



Highlights of [GAO-12-840T](#), a testimony before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, House of Representatives.

Why GAO Did This Study

Real estate valuations, which encompass appraisals and other estimation methods, have come under increased scrutiny in the wake of the recent mortgage crisis. The Dodd-Frank Act codified several independence requirements for appraisers and requires federal regulators to set standards for registering AMCs. Additionally, the act expanded the role of ASC, which oversees the appraisal regulatory structure established by Title XI of FIRREA. The act also directed GAO to conduct two studies on real estate appraisals. This testimony discusses information from those studies, including (1) the use of different real estate valuation methods, (2) policies on appraiser conflict-of-interest and selection and views on their impact, and (3) ASC's performance of its Title XI functions. To address these objectives, GAO analyzed government and industry data; reviewed academic and industry literature; examined policies, regulations, and professional standards; and interviewed industry participants and stakeholders.

What GAO Recommends

GAO previously recommended that federal regulators consider key AMC functions in rulemaking to set minimum standards for registering these firms. The regulators agreed with or said they would consider this recommendation. GAO also recommended that ASC clarify the criteria it uses to assess states' compliance with Title XI and develop specific policies and procedures for monitoring the federal banking regulators and the Appraisal Foundation. ASC is taking steps to implement these recommendations. See [GAO-11-653](#) and [GAO-12-147](#).

View [GAO-12-840T](#) or key components. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

June 2012

RESIDENTIAL APPRAISALS

Regulators Should Take Actions to Strengthen Appraisal Oversight

What GAO Found

Data GAO obtained from Fannie Mae and Freddie Mac (the enterprises) and five of the largest mortgage lenders indicate that appraisals—which provide an estimate of market value at a point in time—are the most commonly used valuation method for first-lien residential mortgage originations. Other methods, such as broker price opinions and automated valuation models, are quicker and less costly but are viewed as less reliable. As a result, they generally are not used for most purchase and refinance mortgage originations. Although the enterprises and lenders GAO spoke with did not capture data on the prevalence of approaches used to perform appraisals, the sales comparison approach—in which the value is based on recent sales of similar properties—is required by the enterprises and the Federal Housing Administration. This approach is reportedly used in nearly all appraisals.

Conflict-of-interest policies have changed appraiser selection processes and the appraisal industry more broadly, raising concerns about the oversight of appraisal management companies (AMC), which often manage appraisals for lenders. Recent policies, including provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), reinforce prior requirements and guidance that restrict who can select appraisers and prohibit coercion. In response to market changes and these requirements, some lenders have turned to AMCs. Greater use of AMCs has raised questions about oversight of these firms and their impact on appraisal quality. Federal regulators and the enterprises said they hold lenders responsible for ensuring that AMCs' policies and practices meet their requirements but that they generally do not directly examine AMCs' operations. Some industry participants voiced concerns that some AMCs may prioritize low costs and speed over quality and competence. The Dodd-Frank Act requires state appraiser licensing boards to supervise AMCs and requires the federal banking regulators, the Federal Housing Finance Agency, and the Bureau of Consumer Financial Protection to establish minimum standards for states to apply in registering them. Setting minimum standards that address key functions AMCs perform on behalf of lenders could provide greater assurance of the quality of the appraisals that AMCs provide. As of June 2012, federal regulators had not completed rulemaking to set state standards.

The Appraisal Subcommittee (ASC) has been performing its monitoring role under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), but several weaknesses have potentially limited its effectiveness. For example, ASC has not clearly defined the criteria it uses to assess states' overall compliance with Title XI. In addition, Title XI charges ASC with monitoring the appraisal requirements of the federal banking regulators, but ASC has not defined the scope of this function—for example, by developing policies and procedures—and its monitoring activities have been limited. ASC also lacks specific policies for determining whether activities of the Appraisal Foundation (a private nonprofit organization that sets criteria for appraisals and appraisers) that are funded by ASC grants are Title XI-related. Not having appropriate policies and procedures is inconsistent with federal internal control standards that are designed to promote the effectiveness and efficiency of federal activities.