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Report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Banking and Financial Services, House of Representatives

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SINGLE-FAMILY HOUSING

Weaknesses in HUD's Oversight of the FHA Appraisal Process

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Resources, Community, and
Economic Development Division

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The Honorable Rick A. Lazio
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Banking
and Financial Services
House of Representatives

Dear Mr. Chairman:

Numerous allegations and complaints about the poor quality of appraisals conducted for the purposes of mortgage insurance issued by the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) have raised concerns about the FHA appraisal process. Appraisals influence the loan amounts that FHA insures, and incomplete or inaccurate appraisals resulting in overvaluations may expose FHA to greater financial risks. In fiscal year 1998, HUD insured mortgage loans for single-family housing totaling approximately $100 billion.

In May 1998, we reported on the quality of FHA appraisals for nine homes in New Jersey and Ohio that a group of appraisers selected to illustrate their concerns about the completeness of some FHA appraisals.[1] We noted that the appraisal reports for eight of the nine properties did not reflect conditions we observed that could adversely affect the structural soundness and continued marketability of the houses and the health and safety of the occupants. We also reported that HUD's field offices did not adequately monitor the performance of the appraisers of these properties. In light of these problems, you asked us to conduct a broad assessment of HUD's oversight of the FHA appraisal process.

This report provides information on the following questions: (1) How well is HUD monitoring the performance of the appraisers on its roster and implementing procedures for addressing consumers' complaints about FHA appraisals? (2) To what extent is HUD holding appraisers accountable for poor-quality FHA appraisals? (3) To what extent is HUD holding lenders responsible for the quality of the FHA appraisals they use? (4) How does HUD ensure that the appraisers on its roster are qualified to perform FHA appraisals? However, we did not estimate the impact that HUD's oversight

[1]Appraisals for FHA Single-Family Loans: Information on Selected Properties in New Jersey and Ohio (GAO/RCED-98-145R, May 6, 1998).

of the appraisal process might have on the financial health of FHA's mortgage insurance fund.

To address these issues, we focused on the activities of HUD's headquarters and its Philadelphia and Denver homeownership centers (HOC). HUD established four HOCs to administer the single-family housing functions formerly performed by its 81 field offices. Together, the Philadelphia and Denver HOCs account for about half of FHA's single-family home loan activity.

Results in Brief

HUD is not doing a good job of monitoring the performance of appraisers. On-site evaluations of completed appraisals, known as field reviews, are HUD's principal tool for assessing the quality of appraisers' work. In fiscal year 1998, HUD performed about 81,000 of these reviews, but three of the four HUD homeownership centers did not meet HUD's requirement to field review no less than 10 percent of the FHA appraisals performed within their jurisdictions. Of the 12,076 appraisers who performed 10 or more appraisals between October 1, 1997, and June 30, 1998, 4,465, or 37 percent, had not been field reviewed. Although HUD's guidance states that timeliness is essential to ensure quality field reviews, half of the field reviews conducted in fiscal year 1998 did not occur until more than 2 months after the appraisals had been performed. Moreover, HUD did not learn about problems with some appraisals until after it had already approved mortgage insurance for the properties. The Philadelphia and Denver homeownership centers' records for 126 field reviews that rated the appraisals as poor showed that HUD approved mortgage insurance for 96 of the homes covered by these reviews. In 37 of the 96 cases, the field reviews were performed after mortgage insurance had been approved. In addition, HUD staff did not routinely visit appraised properties to determine the accuracy of the field review contractors' observations. Finally, the Philadelphia and Denver homeownership centers did not fully implement guidance on the handling and tracking of consumers' complaints, including those relating to appraisals.

HUD is not holding appraisers accountable for the quality of their appraisals. Contrary to HUD's policy, appraisers who received two or more poor ratings in field reviews were frequently not prohibited from conducting further FHA appraisals. A poor field review score indicates that the appraiser made errors and omissions that could result in an unacceptable insurance risk to FHA. During the first three quarters of fiscal year 1998, 246 of the 5,768 field reviewed appraisers within the

Philadelphia and Denver homeownership centers' jurisdictions received two or more poor field review scores, but only 11 of the appraisers were prohibited from doing subsequent FHA appraisals. Poor record-keeping by HUD's field offices was the primary reason for the centers' inability to pursue enforcement actions against other poorly performing appraisers.

HUD has not aggressively enforced its policy to hold lenders equally accountable with the appraisers they select for the accuracy and thoroughness of appraisals because of disagreement within HUD over its authority to do so. In May 1998, the Philadelphia Homeownership Center requested that HUD's Mortgagee Review Board[2] impose administrative sanctions against a lender who refused the center's request to correct property deficiencies that the appraiser had overlooked. However, the Board never reviewed or acted on this request because the Board's staff did not believe that HUD had the authority to hold the lender accountable for the quality of the appraisal simply because the lender had selected the appraiser. As a result, the homeownership centers have been reluctant to refer similar cases to the Board.

HUD has limited assurance that the appraisers on its roster are knowledgeable about FHA's appraisal requirements. HUD relies largely on the states' licensing process to ensure that appraisers are qualified, but the states' minimum licensing standards do not include proficiency in FHA's appraisal requirements. HUD is revising its appraisal guidance and forms to better clarify the roles and responsibilities of appraisers and is adopting a testing requirement for appraisers to ensure their competency in FHA's appraisal standards.

This report makes recommendations designed to improve HUD's process for assessing completed FHA appraisals and to clarify the Department's authority to hold lenders accountable for poor-quality appraisals.

Background

Each year, FHA helps hundreds of thousands of Americans finance home purchases. Established under the National Housing Act, FHA insures private lenders against losses on mortgages for single-family homes. FHA plays a particularly large role in certain market segments, including low-income borrowers and first-time homebuyers. The loan amount that FHA can insure is based, in part, on the appraised value of the home. If a borrower defaults and the lender subsequently forecloses on the loan, the

[2]The Mortgagee Review Board is the entity within HUD that can impose administrative sanctions against a lender, withdraw a lender's authority to make FHA-insured loans, or both.

lender can file an insurance claim with HUD for nearly all of its losses, including the unpaid balance of the loan. After the claim is paid, the lender transfers the title to the home to HUD, which is responsible for managing and selling the property. Most of the mortgages are insured by FHA under its Mutual Mortgage Insurance Fund (Fund). To cover lenders' losses, FHA deposits insurance premiums paid by borrowers in the Fund and historically, the Fund has been self-sufficient.

The purpose of an FHA appraisal is to (1) determine the property's eligibility for mortgage insurance on the basis of its condition and location and (2) estimate the value of the property for mortgage insurance purposes. In performing these tasks, the appraiser is required to identify any visible deficiencies impairing the safety, sanitation, structural soundness, and continued marketability of the property and to assess the property's compliance with FHA's other minimum property standards. According to HUD's guidance, if an appraiser finds noncompliance with these standards, the appraiser should include in the appraisal report an appropriate and specific action to correct the deficiency.

