Appraisal Institute®

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November 20, 2018

The Honorable Brian Montgomery
Assistant Secretary for Housing/Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

RE: **Changes to the Home Equity Conversion Mortgage Program**

Dear Commissioner Montgomery:

On behalf of the nearly 18,000 members of the largest professional association of real estate appraisers in the United States, we write to you in response to Federal Housing Administration's ("FHA") Mortgagee Letter 2018-06, which makes modifications to the Home Equity Conversion Mortgage ("HECM") program, including requiring a second property appraisal under certain circumstances.

The Appraisal Institute views the announced policy as a positive step forward in building additional safeguards around the HECM program. The HECM program has been a longstanding concern for appraisers, other mortgage industry stakeholders, and oversight and enforcement agencies. A second appraisal in certain circumstances as a standard practice would ensure the creditability of the analysis and enhance the safety and soundness of the loan. In addition, it would help to protect against fraud, cited frequently, by enforcement and oversight agencies relating to the HECM program.

We have one parallel thought to the "second appraisal" concept: we suggest the FHA consider allowing an <u>appraisal review</u> - completed by a competent review appraiser - to satisfy the second appraisal HECM requirement. This approach would be wholly consistent with generally accepted appraisal standards, as the scope of work of an acceptable review (likely one developing a separate opinion of value) could be stated to FHA lenders and FHA appraisers. We believe this approach may have benefit to ordering two separate appraisals ordered and prepared irrespective to one another, or in a "silo."

<u>Historical Concerns</u>

Beyond this, we have previously written to the FHA about other steps that could be taken to strengthen the overall FHA appraisal program (including the HECM program). We continue to encourage a reevaluation of prior policy in one area – eligibility requirements for placement on the FHA Appraiser Roster.

In response to persistent lessening in FHA appraiser qualifications, a change instituted during the financial crisis, and implemented as a part of the Housing and Economic Recovery Act (HERA) of 2008, Congress enacted several changes to FHA appraiser roster requirement - one provision required the use of "certified" appraisers and another required all FHA appraisers to demonstrate "verifiable education" in FHA appraisal requirements.

We continue to disagree with FHA's decision to equate these minimum qualifications for a competent appraiser as set by the Appraiser Qualifications Board with the agency specific requirements of the FHA, as was determined in 2008 in Mortgagee Letter 2008-39. These minimum qualifications do not address the longstanding set of guidelines found in *FHA Single Family Housing Handbook, 4000.1* and as such fail to advance the program goals of the FHA.

Since the enactment of the HERA, we have heard from AI professionals - reviewers in particular - that some FHA appraisers are not aware of the mere existence of the FHA Handbook, nor are they cognizant of the actual Handbook 4000.1 requirements.

This circumstance is enabled by the implementation of the flawed policy found in Mortgagee 2008-39. The FHA HECM program *relies* on this process, and we caution that in doing so it includes a fundamental weakness relative to the qualifications and skills of those performing appraisals on the FHA Appraiser Roster.

There are other forces at work with FHA appraisals that are worthy of discussion, including the common procurement process that typically pays closer attention to factors beyond the basic competency of the appraiser that are worthy of discussion.

However, the FHA can make one relatively easy change to fully and accurately implement the HERA requirements. The change would require the FHA appraiser to demonstrate competence and knowledge of Handbook 4000.1.

We believe this would go a long way to solving some of the problems found in the HECM program and the FHA appraisal book altogether.

The Appraisal Institute would be happy to meet with you to discuss this further, but if you have any questions, please call Bill Garber, Director of Government Relations for the Appraisal Institute, at 202-292-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Government Relations, at (202) 298-5597 or brodgers@appraisalinstitute.org should you have any questions.

Sincerely,

Appraisal Institute