

**Appraisal Institute - Issues and Suggestions**  
**Property Appraisal and Valuation Equity Task Force**  
**Listening Session, October 14, 2021**

**Reconsideration of Value (ROV) process**

Issues: ROV processes and procedures vary by lender/institution. Some lenders have proprietary forms, while some lenders do not accept ROV requests at all. Federal loan guarantee programs provide a level of structure around ROV processes – the VA has the Tidewater Initiative, and the FHA maintains guidance on ROV process within its Handbook. Separately, current practice does not provide sufficient information to consumers/borrowers. “The appraisal stands” is what is commonly communicated to borrowers following a ROV request that agrees with the appraisal. Compared to credit reporting, this communication is insufficient and leaves the consumer wondering how the lender reached this conclusion. Were the subject property, neighborhood, and improvements sections complete and accurate? Was the data and analysis presented in the approaches to value complete, appropriate, and accurate? Were the comparable sales locationally, physically, and functionally the most like the subject property?

Suggestion: The bank regulatory agencies, loan guarantee agencies, FHFA and the CFPB should work with stakeholders to develop standardized and consistent guidance for lenders on ROV process and procedure. Such guidance should explore ways to model key components of the VA Tidewater Initiative – particularly Notice of Value opportunities for appraisers to communicate appraisal results that are below contract prices, providing ways for parties to share relevant information (different than a “data dump”) with the appraiser prior to delivery of the appraisal report to the lender/client.

Suggestion: Amend ECOA to require consumers receive an explanation from the lender for a denial of a ROV request. The contents of the explanation should include analysis completed by the lender relating to the completeness, appropriateness, and accuracy of the appraisal report and the qualifications of the reviewer.

**Diversity in the industry, to include appraiser education and outreach**

Issues: The appraisal profession lacks diversity. Appraisal is ranked as one of the least diverse professions in the United States. Entry into the profession can be difficult, particularly garnering the necessary experience to satisfy minimum qualifications criteria. Further, some state requirements vary greatly in the requirements for Trainee appraisers. Some states require twice of much education than the minimum AQB criteria for Trainees. The issue is exacerbated by restrictions placed by some lenders on trainee inspections, which limits the ability of trainees to gather the necessary field experience.

Suggestion: Clarify existing guidance and regulation relating to the acceptability of trainee inspections. Supervisory appraisers should be able to deploy trainee appraisers to complete inspections and/or cosign the report once competency to complete inspections is reached.

Suggestion: Support existing initiatives such as the Appraiser Diversity Initiative that promote appraisal careers amongst diverse candidates and aspiring appraisers.

Suggestion: Support the consistent acceptance at the state level for alternative experience pathways for aspiring appraisers, such as Practical Applications in Real Estate Appraisal (PAREA). All stakeholders and agencies should encourage 100 percent state adoption of experience credit for PAREA programs approved by the AQB.

Suggestion: Promote and encourage greater consistency amongst state regulatory agencies by advancing the Portal for Appraisal Licensure and interstate compacts that promote consistency in licensing requirements. The PAL would create a centralized clearinghouse of appraiser licensing information, including education and experience logs for state regulators to pull down in reviewing license applications. An interstate compact could standardize minimum education and experience requirements and promote reciprocity, while reducing compliance costs for all appraisers.

Suggestion: DOL and other workforce related agencies are participating in the PAVE Task Force. In the future, we believe it would be helpful for programs like this, and the Army Career Skills Program, to allow participants to utilize their apprenticeship benefits with experience simulators like the Appraisal Institute’s PAREA program. Such benefits are exclusive to private sector employers today when technology enables a new form of apprenticeship opportunity through simulation. Further, we have witnessed Veterans having difficulty leveraging their GI Bill education benefits for appraisal education. The process of becoming and maintaining the status as a GI Bill approved education

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provider are onerous and involve state-by-state bureaucratic procedures. Some centralization and reciprocity of approved education provider courses would dramatically improve Veteran access to appraisal education.

**Appraisal policy, guidance, and regulations**

Issues: Federal agencies have historically lacked appraisal expertise, which has contributed to the issuance of sporadic guidance to banks/lenders on appraisal issues. Currently, there is only one credentialed appraiser in the entire federal bank regulatory system.

Further, the GSEs maintain a massive Uniform Collateral Data Portal (UCDP) that contains millions of appraisals and appraisal information going back more than a decade. This data would be of great value to appraisers with protocols that protect appraiser independence. The macro data has shown to have derivative value to researchers exploring fair housing issues in appraisal, as evidenced by the recent Freddie Mac Research Note on appraisal issues. Appraiser access to such data has long been discussed, but it has largely not materialized, to date.