Private mortgage lenders making FHA-insured loans for single-family housing are required to select appraisers from FHA's roster of about 31,500 state-licensed or -certified appraisers. In fiscal year 1998, 825,539 appraisals were performed for the purposes of FHA mortgage insurance. Ninety-six percent of these appraisals were for existing homes, while the remaining 4 percent were for newly constructed homes.

On-site assessments of completed appraisals, known as field reviews, are HUD's principal tool for monitoring the performance of the appraisers on FHA's roster. In conducting a field review, a HUD staff person or contractor visits the appraised property to evaluate all aspects of the appraisal, including whether the value determination was reasonable and whether all needed repairs were identified.[3] The field reviewer is required to document his or her findings on a standard HUD form and recommend a score using a scale from 1 to 5 (with 1 being unacceptable and 5 being excellent).

As part of its 2020 Management Reform Plan announced in 1997, HUD consolidated the single-family housing activities of its 81 field offices into four HOCs, each of which is responsible for a multistate area. These activities include processing mortgage insurance and functions related to

[3]The responsibility for selecting appraisals for field review, overseeing field review contractors, and determining the final field review scores was transferred from HUD's 81 field offices to its four HOCs between February and December 1998.

HUD's oversight of appraisers and lenders participating in FHA's programs. The HOCs are located in Denver, Colorado; Atlanta, Georgia; Philadelphia, Pennsylvania; and Santa Ana, California, and report directly to HUD's Office of Insured Single-Family Housing, which is responsible for implementing FHA's home mortgage insurance program. The consolidation of activities into the four HOCs was carried out in phases and was completed in December 1998. HUD has also established two new offices, the Real Estate Assessment Center and the Enforcement Center, which are expected to play important roles in HUD's oversight of the FHA appraisal process. According to HUD officials, the Assessment Center's responsibilities will include analyzing and tracking appraisal quality and appraiser performance, and the Enforcement Center's responsibilities will include sanctioning appraisers, mortgage brokers, and lenders who do not comply with HUD's requirements.

On June 1, 1998, HUD announced a Homebuyer Protection Plan that outlined reforms that HUD intends to make to the FHA appraisal process. Specifically, the plan (1) requires that appraisals include a more thorough basic survey of the physical condition of homes; (2) requires lenders to inform potential homebuyers of defects found during appraisals; (3) requires appraisers to recommend complete, detailed inspections of homes if the appraisers find significant problems with the properties; (4) allows up to $300 of home inspection costs to be financed through FHA mortgages; and (5) imposes stricter accountability on appraisers and tougher sanctions on those who act improperly, including fines and potential prison sentences. HUD's announcement did not identify a specific timetable for implementing the plan.

HUD's Monitoring of Appraisers Is Limited

HUD is not doing a good job of monitoring the performance of appraisers, thereby limiting the agency's ability to assess the quality of appraisals used for FHA-insured loans. In fiscal year 1998, HUD performed about 81,000 field reviews of appraisals nationwide. However, three of the four HOCs did not meet HUD's policy requirement to field review at least 10 percent of the FHA appraisals performed within their jurisdictions. In addition, HUD's records for the first three quarters of fiscal year 1998 showed that over one-third of the appraisers who conducted 10 or more appraisals during that period did not have any of their work field reviewed. When field reviews were performed, many were not timely. At the HOCs we visited, we found that HUD staff did not routinely visit appraised properties to verify the work of field review contractors and that they lacked adequate systems for tracking consumers' complaints about appraisals.

Weaknesses Exist in Field Review Coverage

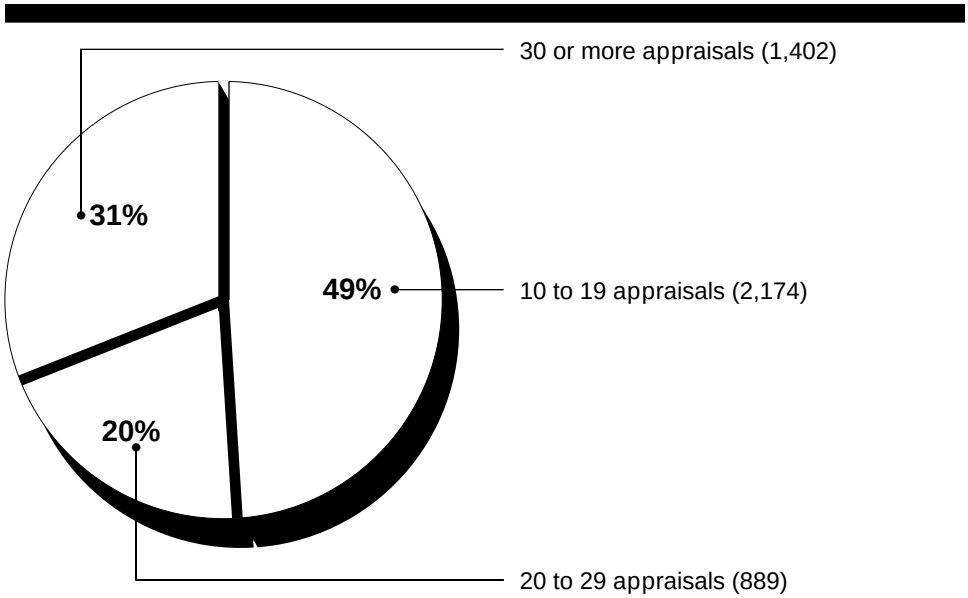
In September 1997, HUD established a policy requiring its HOCs and field offices to field review no less than 10 percent of the appraisals conducted within their jurisdictions. HUD instituted this requirement in response to our July 1997 report, which showed that some HUD field offices were conducting few or no field reviews of appraisals.[4] An official from HUD's Office of Insured Single-Family Housing told us that once HUD consolidated its single-family housing activities into the four HOCs, the 10-percent standard no longer applied to HUD's 81 field offices. Our analysis of HUD's data showed that three of the four HOCs did not meet the 10-percent requirement in fiscal year 1998. Specifically, the Philadelphia, Denver, and Santa Ana HOCs reviewed 9.7, 8.3, and 8.1 percent of the total appraisals performed in their jurisdictions, respectively. The Atlanta HOC field reviewed 12.7 percent of the appraisals in its jurisdiction.

Many Appraisers With Significant Workloads Were Not Field Reviewed

HUD did not field review the work of thousands of appraisers who conducted 10 or more FHA appraisals during the period from October 1, 1997, through June 30, 1998. Our analysis showed that 25,560 appraisers performed FHA appraisals during that period. Of the 12,076 appraisers who performed 10 or more appraisals during that period, 4,465, or 37 percent, had not been field reviewed. Among these 4,465 appraisers, 49 percent had conducted between 10 and 19 appraisals, 20 percent had conducted between 20 and 29 appraisals, and 31 percent had conducted 30 or more appraisals. (See fig. 1.) While HUD's procedures do not require field reviews for appraisers doing a higher volume of appraisals, HUD had little assurance that they were conducting accurate and thorough appraisals without performance information on these individuals.

