



December 1, 2015

Office of General Counsel
Regulations Division
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Room 10276
Washington, D.C. 20410

RE: FR-5776-P-01 Disposition of HUD- Acquired Single Family Properties.

To Whom It May Concern:

On behalf of the nearly 20,000 professionals of the largest organization of professional real property appraisers, thank you for the opportunity to offer the following comments in response to the Department of Housing and Urban Development's ("HUD") Proposed Rule on the disposition of HUD acquired single family properties.

The proposed amendments to part 291 would make several changes to the administration of HUD's single-family property disposition program with respect to the disposition of REO properties. Our concerns are limited to section 291.100(b) of the proposed rule which expands the valuation methods available to include alternative methods (services) used in the real estate industry, such as Broker Price Opinions ("BPOs") and Automated Valuation Models ("AVMs"), while requiring appraisers to meet the requirements of HUD's Appraiser Roster.

We believe any property disposition program utilized by HUD should require at least one independent appraisal. This would be generally consistent with requirements imposed by federal bank regulatory agencies, which require a current appraisal or evaluation for REO purposes¹. This not only helps protect taxpayers from distressed sales below market value, but local communities from having properties "dumped" on the market at below market prices. Quality appraisals are absolutely essential if HUD plans to reduce the inventory of single family properties in a manner that minimizes losses to the Mutual Mortgage Insurance Fund and protects local communities. We urge the final rule include a basic requirement for at least one appraisal prepared for REO purposes in protection of taxpayers and local communities.

Background

As background, BPOs are largely unregulated and are performed with little oversight and training. BPO preparers have virtually no valuation-specific education, training, and testing requirements, and do not adhere to generally accepted valuation standards. Whereas, licensed and certified appraisers are required to meet meaningful education, experience, and examination requirements and to perform real estate valuation assignments in conformance with generally recognized appraisal standards.

¹ See <http://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/a-oreo.pdf> Note: Under the Interagency Appraisal and Evaluation Guidelines, "A valuation method that does not provide a property's market value or sufficient information and analysis to support the value conclusion is not acceptable as an evaluation. For example, a valuation method that provides a sales or list price, such as a broker price opinion, cannot be used as an evaluation because, among other things, it does not provide a property's market value.

Disposition of HUD- Acquired Single Family Properties.
December 1, 2015

Likewise, AVMs are essentially statistical algorithms. They are very reliant on public records data, which is widely known to be outdated and/or inaccurate. AVMs are also historically weak in non-conforming markets, as individual property and local market conditions are largely overlooked.

On the other hand, an AVM, in the hands of a highly qualified real estate appraiser, could produce far more credible results, and do so on a limited scope basis if the cost of an appraisal is a factor in the decision of what valuation method to utilize. To this point, we remind HUD that there are a range of services that appraisers can provide – desktop appraisals, drive-by appraisals or full interior inspection appraisals. We are not aware that HUD utilizes such services today.

Appraiser Solutions

In the case of a disposition, we believe the HUD would benefit from obtaining two value opinions from real estate appraisal professionals – one for the current market value and one for the property's liquidation value. Such appraisals are common throughout the real estate sector and can be capably prepared by residential appraisal professionals. In fact, the Appraisal Institute publishes a Liquidation Value Addendum² that could be used for this purpose. This would help the agency understand the range of risk exposure to the agency, with the liquidation value helping to illustrate the worst case scenario. Such services would provide cost-effective alternatives to less credible services such as AVMs and BPOs. If HUD is not utilizing them today, we urge the agency do so before turning to less credible alternatives.

Beyond this, should the agency insist on expanding the range of valuation services available to the agency, we strongly urge that the list be expanded to include nontraditional valuation services performed by real estate appraisers that are commonly utilized in asset management and disposition. That list should include, at a minimum, opinions of market value and liquidation or disposition value by appraisers, drive-by appraisals, and desktop appraisals, in addition to interior inspection appraisals. This would provide HUD with the full range of valuation services that are available in the conventional market.

Thank you again for the opportunity to comment. Please call Bill Garber, Director of Government Relations for the Appraisal Institute, at 202-292-5586 or Brian Rodgers, Manager of Government Relations, at (202) 298-5597 or brodgers@appraisalinstitute.org should you have any questions.

Sincerely,

Appraisal Institute

² Available at [http://www.appraisalinstitute.org/assets/1/7/AI - 801.04 Liquidation Value Addendum \(Legal\).pdf](http://www.appraisalinstitute.org/assets/1/7/AI - 801.04 Liquidation Value Addendum (Legal).pdf)