September 16, 2013

Honorable Richard Cordray, Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Re: Request For Meeting Regarding Status of Bureau Implementation of Dodd-Frank Provision Requiring CFPB Review of $250,000 Dollar Threshold Set By the Banking Agencies, Below Which Professional Appraisals Are Not Required For Real Property Collateralizing Residential Mortgage Loans

Dear Director Cordray:

The American Society of Appraisers (ASA) and the National Association of Independent Fee Appraisers (NAIFA) are writing to inquire about Bureau plans to implement an important Dodd-Frank provision which is designed to ensure the protection of mortgage borrowers and the safety and soundness of mortgage loan transactions.[1] Specifically, section 1473(a) of Dodd-Frank requires the Bureau to review the decision of the federal banking agencies to not require the use of state certified or licensed appraisers to determine the market value of real property collateralizing residential mortgage loans, unless the loan amount exceeds $250,000 dollars. Since the vast majority of residential mortgage loans fall below the banking agencies' $250,000 threshold, millions of homebuyers can be denied the benefit of having an independent professional appraiser determine the market value of property that will collateralize the largest loan almost all consumers will ever make.[2]

The $250,000 threshold for residential loans is considered by our organizations and by the community of professional appraisers to be insufficiently protective of consumer interests and of the safety and soundness of the mortgage loan underwriting process. We believe this view is widely shared by consumer organizations, particularly those which focus on housing issues. The National Community Reinvestment Coalition told the Housing Subcommittee of the House

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[1] ASA and NAIFA, representing thousands of our nation's leading valuation practitioners, are professional appraisal organizations which teach, test and credential qualified individuals in residential and commercial real estate appraisal practice and appraisal review. Additionally, ASA, which is a multi-disciplinary appraisal organization, teaches, tests and credentials its members for professional appraisal practice and appraisal review in business valuation and in tangible and intangible personal property valuation (e.g., machinery and equipment, fine art, antiques, gems and jewelry and the contents of offices and homes).

[2] GAO reported that 71% of residential mortgages made from 2006 through 2009 were under the current $250,000 regulatory threshold at or below which appraisals are not required. National Association of Realtors data show that in 2012, the median price of U.S. home sales was $176,800 and the average price of residential home sales was $225,400 ($173,700 in the Midwest region; $198,800 in the South; $278,100 in the West; and, $277,900 in the Northeast.

Committee on Financial Services at an appraisal oversight hearing in June 2012 that "full appraisals by licensed appraisal professionals" should be required "for all residential mortgages above $50,000." We also note that FHA, VA and the GSEs all have appraisal requirements substantially more rigorous than those established by the banking agencies, suggesting that they have a very different view than the banking agencies of what constitutes good public policy in the mortgage lending area.

<u>The specific purpose of Dodd-Frank section 1473(a) was to ensure an immediate review, by the government's principal consumer protection agency, to determine whether the $250,000 threshold – which excludes more than 70 percent of all mortgage loans from the benefits of a required independent professional appraisal – provides consumers with "reasonable protection"</u>.[3] **<u>Congress's intent was to require a Bureau review of the current $250,000 threshold, not a future increase in a threshold which is already widely regarded as excessive and inappropriate as a matter of public policy</u>**.

We recognize that because Fannie Mae, Freddie Mac, FHA and VA generally require appraisals for mortgages they purchase or guarantee, the deleterious effects of the banking agencies' $250,000 threshold are mitigated to some extent. However, we also recognize that the future of the GSEs is uncertain and that they are likely to undergo significant structural changes over the next several years or even disappear entirely, thereby jeopardizing the moderating effects of their current appraisal requirements on the gap that the banking agencies' $250,000 threshold created. <u>Moreover, effective consumer protection policies involving the largest purchase that most consumers will ever make, should not be dependent on the corrective effects of other federal entities</u>. The policies of the primary regulators of mortgage lenders – the federal banking agencies – and those of the Bureau should properly protect consumers in the mortgage markets and not leave the valuation of properties collateralizing mortgage loans to "evaluations", which are greatly inferior to professional appraisals. For example, they can be performed by non-appraisers; they can rely on automated valuation models (AVMs) to establish the market value of collateral property; and, they can contain much less information – including the basis on which market value is determined – than an appraisal .[4]

Accordingly, we respectfully urge the Bureau to begin the process of implementing Section 1473(a) at the earliest possible time and seek information on when the process is likely to begin. <u>We would greatly appreciate an opportunity to meet with you or your designate to discuss this request</u> and will have a representative of ASA and NAIFA contact your office to arrange a meeting. In the meantime, if you have any questions or need further information, please contact the government relations

[3] Specifically, the Bureau is charged with determining whether it "concurs" with the agencies that their threshold level policies provide "reasonable protection for consumers who purchase 1-4 unit single-family residences."

[4] While AVMs in the hands of professional appraisers can provide useful information in reaching a market value conclusion, they are not reliable for this purpose as a free-standing valuation product. Indeed, section 1125 of Dodd-Frank require the establishment of quality control standards for AVMs and tasks the Bureau, FHFA, the banking agencies, the federal Appraisal Subcommittee and the Appraisal Standards Board of the Appraisal Foundation to develop and implement such standards. This process is nowhere near completion. A professional appraiser is prohibited from providing any valuation that does not comply with USPAP. There may be ways in which an "evaluation" could be "doctored" so as to comply with USPAP, but that could be problematic and there are no data to indicate whether this has been done and, if so, how common it is.

representative for ASA and NAIFA, Peter Barash (202-466-2221 or peter@barashassociates.com) or ASA’s Director of Government Relations, John D. Russell (703-733-2103 or jrussell@appraisers.org).

Sincerely,
American Society of Appraisers
National Association of Independent Fee Appraisers