



Highlights of [GAO-04-580T](#), a testimony before the Subcommittee on Housing and Transportation, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

## Why GAO Did This Study

The appraisal and mortgage lending industry has changed dramatically since the passage of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Some have concluded that the problems Title XI was intended to address—the risk to the federal deposit insurance funds and the lack of uniform standards and qualifications—no longer exist. This statement is based on GAO's May 14, 2003, report and discusses the roles of private, state, and federal entities that oversee the appraisal industry; the challenges that Title XI presented to these entities; and industry participants' concerns about the effectiveness of the Title XI regulatory structure.

## What GAO Recommends

In its report, GAO suggested that, among other things, the Chairman of the Appraisal Subcommittee should:

- develop and apply consistent criteria for determining and reporting states' compliance levels with Title XI;
- explore potential options for assisting states in carrying out their Title XI activities, particularly for investigating appraiser complaints; and
- explore alternatives for providing future Title XI grant funding to the Appraisal Foundation and its two boards.

The Appraisal Subcommittee generally agreed with our recommendations and has taken actions to address them.

[www.gao.gov/cgi-bin/getrpt?GAO-04-580T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-580T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at 202-512-8678 or [woodd@gao.gov](mailto:woodd@gao.gov).

## REGULATORY PROGRAMS

# Opportunities to Enhance Oversight of the Real Estate Appraisal Industry

## What GAO Found

Title XI created a complex oversight structure for real estate appraisals and appraisers that involves private, state, and federal entities. Two private entities under the Appraisal Foundation establish uniform rules for real estate appraisals and set minimum criteria for certifying appraisers. State regulatory agencies certify appraisers based on these criteria. In addition, states (1) implement licensing of real estate appraisers and (2) monitor and supervise compliance with appraisal standards and requirements. The federal financial regulators oversee financial institutions' use of appraisals, and a federal agency, the Appraisal Subcommittee, monitors the functions of the entities. As part of its oversight activities, the Appraisal Subcommittee performs field reviews of the state appraiser regulatory agencies. GAO found that these reviews and their resulting reports could be more useful if based on clear and consistent criteria for assessing states' compliance with Title XI requirements.

All of these entities except the federal financial regulators identified potential impediments to carrying out their Title XI responsibilities. The two private entities stated that fund limitations could impede their ability to ensure that development of standards and qualifications evolve with changing conditions. State agencies said that funding shortfalls hindered their ability to enforce compliance. Appraisal Subcommittee staff reported that rule-making authority and additional enforcement sanctions could facilitate its oversight of state compliance with Title XI. The lack of funding and resources cited by state appraiser regulatory agencies and the two private entities, which establish appraisal standards and appraiser qualification criteria, could affect their future ability to fulfill their Title XI responsibilities. At the same time, the Appraisal Subcommittee has accumulated an operating surplus of almost \$4 million from fees levied and collected by the states on behalf of the federal government.

Industry participants raised concerns about aspects of the Title XI regulatory system for appraisers. They cited differences in state regulation that affect both lenders and appraisers, gaps in Title XI's coverage—for example, transactions of less than \$250,000 do not require an appraisal, high fees and burdensome processes for having appraiser education courses approved, and weak enforcement and complaints processing. Some industry participants felt that states, traditionally involved in regulating professions, should solely regulate the appraisal industry. Others felt that the current structure needed a significant overhaul to become effective. GAO found no clear consensus among the state regulatory agencies it surveyed or other industry participants regarding the need for or impact of possible changes to the Title XI regulatory structure.