



NATIONAL ASSOCIATION  
OF REALTORS®  
*The Voice for Real Estate®*



January 24, 2003

The Honorable Richard Shelby  
Chairman  
Senate Committee on Banking, Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Shelby:

On behalf of the more than 40,000 appraisal professionals throughout the United States who are members of the American Society of Appraisers, the Appraisal Institute and the National Association of REALTORS®, we would like to bring to your attention an issue of great importance. In April 2002, the General Accounting Office (GAO) began an investigation of the current regulatory structure for real estate appraisers in the United States. The investigation was requested by Senators Sarbanes and Miller after Congressional inquiries into loan flipping and predatory lending brought to light numerous reports of inconsistencies in the appraisal regulatory structure.

The primary purpose of the GAO investigation is to assess the effectiveness of the state and federal appraisal systems as set forth in Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and to make recommendations for changes, as necessary. The GAO is expected to release a report to Congress in March 2003, and as of today we are unaware of the likely outcome. However, we believe it is important for you to be aware of this investigation as recommendations from the report may fall under the jurisdiction of your committee.

Title XI of FIRREA was enacted to protect Federal financial and public policy interests in real estate related transactions by requiring that real estate appraisals be performed by individuals with demonstrated competency. Since FIRREA was passed over ten years ago, and because it mandated state licensing under federal standards, the regulatory structure for appraisers has evolved into a unique and complex system. It involves licensing boards in the various states, qualification criteria and uniform standards set by The Appraisal Foundation and federal oversight by the Appraisal Subcommittee of the Federal Financial Institutions Examinations Council. State licensing boards license, certify and provide oversight and enforcement of nationally recognized standards (the Uniform Standards of Professional Appraisal Practice) and state laws. It is apparent from this that the current regulatory structure is overly complex, inconsistent from state-to-state and in need of thorough review and examination by Congress.

Since Title XI was enacted, it has been difficult to achieve necessary consistency among the states for enforcement of both standards and certification requirements. Whether through a lack of resources or a lack of will by those charged with providing oversight, the current system allows some unscrupulous and unqualified appraisers to continue practicing with little or no recourse for their actions. In fact, some of these appraisers have been linked to mortgage fraud schemes throughout the country.

With a patchwork of state laws and ineffective federal oversight allowing for only "minimum" qualifications criteria for licensing and certification in some cases, states and the federal oversight bodies have too often not carried out their specific intended responsibility to enforce the standards as required by the

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federal law. Too often, complaints against real estate appraisers in some states are not reviewed by state appraiser boards, leading to a lack of disciplinary action against poorly performing appraisers. Too often, veiled threats and recommendations presented by Federal regulators to state appraisal boards go ignored, leading many boards to continue a cycle of ineffective enforcement.

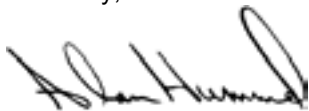
Although a fundamental goal of Title XI was to raise the professionalism of appraisers involved in federally related transactions, we have concluded this goal has not been met. Having provided for only "minimum" qualification requirements, the implementation of FIRREA has failed to offer incentives for appraisers to seek additional training, education and experience. In the end, we believe the public would be better served by a system that encourages appraisers to excel through appropriate professional development. Many appraisers see acquiring a license as the be-all and end-all of becoming an appraiser, and while our professional organizations maintain high standards of conduct and strict codes of ethics, nearly half of all licensed appraisers choose not to be affiliated with such organizations. Our research indicates that an overwhelming number of appraisers whose licenses have recently been suspended or revoked are unaffiliated appraisers. Furthermore, major secondary market participants have begun referring appraisers who perform poor or inaccurate appraisals to state licensing boards, resulting in hundreds of referrals to state licensing boards for review and possible disciplinary action.

Our organizations hope these and other deficiencies in the regulatory structure are brought to light through the GAO investigation. Furthermore, we believe the GAO investigation is just a first step in addressing the issue of mortgage fraud. Mortgage fraud involves collusion between two or more parties and of necessity goes beyond the real estate appraiser. Similar scrutiny should be applied to the regulatory structures of the other known participants in the perpetration of mortgage fraud. The home-buying public must be assured that all of the professionals in real estate mortgage-related transactions are ethical, accountable and subject to proper oversight and review.

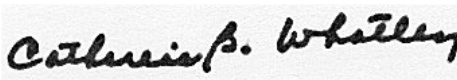
Following the release of the GAO report to Congress, we expect there will be a need to find solutions to deficiencies in the system. As you move forward in developing committee agendas and schedules, we urge you to consider making appraisal oversight and reform one of your agenda items in the 108<sup>th</sup> Congress. Our organizations want to assist you in this effort. We look forward to working with you to identify solutions to solve the problems associated with residential mortgage fraud.

For further information, contact Don Kelly, Vice President of Public Affairs, Appraisal Institute at 202-298-5583 or [dkelly@appraisalinstitute.org](mailto:dkelly@appraisalinstitute.org), Ted Baker, Executive Vice President, American Society of Appraisers at 703-733-2019 or [tbaker@appraisers.org](mailto:tbaker@appraisers.org), or Peter Morgan, Senior Regulatory and Industry Relations Liaison, National Association of REALTORS® at 202-383-1233 or [pmorgan@realtors.org](mailto:pmorgan@realtors.org).

Sincerely,



Alan E. Hummel, SRA  
President  
Appraisal Institute



Catherine B. Whatley  
President  
National Association of REALTORS®



John J. Connolly, III, ASA  
President  
American Society of Appraisers

Cc: The Honorable Paul Sarbanes  
The Honorable Wayne Allard  
The Honorable Zell Miller