparable properties are selected if a sufficient number of properties that have not been subject to foreclosure or distressed sales are not available in the area of the subject property. The guidance should also emphasize that an appraiser should further investigate and consider the overall condition of a property and the specific factors related to a foreclosure or distressed property sale in determining value when a foreclosed property is used as a comparable.

Appraisal Reconsideration Process

Furthermore, I urge the Federal Housing Administration, Fannie Mae, and Freddie Mac to adopt an appraisal reconsideration process similar to that which successfully has been deployed by the Department of Veterans Affairs (VA). The policy, instituted in 2003 to reduce the number of requests for reconsideration of property values, facilitates improved communication between appraisers and lenders before appraisal assignments are completed. In situations where an appraiser believes an appraisal would result in a value less than the sale price of a property, the VA instructs the appraiser to contact the lender and allow two working days for the lender to provide additional information. In addition, the lender can specify another point of contact for the appraiser, such as a builder or real estate agent, at the time the appraisal is ordered. By specifying a third party as a point of contact, a lender can reduce delays in getting additional information to the appraiser.

Thank you in advance for your efforts.

Sincerely,

(Member of Congress)

CC: The Honorable James B. Lockhart III
Director
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552