[4]Homeownership: Information on Changes in FHA's New Single-Family Appraisal Process (GAO/RCED-97-176, July 25, 1997).

Figure 1: Appraisers Who Conducted 10 or More Appraisals Between October 1, 1997, and June 30, 1998, and Were Not Field Reviewed



Source: GAO's analysis of data from HUD.

Philadelphia and Denver HOC officials told us that several factors contributed to problems with field review coverage. These factors included (1) HUD's reliance on contractors to conduct field reviews and the unavailability of contract funds during the first several months of the fiscal year; (2) the reassignment of personnel during HUD's reorganization, which, in some instances, left no one responsible for ordering field reviews; and (3) the lack of emphasis that some field offices placed on field reviews once they knew their functions would be transferred to the HOCs. HOC officials told us that they had placed a high priority on completing field reviews when they assumed this responsibility from the field offices but that they were constrained by the amount of time remaining in the fiscal year and the limitations on the number of field reviews that they could ask contractors to perform each month.

As of February 1999, HUD was piloting a new process for selecting appraisals for field review. HUD plans to use statistical analysis of appraisal quality indicators (e.g., the completeness and mathematical accuracy of the appraisal report) to identify appraisals that may be problematic and,

therefore, may be candidates for field review. According to HUD, this new process will allow the Department to target appraisers who may be performing poorly for field review instead of relying on the more random process now being used.

Many Field Reviews Were Not Timely

Although HUD's guidance states that timeliness is essential to ensure the quality of field reviews, a procedural change that HUD implemented in November 1997 has significantly reduced the timeliness of these reviews. Prior to November 1997, appraisers were required to send copies of their appraisal reports directly to HUD. This arrangement allowed HUD to field review some appraisals before the lenders closed on the loans and sent the remaining loan documents to HUD for approval of FHA mortgage insurance. However, effective November 1997, appraisers are no longer required to send their appraisal reports to HUD, and HUD does not get a copy of the appraisal report until the lender closes the loan and sends the appraisal report to HUD as part of the loan case file. According to HUD officials, the intent of this change was to reduce the amount of paperwork coming into the HOCs. HUD officials also told us that planned computer system enhancements would have allowed the HOCs to receive a sample of lenders' appraisals prior to loan closing. However, the officials said these enhancements had been delayed because of work priorities relating to year 2000 compliance issues.

HUD's records showed that half of the field reviews conducted in fiscal year 1998 were not done until at least 77 days after the appraisal had been performed. In six of HUD's field office jurisdictions, the corresponding figure was 140 days or more. In contrast, HUD reported in fiscal year 1997 that all field reviews were being completed within 45 days of the appraisals.

Philadelphia and Denver HOC officials told us that the reduced timeliness of field reviews made it difficult to prevent the approval of FHA mortgage insurance for loans based on faulty appraisals and reduced the usefulness of field review reports as a monitoring and enforcement tool. For example, the HOCs' records for 126 field reviews conducted during the period from October 1, 1997, through June 30, 1998, that rated the appraisals as poor, showed that HUD approved mortgage insurance for 96 of the homes that were the subjects of these reviews. In 37 of the 96 cases, the field reviews were performed after HUD had already approved mortgage insurance for the properties. We also noted one case in which the field reviewer gave the appraisal a score of 2, in part because the appraiser had overlooked

several repair conditions, including areas of the foundation in need of repair and defective paint surfaces. A Philadelphia HOC official raised the score to a 3 because the field review was performed 5 months after the appraisal and some of the conditions needing repair could have developed during that intervening period.

Oversight of Field Review Contractors Was Limited

HUD relies primarily on licensed appraisers under contract with HUD to conduct field reviews of completed appraisals. About three-fourths of the 80,958 field reviews conducted in fiscal year 1998 were performed by contractors, while the remainder were performed by HUD staff. At HUD's Philadelphia and Denver HOCs, we found that the staff did not routinely verify the observations of field review contractors or systematically evaluate the contractors' performance as required.

HUD's policy guidance stresses the importance of evaluating the work of field review contractors and states that 5 percent of every contractor's work should be reviewed and rated on scale from 1 to 5 (with 1 being unacceptable and 5 being excellent). The purpose of this rating system is to document performance problems and justify disciplinary actions against field review contractors, if necessary. Although HUD's guidance is unclear on this point, an official from HUD's Office of Insured Single-Family Housing told us that the review process was supposed to include a visit by HUD staff to properties the contractors had field reviewed. Officials at both the Philadelphia and Denver HOCs told us that they rarely conducted such evaluations because they lacked sufficient staff and travel resources. They said that, as a result, they neither tracked the percentage of each contractor's work that received an on-site review nor evaluated the contractors' performance using the numerical rating system.

According to HUD, the HOCs are currently administering over 250 small field review contracts, most of which they inherited from the field offices as the work from the field offices was consolidated under the HOCs. Because HUD has found it difficult to monitor such a large number of contracts, the agency is planning to contract out the field review function to a small number of large appraisal firms. It also plans to have HUD staff perform quality assurance reviews of the contractors.

HOCs Did Not Fully Implement Guidance on Consumer Complaint Procedures

Consumers' complaints are another means by which HUD obtains information about the quality of the appraisals used to support FHA-insured mortgages. In a December 1997 policy memorandum, HUD's Deputy Assistant Secretary for Single-Family Housing required the HOCs to establish written consumer complaint procedures and to maintain certain types of information about the complaints they received, including those relating to appraisals. During our visits to the Philadelphia and Denver HOCs, we found that the centers had yet to develop written complaint procedures. In October 1998, HUD officials told us that the Philadelphia HOC was developing a set of written procedures for all four HOCs to follow. We also found that the Philadelphia and Denver HOCs did not have complaint tracking systems that contained all of the information required by the December 1997 policy memorandum. Both HOCs maintained logs showing, among other things, the HOC official assigned to follow up on a complaint and the date the follow-up action was completed. However, these logs did not include other required information, such as the nature of the complaint, the actions taken to address the complaint, or the final disposition of the complaint. This information would enable the HOCs' management to readily determine the frequency of different types of complaints and ensure that all complaints are being resolved in an appropriate manner.

Few Poorly Performing Appraisers Were Sanctioned

Contrary to HUD's policy, most appraisers within the Philadelphia and Denver HOCs' jurisdictions who received two or more poor ratings in field reviews during the first three quarters of fiscal year 1998 were allowed to continue performing appraisals for FHA. Of the 5,768 appraisers within the two HOCs' jurisdictions who were field reviewed during this period, 246 received two or more poor field review scores. HUD prohibited only 11 of these appraisers from conducting further FHA appraisals. Poor record-keeping by HUD's field offices and other factors hampered the HOCs' ability to take enforcement actions against other poorly performing appraisers.

