

Real Estate Appraisal Industry Overview

Overview

The real estate appraisal system in the United States is complex. The general standards for appraisals and the qualification requirements for appraisers are promulgated by boards which are overseen by the Appraisal Foundation. The profession is generally regulated at the state level. Appraisers are represented by a variety of trade associations, although the majority of professional appraisers do not belong to a trade association.

Specific real estate appraisal requirements that impact housing and the housing finance system flow from a number of federal government agencies, including the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the banking regulators, while Fannie Mae and Freddie Mac impose additional requirements.

The Appraisal Foundation

In 1986, nine professional appraisal organizations in the United States and Canada formed the Ad Hoc Committee on the Uniform Standards of Professional Appraisal Practice (USPAP). Agreeing upon a generally accepted set of standards, the eight U.S. committee members adopted those standards and thereafter established The Appraisal Foundation (the "Foundation") in 1987 to implement USPAP.

The Foundation is charged with oversight and administration of the *Appraiser Qualifications Board* (AQB) and the *Appraisal Standards Board* (ASB). With the 1989 enactment of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), Congress gave these two Boards considerable responsibilities.

The AQB establishes the qualification criteria for state licensing, certification and recertification of appraisers. FIRREA mandates that all state certified appraisers must meet the minimum education, experience and examination requirements promulgated by the AQB. The AQB has also developed voluntary criteria for personal property appraisers.

The ASB sets forth the rules for developing an appraisal and reporting its results. In addition, it promotes the use, understanding and enforcement of the Uniform Standards of Professional Appraisal Practice (USPAP).

FIRREA requires that real estate appraisals used in conjunction with federally related transactions be performed in accordance with USPAP. USPAP contains the recognized standards of practice for real estate, personal property, and business appraisals.

Headquartered in Washington, DC, the Appraisal Foundation is directed by a Board of Trustees. The Board of Trustees appoints members to and provides financial support for the AQB and the ASB.

The Appraisal Foundation also supports the work of several specialized councils:

The Appraisal Foundation Advisory Council (TAFAC), of which NAHB is a long time member, is composed of 58 non-profit organizations and government agencies, which represent appraisers, users of appraisal services and government agencies. TAFAC makes recommendations to the ASB, AQB and the Appraisal Foundation Board of Trustees on major issues pending before the Boards.

The Education Council of Appraisal Foundation Sponsors (ECAFS) was formed in order to ensure public trust in the appraisal profession, raise competency of appraisers and encourage high ethical standards through a cooperative effort to provide the highest quality uniform USPAP education. The council has developed a 15-hour *National USPAP Course* and 7-hour *USPAP Update* for appraisers. Both courses were donated to the Foundation by ECAFS and are updated annually. ECAFS is comprised of representatives from eight appraisal sponsors of the Foundation.

The Industry Advisory Council (IAC) provides for-profit entities an opportunity to provide advice and counsel to The Appraisal Foundation. Members of the IAC include: lending institutions, accounting firms, appraisal companies, insurers, brokerage firms, pension funds, investment bankers, relocation companies and others with an interest in valuation.

The State Regulator Advisory Group was formed to establish a direct link to the regulators who implement the work of the AQB and ASB. This group serves as a resource on such issues as:

- Identifying disciplinary related USPAP issues that should be incorporated into revisions to the *7-hour National USPAP Update Course*.
- Addressing enforcement and regulatory issues relating to USPAP and the *Real Property Appraiser Qualification Criteria*.
- Ensuring that the *Qualification Criteria* continues to reflect current capabilities and expectations of the marketplace regarding distance education.

The State Regulator Advisory Group is a geographically diverse panel composed of state board members, administrators, investigators, and legal staff.

The International Valuation Council (IVC) provides global and international information and support to the Foundation's Board of Trustees, ASB and AQB. The IVC maintains contact and a reciprocal process to share experiences with other national standard and qualification setting bodies.

The Appraisal Subcommittee

FIRREA also authorized the federal financial institution 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, together comprising the Federal Financial Institutions

Examination Council (FFIEC), 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.

Also created by FIRREA, the Appraisal Subcommittee (ASC) of FFIEC is charged with overseeing the activities of the states and the Appraisal Foundation. The ASC reviews each state's compliance with Title XI of FIRREA and also monitors the requirements established by the FFIEC agencies regarding appraisal standards for federally related transactions. All ASC operations, including oversight of the Appraisal Foundation, are funded by state certified or licensed appraisers, each of whom pays a \$25 annual National Registry fee to the ASC as part of their state registration fee.

State Appraisal Regulators

Each state or territory has an appraisal regulatory agency which is responsible for certifying and licensing real estate appraisers and supervising their appraisal-related activities, as required by federal law. There is a high degree of variability of enforcement and oversight among the state appraisal regulators. In some states, the licensing fees that are paid by appraisers provide adequate funding of the appraisal regulatory function for an agency that is dedicated to this purpose, while in other states these fees are placed into the general fund, which can result in an inadequately funded regulator. In some states, the agency that licenses appraisers also oversees licensing of other unrelated professions.

Real Estate Appraisal Trade Associations

Currently, there are approximately 105,000 state licensed or certified appraisers. There are a number of real estate appraisal related trade associations, which when taken together, represent approximately 35,000, or one-third of the 105,000 state licensed and certified appraisers. This means, of course, that two-thirds of all real estate appraisers do not hold membership in an appraisal trade association.

