



August 1, 2018

The Honorable Johnny Isakson
Chairman
United States Senate Committee on Veterans' Affairs
412 Russell Senate Office Building
Washington, DC 20510

The Honorable Jon Tester
Ranking Member
United States Senate Committee on Veterans' Affairs
412 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Isakson and Ranking Member Tester,

On behalf of more than 19,000 members of the largest organization of professional real property appraisers, thank you for the opportunity to provide written testimony for the August 1st Senate Veterans' Affairs Committee hearing on pending legislation, and more specifically our thoughts on H.R. 299, the Blue Water Navy Vietnam Veterans Act of 2017" ("Blue Water Act"). The Appraisal Institute supports the overall aim of the legislation to aid Vietnam Veterans who had their disability eligibility taken away due to regulatory changes, but believes Section 7, which makes changes to how appraisals are procured for the VA home loan program, is unnecessary and ultimately could put veterans at risk.

The intent of the appraisal provision was to address a problem with slow turnaround times for VA loan appraisals in some rural markets due to a shortage of appraisers, by allowing VA appraisers to engage a third party to perform property inspections on their behalf. Some are referring to this as a "hybrid" appraisal. In the end, The Appraisal Institute believes the issues relating to VA appraisal turnaround times have already largely resolved themselves. Since the introduction of H.R. 3561, the original legislation containing this provision, the VA has become more competitive with the conventional market in terms of appraisal fees. ; and have added more than 1,000 appraisers to the VA Fee Panel. As a result, the number of outstanding appraisal requests has declined dramatically over the past 18 months.

We share Congress' desire to help veterans wherever we can, but the Appraisal Institute feels the best way to protect a veteran in their home buying process is through the preparation of a robust appraisal. Bifurcating the appraisal process by allowing for a third-party inspection decreases the reliability and credibility of the appraisal and increases risk to the VA loan program. Our nation's Veterans deserve a robust appraisal completed by highly qualified individuals.

There are ways to improve and/or create more efficiencies within the VA appraisal process than by bifurcating the appraisal process. Specifically, with the concerns of the rural shortage of 2016 in mind, it would behoove the VA to develop a "stand-by" list of approved VA appraisers to serve as a "buffer" against surges in loan demand. The VA recruits appraisers on an ongoing basis to the Fee Panel, and the Appraisal Institute even has assisted the agency in marketing the opportunity to the appraisal community. But some of our members report an uneven response from the VA regarding their applications. While those appraisers who currently are on the VA Fee Panel generally give it high marks, those who are not

on the Fee Panel and are interested in doing so have expressed some frustration about the length of approval time or their outright rejection. The VA has made improvements in this area – as evidenced by the uptick in the number of approved VA Fee Appraisers. In the end, we believe it would be far better for Veterans to have a wider pool of qualified appraisers than to have a watered down, or less reliable, appraisal process.

Further, the VA has rigorous inspection requirements that can be difficult for appraisers to complete. Some believe they track too far into the area of home inspection. Similar complaints were once made of the FHA appraisal requirements, but recent changes to the FHA Handbook 4000.1 have resolve many of those concerns. They require the appraiser to 1. Observe, 2. Analyze, and 3. Report such features, placing underwriting decisions appropriately in the hands of Direct Endorsement lenders. We recommend the VA follow suit with the establishment of a similar or comparable policy relative to appraisal observations.

Additionally, should the Senate feel compelled to act in this area, Regarding, we urge that Section 7 of the Blue Water Act be amended to address two concerns –

1. For Congress to support the use of a third party to perform a property inspection, we strongly encourage for the third party to be an appraiser or an appraiser trainee. Our members report that tests being done on hybrid appraisals involve a wide variety of inspectors – from insurance inspectors, to lay individuals and those with limited real estate training. This can actually serve to complicate the appraisal process. The inspections should not only be performed by someone contracted with the appraiser, but someone registered as a trainee within the profession.
2. Additionally, considering the earlier problem of long turnaround times in some rural markets, we believe the language should be limited to dealing with *rural* appraisal situations. H.R. 299 authorizes a much wider application than what was anticipated by the agency, potentially debasing the VA appraisal process. This is important considering likely unintended or unforeseen issues that might develop as the program evolves. For instance, issues relating to liability around the use of third party inspections will need to be clearly addressed by the VA for lenders, borrowers and appraisers. The liability impacts to appraisers utilizing non-appraiser inspections could be significant depending on how this issue is addressed by the VA. Clarifying the limitations of the allowance or explicitly authorizing the development of a pilot program would be preferable to the general language contained in the bill.

Thank you in advance for your consideration. The Appraisal Institute is happy to continue to work with your Committee to assist our Veterans. Should you have any questions, please contact Bill Garber, Director of Government and External Relations at 202-298-5586, bgarber@appraisalinstitute.org or Brian Rodgers, Manager of Federal Affairs, 202-298-5597, brodgers@appraisalinstitute.org if you have any questions or require additional information.

Sincerely,

Appraisal Institute