HUD's Policy Calls for Sanctioning Poorly Performing Appraisers

HUD's policy states that appraisers who receive two or more poor scores in field reviews during any 12-month period should be temporarily prohibited from conducting further FHA appraisals. A poor field review rating (i.e., a score of 1 or 2 on a scale of 1 to 5) indicates that the appraiser did not adequately support the value assigned to the home, overlooked serious repair conditions, or made other errors and omissions that could result in an unacceptable insurance risk to FHA. HUD's HOCs may impose an

administrative sanction, called a limited denial of participation, that excludes an appraiser from participating in FHA programs for up to a year.[5]

Numerous Appraisers Received Two or More Poor Scores in Field Reviews

Our analysis of field review results recorded in HUD's Computerized Homes Underwriting Management System (CHUMS) showed that 205 appraisers within the Philadelphia HOC's jurisdiction and 41 appraisers within the Denver HOC's jurisdiction received two or more poor scores in field reviews during the period from October 1, 1997, through June 30, 1998. These 246 appraisers accounted for about 19,100, or 6 percent, of the approximately 303,000 FHA appraisals performed during this period in the two HOCs' jurisdictions. These appraisers combined had 749 field reviews in which they received scores of 1 or 2. A separate analysis by HUD's Office of Insured Single-Family Housing indicated that this problem was not limited to the Philadelphia and Denver HOCs. HUD's analysis showed that between May 1997 and May 1998, a total of 723 appraisers nationwide had received two or more poor scores in field reviews but were still active members of HUD's appraiser roster.

As of October 1, 1998, HUD had taken enforcement actions against 11 of the 246 appraisers we reviewed and prohibited them from performing FHA appraisals, in most cases for up to a year. Of the 11 enforcement actions, 5 were taken by the Philadelphia HOC, 3 by the Denver HOC, and 1 each by HUD's Delaware, Montana, and Utah field offices. Of the appraisers we reviewed who were not subject to enforcement actions, several had received a substantial number of poor field review scores. For example, one Buffalo-area appraiser received poor scores in 9 field reviews, and a Detroit-area appraiser received poor scores in 22 field reviews.

As of October 1, 1998, the two HOCs had taken enforcement actions against 12 other appraisers who were not among the 246 appraisers we reviewed.

Missing Documentation Impeded Enforcement Efforts

HUD's policy is to sanction appraisers only when there is substantial evidence and documentation of performance that is less than acceptable. Philadelphia and Denver HOC officials told us that their efforts to sanction appraisers had been hampered primarily by a lack of supporting documentation. They said that other factors that impeded their enforcement efforts were the age of some of the field reviews and the lack

[5]Procedures for limited denials of participation afford the appraiser the opportunity for a hearing before a departmental hearing officer. Therefore, to issue a limited denial of participation, the HOCs must obtain concurrence from the Office of General Counsel at both the field office and headquarters levels.

of evidence that the appraisers had been given the chance to appeal the poor field review ratings.

At the Philadelphia HOC, we reviewed the files for 72 of the 205 appraisers who received two or more poor field review scores, including at least one score of 1, during the period from October 1, 1997, through June 30, 1998, to determine the basis for these scores. At the Denver HOC, we reviewed the files for all 41 appraisers who received two or more poor field review scores during the same period. HUD's field offices began transferring these files to the HOCs in February 1998.

We found at both the Philadelphia and Denver HOCs that most of the field review reports that supported the poor field review scores recorded in HUD's CHUMS were not in the appraisers' files. At the Philadelphia HOC, we found that 196, or 65 percent, of the 301 poor ratings were not documented by field review reports in the files. As a result, the HOC's files contained documentation of two or more poor scores for just 31 of the 72 appraisers we reviewed. For 8 of those 31 appraisers, the documentation showed that HUD officials had raised one or more of the field review scores, with the result that these appraisers no longer had two or more poor scores for the period we reviewed.[6] At the Denver HOC, we found that 66 of the 101 poor ratings were not documented by field review reports in the files. Consequently, the HOC had documentation of two or more poor scores for only 16 of the 41 appraisers we reviewed.

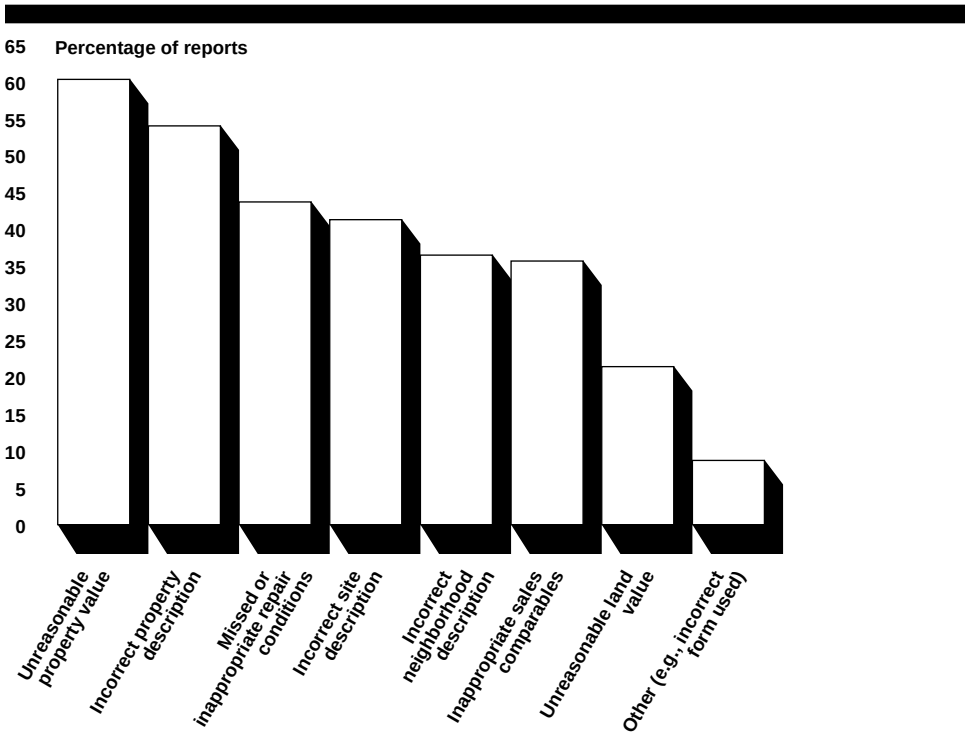
HOC officials told us that the appraiser files they had received from certain HUD field offices were incomplete, reflecting the poor record-keeping and lax enforcement efforts of these offices before and during the consolidation of HUD's single-family housing activities. Philadelphia and Denver HOC officials told us that they would continue to monitor the performance of appraisers who had received poor scores in the past. Both HOCs have established appraiser files to document and maintain the results of field reviews and are developing computerized information systems to track appraisers' field review scores, in accordance with HUD's policy guidance.