The major real estate appraisal trade groups are listed below:

Appraisal Institute

The Appraisal Institute is a global membership association of professional real estate appraisers, with 25,000 members and 91 chapters throughout the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide. Organized in 1932, the Appraisal Institute advocates equal opportunity and nondiscrimination in the appraisal profession and conducts its activities in accordance with applicable federal, state and local laws. Members of the Appraisal Institute benefit from an array of professional education and advocacy programs, and may hold the MAI[®] and SRA[®] designations.

American Society of Appraisers

The American Society of Appraisers is an international organization of appraisal professionals and others interested in the appraisal profession. ASA is the oldest and only major appraisal organization representing all of the disciplines of appraisal specialists. The society originated in 1936 and incorporated in 1952.

American Society of Farm Managers and Rural Appraisers

The American Society of Farm Managers and Rural Appraisers is the premier professional organization for property economics professionals who provide management, consultation, and valuation services on rural and agricultural assets. The ASFMRA, founded in 1929, provides members with the resources, information, and leadership that enable them to provide services to the agricultural community. The focus of the ASFMRA is providing education and networking opportunities for a professional group of members providing farm and ranch management, rural and real property appraising, review appraisal, and agricultural consulting services to the private and public sectors and to the governmental and lending communities.

National Association of Independent Fee Appraisers

Headquartered in Chicago, the National Association of Independent Fee Appraisers was founded in 1961 as a nonprofit professional association of real estate appraisers. Today, this Association has chapters throughout the United States, Mexico, Canada, and has over 4,000 members.

The Association's objectives are to raise the standards of the appraisal profession, gain recognition for its members as qualified professionals, and to promote fellowship among appraisers.

Other Organizations Governing the Appraisal Process

Federal Government Agencies

The Federal Housing Administration and its parent agency, the Department of Housing and Urban Development, the Department of Veteran Affairs, and the Department of Agriculture's Rural Development Agency are federal agencies that insure or guarantee loans that are secured by residential single or multifamily real estate. Many of these agencies also directly extend credit to individuals and nonprofit entities that purchase agency-owned properties. Accordingly, each of these agencies promulgates its own, sometimes unique, appraisal and appraiser requirements. For example, in the case of the Department of Veterans Affairs, even the method by which appraisers are selected is unique. Federal law requires that appraisers for VA-related appraisals be assigned on a rotating basis from the roster of VA-approved appraisers. Other agencies do not match the VA requirement, however, beginning on October 1, 2009, federal law will require all

appraisers who conduct appraisals for FHA-insured mortgage loans to be certified. The “certified” level of licensure requires more education and experience than the “licensed” classification.

Fannie Mae and Freddie Mac – Home Valuation Code of Conduct

The appraisal policies of Fannie Mae and Freddie Mac, two housing-focused government-sponsored enterprises that are currently under conservatorship, set the tone for most of the single family appraisal requirements because the majority of mortgage loans have traditionally been purchased by these companies or by other investors who follow Fannie-Freddie requirements.

In 2008, Fannie Mae and Freddie Mac finalized an agreement with the Attorney General of the State of New York and the Federal Housing Finance Agency to abide by the terms of the Home Valuation Code of Conduct (the “Code”), which became effective May 1, 2009. After this date, all lenders that sell loans to Fannie Mae and Freddie Mac must adopt the Code with respect to single family mortgage loans. Sellers and loan servicers must represent and warrant that appraisals are obtained in a manner that is consistent with the Code.

The Code is primarily intended to shield appraisers from undue pressure from mortgage brokers, loan officers, real estate agents, property sellers and others to achieve a certain value for a property in order to facilitate a mortgage loan and/or home sale. To accomplish this, the Code requires lenders to separate the credit/lending function from appraisal management function. In addition, the Code does not allow lenders to accept appraisals that have been ordered by a third party, such as a mortgage broker or real estate agent.

Even though it has only recently taken effect, many builders have reported that many lenders have turned to appraisal management companies to handle their appraisal functions. In fact, the largest lenders own or control appraisal management firms. Currently, no state has a regulatory process that addresses registration or oversight of appraisal management companies, although there have been discussions in Congress and throughout the appraisal profession regarding the need for governmental oversight of these firms.

The most frequently heard complaints regarding appraisals that are conducted under the direction of appraisal management companies relate to the lack of familiarity of appraisers with the area in which the subject property is located, the level of appraiser professional experience and education, and the willingness of appraisers to accept below market compensation for conducting appraisals. Before the advent of the Code, lenders often selected appraisers who were most familiar with a subdivision or neighborhood. These appraisers understood the nature of the market for homes in a particular area.

Appraisal management companies appear to be likely to assign appraisers randomly and, therefore, are less likely to assign an appraiser who is familiar with a specific area. Similarly, because they are splitting appraisal fees with individual appraisers, appraisal

management companies are more likely than lenders to select appraisers who are willing to perform appraisals cheaply and who have met only the minimum requirements to become “licensed” rather than seeking the “certified” or “certified general” registration levels, which require significantly more experience and education. There also appears to be little emphasis on the importance of further credentials, such as those offered by the various appraisal trade associations, in the appraiser hiring process.