

July 14, 2016

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Hensarling:

Thank you for allowing the Appraisal Institute to provide input on the draft Financial CHOICE Act. We appreciate your focus on the importance of simplifying and modernizing the financial regulatory system.

The Appraisal Institute (“AI”) is a global membership association of real estate valuation professionals with nearly 20,000 members in 60 countries throughout the world. Our mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide. The majority of AI members are practicing real estate valuation professionals and property analysts who provide valuation-related services to such clients as mortgage lenders, financial institutions, government agencies, attorneys, accountants and financial planners, as well as homeowners and other individual consumers.

Appraisal Regulatory Structure

AI and its membership long have believed that the real estate appraisal regulatory structure is overly complicated.¹ In our view, it unnecessarily raises the cost for conducting appraisals, creates an artificial shortage in an industry critical to the sound provisioning of credit, and distorts the market for professional appraiser services due to the absence of clear limitations on entities that annually receive Congressionally-authorized funds.

AI has formulated principles for real estate appraisal regulatory modernization. A copy of these principles is attached for your review and reference. We believe that these principles will help address our stated concerns and other regulatory hurdles faced by the real estate appraisal industry. Enacting these reforms not only would make the regulatory system better reflect the business environment faced by appraisers, but also would streamline unnecessary and unaccountable government intervention.

Examination Standards

The AI has concerns with Section 1136 of the Financial CHOICE Act, which we believe would limit unnecessarily the flexibility of bank examiners in protecting safety and soundness. Specifically, new Section 1013(a)(3) is inconsistent with *Real Estate Lending* regulations, the *Interagency Appraisal and Evaluation Guidelines*, and the *Policy Statement on Prudent Commercial Real Estate Loan Workouts*, in that it would prohibit any reappraisal of a performing loan even if examiners identified safety and soundness concerns. We do not believe that Federal bank examiners’ hands should be tied on issues of safety and soundness.

In our view, Section 1013(a)(3) may not be necessary because current regulations and guidance do not require reappraisal of performing loans. Under the regulations, outside of the safety and soundness trigger, a new appraisal is not required for a loan workout or refinance unless there are new monies

¹ Testimony of Sara W. Stephens on behalf of the Appraisal Institute, June 28, 2012 before the Subcommittee on Insurance, Housing, and Community Opportunity *Appraisal Oversight: The Regulatory Impact on Consumers and Businesses* <http://financialservices.house.gov/uploadedfiles/hhrg-112-ba04-wstate-sstephens-20120628.pdf>

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involved and there has been a material change in market conditions or the physical aspects of the property. Otherwise, an "evaluation" is acceptable. In this regard, Section 1013(a)(3) may confuse a matter that already is settled through existing regulations.

As the Financial Services Committee begins to review the Financial CHOICE Act, or other reform of the financial regulatory system, AI hopes that the Committee will include modernization of the real estate appraisal regulatory structure in its deliberations. AI would be happy to meet with you or your staff to discuss these principles in more detail, and we look forward to continuing a dialogue on these important issues. Please contact Bill Garber, Director of Government and External Relations, at 202-298-5586 or bgarber@appraisalinstitute.org, if you have any questions.

Thank you, again, for providing AI with an opportunity to comment on this important initiative.

Sincerely,

Appraisal Institute

Attachment

Principles of Real Estate Appraisal Regulatory Modernization

Modernize Appraisal Oversight

- Align appraisal regulation with regulatory structures recently enacted by Congress (mirroring regulatory arrangements enacted by Congress for mortgage originators and insurance practitioners in recent years).
- Explore a nationwide platform, or portal, for appraisal practitioners, users of appraisal services, and state regulators to use to process license applications and renewals, thus, eliminating redundancies and “red tape.”

Improve Enforcement

- Provide clear audit processes for states’ appraiser regulatory agencies, allowing state regulators to focus on licensing administration and enforcement.
- Improve information-sharing among state regulatory agencies through a common platform.

Improve Appraisal Quality

- Improve appraisal quality by encouraging the engagement of highly-qualified real estate appraisers.
- Authorize financial institutions to exercise greater flexibility to “raise the bar” when hiring real estate appraisers by supporting professional appraisal designations that exceed minimum licensing requirements when procuring appraisal services.

Appraisal Standards

- Establish independent appraisal standards development that is free of conflicts of interest.
- Establish appropriate and reasonable limitations and oversight mechanisms around Congressionally-authorized bodies, consistent with previous Congressional action.

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