Of the 126 field review reports we found in the two HOCs' files that assigned poor scores to the appraisers we reviewed, 76, or 60 percent, cited problems with the appraisers' valuation of the properties. Figure 2 shows the percentage of the field review reports that cited certain types of

[6]In accordance with HUD's procedures, HUD officials raised the scores after reviewing the field review reports and, in some cases, additional information provided by the appraisers. The officials determined that the poor scores were not justified in these cases.

deficiencies in the appraisals. In most cases, the field reviews found more than one type of deficiency in each appraisal.

Figure 2: Reasons Cited in Field Review Reports for Poor Field Review Scores



Source: GAO's analysis of data from HUD.

As part of its Homebuyer Protection Plan, HUD is revising its guidance for sanctioning appraisers. The guidance includes a matrix that shows the appropriate enforcement actions, including civil and criminal penalties, associated with various infractions of HUD's appraisal policies and standards. The HOCs and HUD's Enforcement Center will share the responsibility for taking enforcement actions against appraisers. According to HUD, the process of issuing limited denials of participation to remove appraisers from FHA's roster can be difficult and time-consuming. As a result, HUD is drafting regulations that, if approved, would enable its HOCs to remove poorly performing appraisers from FHA's roster more easily.

HUD Has Not Aggressively Enforced Its Policy on Lenders' Accountability for Appraisals

HUD's policy is that lenders are responsible, equally with the appraisers they select, for the accuracy and thoroughness of appraisals. HUD has not aggressively enforced this policy because of disagreement within HUD over its authority to do so. In May 1998, the Philadelphia HOC requested that HUD's Mortgagee Review Board sanction a lender who refused to correct property deficiencies that the appraiser had overlooked. This was the first case of this type that had been referred to the Board. However, the Board never reviewed or acted on this request because the Board's staff did not believe that HUD had the authority to hold a lender accountable for the quality of an appraisal simply because the lender selected the appraiser. As a result, the HOCs have been reluctant to refer similar cases to the Board.

HUD's Policy on Lenders' Accountability for Appraisals

In October 1994, HUD issued regulations implementing a legislative provision that allowed lenders to choose the appraisers of properties to be insured by FHA.[7] While the legislation did not address this issue, HUD's regulations stated that lenders who selected their own appraisers were equally responsible, along with the appraisers, for the accuracy, integrity, and thoroughness of the appraisals. In May 1996, HUD repealed these regulations as part of a larger federal effort to reduce regulations. According to HUD, the regulations were not necessary because many of the standards in the regulations were already in HUD's handbook guidance and mortgagee letters issued to lenders.

HUD issued mortgagee letters to lenders in November 1994 and again in May and November of 1997 that reiterated its policy that lenders were equally responsible for the quality of appraisals. Also, in a December 1997 policy memorandum, HUD's Deputy Assistant Secretary for Single-Family Housing instructed HUD staff that in cases in which appraisers missed serious repair conditions or significantly overvalued properties, HUD should request that the lenders who selected the appraisers pay for the needed repairs or pay down the mortgages by the amounts the properties were overvalued. The Deputy Assistant Secretary also indicated that the failure of a lender to voluntarily resolve the appraisal deficiencies raised by HUD would result in enforcement action against the lender, including probation and suspension.

[7]Section 322 of the Cranston-Gonzalez National Affordable Housing Act of 1990 amended section 202(e) of the National Housing Act, allowing lenders to choose the appraisers of properties for which mortgages are to be insured by FHA.

Pennsylvania Case Raises Questions About HUD's Authority to Hold Lenders Accountable for Appraisals

In September 1997, a Pennsylvania homeowner complained to the Philadelphia HOC that an independent inspection of her FHA-insured home had found numerous violations of FHA's minimum property standards that she believed should have been identified by the appraiser. A subsequent HUD field review confirmed that the appraiser had missed repairs that were necessary to correct health and safety problems with the home. In January 1998, the Philadelphia HOC temporarily suspended the appraiser and prohibited him from taking further FHA appraisal assignments for 90 days. In addition, the HOC sent a letter to the Pennsylvania mortgage company that had selected the appraiser, requesting that the lender either make approximately $7,500 in repairs to the home or prepay the mortgage by that amount.

In April 1998, attorneys for the lender informed HUD by letter that the lender had declined to pay for the repairs or prepay the mortgage. Among other things, the letter stated that (1) the lender did not know the appraiser had performed the appraisal in an unsatisfactory manner; (2) there was no basis to believe that the lender should have known about the unsatisfactory nature of the appraisal; (3) there was no financial tie, business affiliation, or conflict of interest between the lender and the appraiser; and (4) HUD did not have the authority to hold lenders responsible for the acts, errors, or omissions of independent appraisers.

Because of the lender's refusal to make the repairs or to prepay the mortgage as requested, the Philadelphia HOC in May 1998 referred the case to the Mortgagee Review Board for appropriate action against the lender. The Board is the entity within HUD that can impose administrative sanctions against a lender or withdraw a lender's authority to make FHA-insured loans. However, the Board never reviewed this case. In discussing this case with the Board's Secretary and the Deputy Chief Counsel for HUD's Enforcement Center, we were told that the Board's staff did not forward the HOC's referral to the Board because the staff did not believe that HUD had the authority to hold lenders liable for the actions of independent appraisers simply because the lenders had selected the appraisers. According to the Deputy Chief Counsel, the Philadelphia HOC had no authority to assess the lender $7,500 because this constituted a civil penalty against the lender and only the Board had the authority to assess such penalties. While the Deputy Chief Counsel noted that there were circumstances in which HUD could hold lenders accountable for the work of appraisers, both he and the Board's Secretary indicated that HUD's policy, as written, was improperly attempting to hold lenders absolutely liable for the work of appraisers selected by the lenders. The Board's

Secretary told us that he would soon draft a response to the Philadelphia HOC about the referral, but as of January 1999, no response had been prepared.

The Director of the Philadelphia HOC told us that he would like the Board to either sustain HUD's policy of holding lenders responsible for appraisals or rule that HUD does not have such authority. He said that the HOC had two other cases that it would like to refer to the Board, including one in which another lender had also refused the HOC's request to pay for repair conditions missed by the appraiser. The Director said he saw no benefit in forwarding other cases to the Board until it has made a decision on the HOC's first referral. In October 1998, officials at the Denver HOC told us that they had not referred any lenders to the Board for using poor-quality appraisals, in part, because it was difficult to know where to lay the blame in such cases and that the issue had not been tested in court. They said a lender would vigorously fight any sanctions imposed on it for relying on a faulty appraisal because of the precedent such an action would set.

HUD Has Limited Assurance That Appraisers Are Familiar With FHA's Requirements

HUD has limited assurance that the appraisers on FHA's roster are knowledgeable of FHA's appraisal requirements. Appraisers must be state-licensed or -certified to qualify for FHA's appraiser roster, but the states' minimum licensing standards do not require expertise in conducting FHA appraisals. HUD is revising its appraisal guidance and forms and is adopting a testing requirement for appraisers.