Promoting the procurement of quality and well-supported appraisals is a constant challenge in the face of often overriding goals such as speed/turnaround time and price of the service. The systems that drive procurement of appraisals have long been a significant part of the problem when it comes to improving the quality of appraisal reports.

Suggestion: Federal examination agencies should include credentialed “appraisal policy specialists” to serve as leads on real estate appraisal policy issues. Examination teams should also include credentialed “appraisal field specialists” to help with audit and review of institutions on valuation issues.

Suggestion: The Interagency Appraisal and Evaluation Guidelines should be updated to address contemporary fair housing and bias related issues, focusing on appraisal review, reconsideration of value process and procedure, acceptability of high LTV loans or credit exceptions, and quality control standards for AVMs. The guidance should reaffirm the importance of engaging highly trained, ethical, and competent appraisers and promote meaningful oversight and accountability.

Suggestion: Continue to explore ways in which UCDP data could be used by appraisers to improve quality and consistency. The sharing of information could start with simple tests of information sharing on items such as square footage reports in UCDP, requesting appraisers verify correct reporting. At the extreme, appraisers could test access to a full stream of suggested comparable sales for review and analysis.

**Enforcement and compliance**

Issues: While there have been enforcement cases involving real estate appraisal, it has historically not been a significant source for fair housing complaints. As such, there is not a great deal of appraisal expertise or experience in fair housing agencies. Over the past year, the number of complaints has dramatically risen, most likely in response to multiple media reports on borrower concerns about race playing a role in valuation. Separately, we have heard appraisers express concern about value disagreements being couched as fair housing complaints. Additionally, fair housing education programs have been offered by appraisal education providers in the past, but it has not received sustained support or offering.

Suggestion: The Appraisal Subcommittee’s Appraiser Independence Hotline could be modified to include fair housing complaint referrals to appropriate agencies, and the Appraisal Subcommittee could report the number of referrals in the Annual Report to Congress.

Suggestion: Appraisal review should become a more centralized component of fair housing agency operations. A thorough appraisal review by a qualified appraisal reviewer can help determine the credibility, accuracy, and completeness of an appraisal and help separate value disputes from potential fair housing violations. This requires financial resources to support the hiring of qualified appraisal reviewers.

Suggestion: The HUD Office of Fair Housing and Equal Opportunity could also develop guidance or FAQs relating to appraisal related issues. Such guidance might cover issues that have not received a great deal of attention in the past, such as the applicability of the anti-retaliation provision of the FHA in appraisal.

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Suggestion: All appraisers should be required to complete continuing education requirements on valuation bias and fair housing. Several states have already enacted such requirements, including MN, CA, and NY, and should serve as models for others moving forward.

Suggestion: Steps should be taken to avoid situations of “double jeopardy” or “forum shopping” where parallel enforcement actions against appraisers may be taken at the federal and state levels. Once formal adjudication is complete at the federal administrative and civil levels, subsequent enforcement proceedings should cease.

**AVMs and alternative property valuation methods**

Issues: AVMs have been offered by some to reduce subjectivity in the appraisal process, but this overlooks the fact that AVMs are subject to their own coding or data biases. There is currently only one source for guidance on AVM use by regulated institutions – the Interagency Appraisal and Evaluation Guidelines and this guidance has not been updated in more than a decade. Otherwise, lenders lean almost exclusively on the Government Sponsored Enterprises for appraisal waiver results that rely on proprietary AVM results. Further, many lender appraisal review processes lean exclusively on AVMs, when “bouncing” a couple of AVMs against an appraisal is not a sufficient appraisal review process.

Separately, there is very little innovation or testing of alternative loan products in mortgage finance. We have seen modest success with pilot projects such as the Detroit Home Mortgage Initiative that attempt to grapple with so called “appraisal gaps.” This program leans heavily on high LTV lending. Further, Freddie Mac launched pilot programs last year that attempt to solve for the appraisal gap by ordering the appraisal earlier in the application process.

Suggestion: The Dodd-Frank Act requirement for the agencies to develop AVM quality control standards should be relaunched with stakeholder outreach. The QC Standards should provide clarity to measuring the performance of AVMs and defining key terms like “confidence score,” which can be interpreted differently by vendors.

Suggestion: The GSEs and loan guarantee agencies should be encouraged to develop pilot programs that attempt to deal with the issue of appraisal gaps, where the market value is below the contract price. This could involve higher intensity of appraisal reviews by lenders or the use of a “Notice of Value” processes discussed above. Pilot programs could also test high LTV loan arrangements like the Detroit Home Mortgage. Pilots could explore the reporting of appraisal results as a range of value (versus a single point estimate) or the analysis and reporting of different values, such as market value and “competitive aspirational value,” which analyzes the value of the subject property absent locational factors. This kind of whole market analysis could help lenders quantify their Community Reinvestment Act investments and better understand risks and opportunities with the loan.