HUD's Eligibility Requirements for Appraisers

To be eligible for FHA's roster, appraisers must be state-licensed or -certified in accordance with the minimum criteria established by the Appraiser Qualifications Board of the Appraisal Foundation.[8] The Qualifications Board's minimum licensing criteria require that appraisers have 90 hours of classroom education in subjects related to real-estate appraisals, have 2,000 hours of appraisal experience, and pass the Qualifications Board's endorsed examination or an equivalent examination. To be placed on FHA's roster, an appraiser must submit an application and a copy of his or her license or certification to the HOC within whose jurisdiction the appraiser intends to work. The appraiser must certify on the application form that he or she has read or will read

[8]The Appraisal Foundation is a not-for-profit educational organization established in 1987. In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act adopted the Appraiser Qualifications Board's qualification criteria for professional appraisers.

HUD's handbook on valuation analysis before accepting an FHA appraisal assignment.

HUD's CHUMS contains licensing information for the appraisers on FHA's roster. Our analysis of the appraisal license expiration dates in CHUMS indicated that the approximately 31,500 appraisers on FHA's roster as of August 1998 held current licenses or certifications. In addition, using a national database maintained by the Appraisal Subcommittee of the Federal Financial Institutions Examination Council, we confirmed that the 246 Philadelphia and Denver HOC appraisers who received poor field review scores held current licenses.

At the time HUD adopted its procedures for allowing lenders to select their own appraisers in 1994, it recognized that appraisers would need training in FHA's appraisal requirements and procedures. Unlike appraisals for conventional mortgages, appraisals for FHA-insured mortgages must include an assessment of the properties' compliance with FHA's property standards as well as appropriate and specific actions to correct conditions not in compliance with these standards. In addition, the value an appraiser assigns to a property must reflect its value with all the required repairs completed. While HUD encouraged its field offices and local appraiser and lender associations to sponsor training in FHA appraisals, it decided not to make training a condition for placement on FHA's roster. HUD decided to rely instead on lenders' selecting only knowledgeable appraisers and on appraisers' not accepting appraisal assignments that they were not competent to perform.

HUD Is Revising Its Appraisal Forms and Guidance

In conjunction with its Homebuyer Protection Plan, HUD is developing a new appraisal report to record the results of appraisals. HUD believes that this report will provide more information about the physical condition of the appraised property than HUD's current appraisal forms and will allow the appraiser to better identify health and safety hazards and structural problems that may require repairs. The new report lists specific physical conditions that the appraiser should check for and requires the appraiser to recommend whether a complete home inspection or some other type of inspection (e.g., electrical, roofing, or structural) should be conducted. HUD will require lenders to provide a summary of the report to homebuyers so that homebuyers will have information about needed repairs and recommended inspections.

HUD has also drafted revised handbook guidance for appraising single-family homes. The handbook updates and consolidates information currently fragmented among numerous HUD handbooks and mortgagee letters. The draft handbook clarifies the roles and responsibilities of the appraiser, outlines protocols for appraisers to follow when conducting FHA appraisals, and specifies sanctions HUD will take against poorly performing appraisers. HUD expects to finalize and issue the handbook in April 1999.

HUD is also in the process of adopting a requirement that appraisers pass a test on FHA appraisal requirements and procedures to be eligible to perform FHA appraisals. HUD plans to begin testing in June 1999.

Conclusions

The importance of appraisals to FHA and prospective homeowners underscores the need for effective oversight of the appraisal process. FHA relies on appraisals to ensure that the billions of dollars in mortgage loans it insures annually accurately reflect the value of the homes being purchased. FHA homebuyers rely on appraisals, in part, to avoid buying homes with major defects that are costly to fix. However, weaknesses in HUD's oversight of the FHA appraisal process have increased FHA's risk of insuring properties that are overvalued or whose owners may default on their FHA-insured loans because of unexpected repair costs. The consequence of this increased risk is higher potential losses to FHA's insurance fund.

HUD could significantly improve its monitoring of appraisers. HUD has not ensured that the HOCs are meeting the agency's requirements to field review 10 percent of all FHA appraisals. Also, HUD's procedures do not target for field review appraisers who perform significant numbers of FHA appraisals. In addition, a procedural change by HUD has made field reviews less timely, with the result that HUD did not learn of problems with certain appraisals until after HUD had already approved mortgage insurance on the properties. Moreover, the two HOCs we visited did not regularly verify the work of field review contractors through on-site evaluations and lacked tracking systems necessary to readily determine the nature, frequency, and resolution of complaints from FHA homebuyers. These problems weaken HUD's ability to accurately assess the quality of the appraisals used to support the loans FHA insures.

HUD's ability to sanction poorly performing appraisers was seriously impaired by the loss or misplacement of records prior to and during HUD's field consolidation. Consequently, hundreds of appraisers whose work

may be creating an unreasonable underwriting risk for FHA continue to conduct appraisals for FHA-insured mortgages. However, the two HOCs we visited have taken steps toward enforcing FHA's performance standards for appraisers.

HUD has not resolved internal disagreements about its authority and policy to hold lenders accountable for poor-quality appraisals. As a result, it has not aggressively enforced this policy. By not resolving this issue, HUD is sending a confusing message to both lenders and FHA borrowers about who is responsible for the quality of appraisals and what remedies exist when an appraisal is unsatisfactory.

HUD's reliance on the states' licensing process and self-certification provide limited assurance that the appraisers on FHA's roster are knowledgeable of FHA's appraisal requirements. The states' minimum licensing standards do not require proficiency in FHA's guidelines, and HUD is considering, but has not implemented, its own testing requirement. HUD's revision of its appraisal guidance and forms and its plans to test appraisers on their knowledge of FHA appraisal requirements are likely to help appraisers perform their work in accordance with FHA standards.

Recommendations

To reduce the financial risks assumed by FHA and to improve HUD's oversight of appraisers on FHA's roster, we recommend that the Secretary of HUD direct the Assistant Secretary for Housing-Federal Housing Commissioner to

- achieve better field review coverage of FHA's appraiser roster by (1) ensuring that each HOC field reviews the required percentage (currently 10 percent) of the FHA appraisals conducted annually within its geographic jurisdiction and (2) requiring that when selecting appraisals for field review, HUD staff give higher priority to the work of appraisers who have done a substantial number of FHA appraisals but have not been field reviewed within the past year;
- make field reviews of appraisals more timely by establishing a process to ensure that HUD staff obtain copies of appraisal reports and perform field reviews prior to FHA's approval of mortgage insurance; and
- better assess the quality of appraisal field reviews by insuring that a portion of each field review contractor's work is verified through on-site evaluation of properties field reviewed by the contractor.

To improve HUD's oversight of lenders participating in FHA's programs, we recommend that the Secretary of HUD (1) determine the Department's authority to hold FHA-approved lenders accountable for poor-quality FHA appraisals performed by the appraisers they select from FHA's roster and (2) issue policy guidance that sets forth the specific circumstances under which and actions by which HUD may exercise this authority.

Agency Comments

We provided a draft copy of this report to HUD for its review and comment. In its letter commenting on the report, HUD said that the report did not describe the changes the Department had made to FHA's single-family mortgage insurance programs. HUD indicated that, prior to our report, FHA management had already identified appraisal quality as an area needing improvement and had announced a Homebuyer Protection Plan to address this problem. Because the report contains ample discussion of the Department's Homebuyer Protection Plan and other steps HUD has taken to improve the FHA appraisal process, we did not make any changes to the report.

In commenting on our recommendation that HUD achieve better field review coverage of FHA's appraiser roster, HUD indicated that it will implement a revised field review process by July 1, 1999, that will improve the Department's sampling and targeting of appraisers for field review. In response to our recommendation that HUD conduct on-site evaluations of a portion of each field review contractor's work, HUD indicated that it would begin performing supervisory reviews of field review contractors in conjunction with a national field review contract scheduled to begin in July 1999. Regarding our recommendation that HUD determine its authority to hold FHA-approved lenders accountable for poor-quality appraisals, HUD responded that it would target for monitoring those lenders that used poorly performing appraisers. Because HUD's response did not address the Department's authority to hold FHA-approved lenders accountable for poor-quality appraisals, we believe that HUD still needs to clarify this matter and issue policy guidance that reflects this clarification.

HUD disagreed with our recommendation to improve the timeliness of appraisal field reviews by obtaining copies of the appraisal reports and performing field reviews prior to loan closings and the approval of FHA mortgage insurance. HUD indicated that the collection of all appraisals and the performance of field reviews before the approval of mortgage insurance would be impractical and inconsistent with HUD's Direct

Endorsement Program, which allows qualified mortgagees to process and close FHA loans without prior review by HUD. We modified this recommendation to reflect the fact that it may be difficult for HUD to field review appraisals before the lenders close on the loans. However, we continue to believe that it would be feasible for HUD to field review, in advance of approving mortgage insurance, those appraisals that the Department has selected for field review. For example, HUD could require lenders to submit copies of selected appraisal reports immediately after the Department makes the selections rather than waiting for the lenders to include the appraisal reports as part of the loan files sent to HUD prior to the endorsement of mortgage insurance. We believe that such a procedure would not infringe on the underwriting responsibilities of Direct Endorsement lenders and would improve the quality and usefulness of field reviews by (1) significantly reducing the time elapsed between appraisals and the field reviews of those appraisals and (2) reducing HUD's risk of insuring mortgages based on faulty appraisals.

The full text of HUD's letter is presented in appendix I.

Scope and Methodology

We conducted our work at HUD's headquarters and its Philadelphia and Denver HOCs. Together, the two HOCs account for about half of FHA's loan activity for single-family housing. We interviewed officials from HUD's Office of Insured Single-Family Housing, Real Estate Assessment Center, Enforcement Center, Mortgagee Review Board, and Philadelphia and Denver HOCs. We reviewed laws, regulations, mortgagee letters, and other documents related to the FHA appraisal process and developed information on HUD's procedures for monitoring appraisers, overseeing field review contractors, and handling consumers' complaints. We analyzed data from HUD's CHUMS for information on the currency of appraisal licenses for appraisers on FHA's roster and the number of appraisers who received two or more poor scores in field reviews during the first three quarters of fiscal year 1998. We reviewed HOCs' files for documentation of field review scores, information on enforcement actions against appraisers and lenders, and on the nature of consumers' complaints. Appendix II provides additional details on our scope and methodology.

We performed this review from May 1998 through April 1999 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to Representative Barney Frank, Ranking Minority Member, House Subcommittee on Housing and Community Opportunity; Representative James A. Leach, Chairman, and John J. LaFalce, Ranking Minority Member, House Committee on Banking and Financial Services; and Senator Phil Gram, Chairman, and Paul S. Sarbanes, Ranking Minority Member, Senate Committee on Banking, Housing, and Urban Affairs. We will also send copies of this report to The Honorable Andrew M. Cuomo, Secretary of HUD; The Honorable William C. Apgar, HUD Assistant Secretary for Housing-Federal Housing Commissioner; and The Honorable Jacob J. Lew, Director, Office of Management and Budget. We will make copies available to others upon request.

Please call me at (202) 512-7631 if you or your staff have any questions. Major contributors to this report were Paul Schmidt, Steve Westley, Jackie Garza, Stan Ritchick, Mitch Karpman, and John McGrail.

Sincerely yours,

Judy A. England-Joseph
Director, Housing and Community
Development Issues

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Abbreviations

CHUMS	Computerized Homes Underwriting Management System
FHA	Federal Housing Administration
HOC	homeownership center
HUD	Department of Housing and Urban Development

Comments From the Department of Housing and Urban Development

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MAR 16 1999

Ms. Judy A. England-Joseph
Director, Housing and Community
Development Issues
General Accounting Office
441 G Street, NW, Room 2056
Washington, DC 20548

Dear Ms. England-Joseph:

Thank you for the opportunity to comment on your proposed report Single-Family Housing: Weaknesses in HUD's Oversight of the FHA Appraisal Process (GAO/RECD-99-72, Code 385738). We regret that the draft report did not describe the tremendous transformation HUD has made in the delivery of FHA's single family mortgage insurance programs to improve its operating efficiency.

Prior to your report FHA management had already identified appraisal quality as an area of transformation. On June 1, 1998 Secretary Cuomo announced the Homebuyer Protection Plan to increase the quality of the appraisals prepared for FHA insured mortgages. This plan has 5 primary tools to improve appraisal quality: 1) A revised and updated Appraisal Handbook, 2) a revised Valuation Condition sheet, 3) a new disclosure to prospective homebuyers which outlines the conditions of the property as observed by the appraiser, 4) the targeting of poor a appraisers, (the result of a computer inspection system and regulatory process,) and the stronger enforcement actions poor performers, and 5) a new requirement that all appraisers who prepare appraisals for FHA insured mortgages be tested to ensure that they are knowledgeable about the requirements that are unique to FHA. All the provisions of the Homebuyer Protection Plan will be fully operational by the end of calendar year 1999.

We would also like to note that we receive few complaints about appraisal quality in relation to the total number of appraisals performed for FHA. During fiscal year 1998, 280 homeowners complained about appraisal problems with their homes while over 800,000 appraisals were prepared on behalf of FHA.

The Department has reviewed your recommendations and responds as follows:

Recommendation:

- **achieve better field review coverage of FHA's appraiser roster by (1) ensuring that each HOC field reviews no less than 10 percent of the FHA appraisals conducted annually within its geographical jurisdiction and (2) requiring that when selecting appraisals for field review, HUD staff give higher priority to the work of appraisers who have done a substantial number of FHA appraisals, but have not been field reviewed within the past year;**

Response:

As a part of the Homebuyer Protection Plan, the Department is reengineering its field review process to better identify poor performing appraisers and poor appraisals. In a new national procurement, the Department is developing a statistically valid computer driven model to ascertain appraisal quality. This model will permit HUD to select appraisals for field review based on statistically valid indicators. These indicators are in the validation stage and should be ready for national implementation by July 1, 1999. As a consequence of better targeting and clearer standards, we will have superior sampling and targeting.

Recommendation:

- **make field reviews of appraisals more timely by establishing a process to ensure that HUD staff obtain copies of appraisal reports and perform field reviews prior to loan closing and FHA mortgage approval;**

Response:

HUD disagrees with this recommendation. As prescribed in the regulations, the purpose of the Direct Endorsement Program is to allow qualified mortgagees to process and close FHA loans without prior review by HUD. Further, in 1990 Congress amended the National Housing Act to allow lenders to select their own appraisers. This change was to further streamline the process and eliminate bureaucratic encumbrance. The collection of all appraisals and the performance of field reviews before endorsement is impractical and not reflective of a wholesale operation, but rather a retail operation. Collectively, the Homeownership Centers process over 1,000,000 mortgages annually.

However, HUD will require lenders to submit certain appraisal data electronically through the FHA Connection much like lenders currently submit all the endorsement data on FHA insured mortgages. This electronic submission of limited appraisal data will speed up the field review process by eliminating the current manual process of sorting and selecting appraisals for field review. When the case binder arrives at the HOC, the statistically validated indicators will have already determined which appraisals should be field reviewed.

Recommendation:

- **better assess the quality of appraisal field reviews by insuring that a portion of each field review contractor's work is verified through on-site evaluation of properties field reviewed by the contractor.**

Response:

Each Homeownership Center has established supervisory reviews of field review contractors. This monitoring system will be implemented in conjunction with the national field review contract scheduled to begin in July 1999.

Recommendation:

- **To improve HUD's oversight of lenders participating in FHA's programs, we recommend that the Secretary of HUD (1) determine the Department's authority to hold FHA-approved lenders accountable for poor-quality FHA appraisals performed by the appraisers they select from FHA's roster and (2) issue policy guidance which sets forth the specific circumstances under which and actions by which HUD may exercise this authority.**

Response:

The new monitoring system will allow us to determine if an appraiser has shown a pattern of poor appraising. If a particular lender continues to uses poor appraisers the mortgagee may be a target for lender monitoring.

Other Comments:

The date for completion of the Handbook should be changed from February 1999 to April 1999.

Again, thank you for the opportunity to comment on the proposed report. I trust your final report will incorporate the tremendous efforts HUD is making to reengineer FHA's single family appraisal process.

Sincerely,

William C. Agpar
Assistant Secretary for Housing-
Federal Housing Commissioner

Objectives, Scope, and Methodology

Our objectives were to answer the following questions: (1) How well is the Department of Housing and Urban Development (HUD) monitoring the performance of the appraisers on its roster and implementing procedures for addressing consumers' complaints about Federal Housing Administration (FHA) appraisals? (2) To what extent is HUD holding appraisers accountable for poor-quality FHA appraisals? (3) To what extent is HUD holding lenders responsible for the quality of the FHA appraisals they use? (4) How does HUD ensure that the appraisers on its roster are qualified to perform FHA appraisals?

To assess how well HUD was monitoring the performance of appraisers, we reviewed pertinent HUD handbook and policy guidance and discussed this information with officials from HUD's Office of Insured Single-Family Housing. We reviewed HUD appraisal and field review data for fiscal year 1998 and determined the extent to which HUD's four homeownership centers (HOC) field reviewed at least 10 percent of their appraisals, as required by HUD. We analyzed field review data in HUD's Computerized Homes Underwriting Management System (CHUMS) to determine for the first 9 months of fiscal year 1998 how many appraisers nationwide that conducted 10 or more appraisals were subject to at least one field review and how many did not have any of their work field reviewed during the period. In addition, we reviewed CHUMS data for fiscal year 1998 on the median amount of time elapsed between appraisals and the field reviews of those appraisals. We interviewed Denver and Philadelphia HOC officials about factors affecting their ability to monitor appraisers and oversee field review contractors. We also discussed with Real Estate Assessment Center officials the planned changes to HUD's procedures for tracking and evaluating the performance of appraisers. In addition, we interviewed Denver and Philadelphia HOC officials responsible for handling FHA consumer complaints and reviewed consumer complaint logs and files maintained by the centers.

To determine the extent to which HUD was holding appraisers accountable for poor-quality appraisals, we reviewed HUD's guidance regarding enforcement actions against poorly performing appraisers. For the period from October 1, 1997, through June 30, 1998, we examined the field review data in HUD's CHUMS for the appraisers working in the Philadelphia and Denver HOCs' jurisdictions and identified those appraisers who received two or more poor scores (i.e., scores of 1 or 2 on a scale of 1 to 5) in field reviews during that period. At the Philadelphia and Denver HOCs, we reviewed the files for the 72 and 41 appraisers, respectively, who fell into that category. In reviewing these files, we determined (1) whether the poor

field review scores recorded in CHUMS were documented in field review reports and (2) whether the HOCs had prohibited the appraisers from conducting further FHA appraisals. We interviewed officials at the Denver and Philadelphia HOCs about factors that affected their ability to sanction poorly performing appraisers.

To determine the extent to which HUD was holding lenders responsible for the quality of the FHA appraisals they used, we reviewed pertinent legislation, HUD regulations, mortgagee letters, and policy guidance. We also reviewed correspondence between HUD and mortgage lenders regarding specific cases of faulty appraisals. In addition, we interviewed officials from HUD's Denver and Philadelphia HOCs and from its Mortgagee Review Board and Enforcement Center about HUD's authority to hold lenders accountable for poor-quality appraisals.

To determine how HUD ensures that appraisers on FHA's roster are qualified, we reviewed pertinent HUD regulations and policy guidance and the minimum licensing criteria established by the Appraiser Qualifications Board of the Appraisal Foundation. We interviewed officials from HUD's Office of Single-Family Housing and its Real Estate Assessment Center and reviewed revised appraisal guidance being developed by HUD for information on the changes planned to HUD's appraiser eligibility requirements. We analyzed appraiser license expiration dates in HUD's CHUMS to determine whether the approximately 31,500 appraisers on FHA's appraiser roster as of August 1998 held current appraiser licenses. We also verified the licensing information in CHUMS for the 246 appraisers in the Philadelphia and Denver HOCs' jurisdictions who had received two or more poor scores in field reviews during the period from October 1, 1997, through June 30, 1998, with licensing data maintained by the Appraisal Subcommittee of the Federal Financial Institutions Examination Council.

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