

January 2012

REAL ESTATE APPRAISALS

Appraisal Subcommittee Needs to Improve Monitoring Procedures





Highlights of [GAO-12-147](#), a report to congressional committees

Why GAO Did This Study

Real estate appraisals have come under increased scrutiny in the wake of the recent mortgage crisis. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 created an oversight structure for appraisals and appraisers that involves state, federal, and private entities. This structure includes ASC, a federal agency responsible for monitoring these entities' Title XI-related activities. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) expanded ASC's Title XI role and required GAO to examine ASC's activities and exemptions to federal appraisal requirements. This report discusses (1) how ASC is carrying out its original Title XI responsibilities, (2) ASC's actions and plans to implement Dodd-Frank Act provisions, and (3) regulatory dollar thresholds for determining when an appraisal is required. To do this work, GAO reviewed ASC records and reports, surveyed state appraiser regulatory agencies, analyzed government mortgage data, and interviewed industry stakeholders.

What GAO Recommends

To help ensure effective implementation of ASC's original Title XI and additional Dodd-Frank Act responsibilities, ASC should clarify and report the criteria it uses to assess states' overall compliance with Title XI and develop specific policies and procedures for its other monitoring functions. GAO provided a draft of this report to ASC and seven other agencies. ASC and two other agencies agreed with the report's recommendations. One agency did not comment on the recommendations, and the others did not provide written comments.

View [GAO-12-147](#). To view the e-supplement, click [GAO-12-198SP](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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Appraisal Subcommittee Needs to Improve Monitoring Procedures

What GAO Found

The Appraisal Subcommittee (ASC) has been performing its monitoring role under Title XI, but several weaknesses have potentially limited its effectiveness. For example, Title XI did not originally provide ASC rulemaking and enforcement tools that could be useful in promoting state compliance. In addition, ASC has not reported or clearly defined the criteria it uses to assess states' overall compliance levels. Title XI charges ASC with monitoring the appraisal requirements of the federal financial institutions 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 designed to promote effectiveness and efficiency and limits the accountability and transparency of ASC's activities.

ASC faces potential resource and planning challenges in implementing some Dodd-Frank Act provisions. ASC has only 10 staff and is funded by appraiser registration fees that totaled \$2.8 million in fiscal year 2010. The Dodd-Frank Act expands ASC's responsibilities and authorities. For example, the act requires ASC to establish a national appraiser complaint hotline and provide grants to state appraiser regulatory agencies, and it gives ASC limited rulemaking and enhanced enforcement authorities to help address prior weaknesses. As of October 2011, ASC had completed several implementation tasks that required no rulemaking or creation of new programs and was in various stages of progress on the others. The potentially resource-intensive nature of some remaining tasks will require careful planning. For example, operating a complaint hotline may require investments in information technology and the creation of screening and follow-up procedures. Also, implementing a grant program will require ASC to set aside funds, develop funding criteria, and oversee grantees. ASC is in the process of developing a strategic plan to help carry out these efforts with available resources.

GAO found that more than 70 percent of residential mortgages made from 2006 through 2009 were \$250,000 or less—the regulatory threshold at or below which appraisals are not required for transactions involving federally regulated lenders. In recent years, however, the threshold has had a limited impact on the proportion of mortgages with appraisals because mortgage investors and insurers such as Fannie Mae, Freddie Mac, and the Federal Housing Administration have generally required appraisals for mortgages both above and below the threshold. While these entities currently dominate the mortgage market, federal plans to scale them back could lead to a more privatized market, and whether this market would impose similar requirements is not known. None of the appraisal industry stakeholders GAO spoke with argued for increasing the threshold. Some stakeholders said the threshold should be lowered or eliminated, citing potential benefits to risk management and consumer protection. Others noted potential downsides to lowering the threshold, such as requiring more borrowers to pay appraisal fees and requiring appraisals on more transactions for which cheaper and quicker valuation methods may be sufficient.

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Abbreviations

AMC	appraisal management company
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
ASC	Appraisal Subcommittee
AVM	Automated Valuation Models
BPO	Broker Price Opinion
CFPB	Bureau of Consumer Finance Protection
the enterprises	Fannie Mae and Freddie Mac
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FIRREA	Title XI of Financial Institutions Reform, Recovery, and Enforcement Act of 1989
GPRA	Government Performance and Results Act of 1993
GPRA MA	GPRA Modernization Act of 2010
HMDA	Home Mortgage Disclosure Act
HUD	Department of Housing and Urban Development
HVCC	Home Valuation Code of Conduct
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
UMDP	Uniform Mortgage Data Program
USPAP	Uniform Standards of Professional Appraisal Practice

View GAO-12-198SP Key Component

Real Estate Appraisals: Survey of State Appraiser Regulatory Agencies ([GAO-12-198SP](#)), an e-supplement to [GAO-12-147](#)

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G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

January 18, 2012

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

In recent decades, periods of financial turmoil have focused the federal government's attention on oversight of the real estate appraisal industry. Appraisals play a critical role in mortgage underwriting by providing evidence that the market value of a property is sufficient to help mitigate losses if the borrower is unable to repay the loan. Concerned that faulty and fraudulent appraisals contributed to the federal government's losses during the savings and loan crisis of the 1980s, Congress enacted Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).¹ Title XI made reforms to address both the quality of appraisals and the qualifications of appraisers who perform them in order to protect federal deposit insurance funds and promote safe and sound lending. Title XI also authorized federal regulators to establish dollar thresholds at or below which an appraisal is not required for a "federally related transaction."² Additionally, to help ensure that the purpose of the legislation was carried out, Title XI created a regulatory structure to monitor and oversee the real estate appraisal industry, including a federal

¹Pub. L. No. 101-73, 103 Stat. 183 (1989).

²Federally related transactions are real estate transactions that require the services of an appraiser and involve financial institutions regulated by the federal government. These include banks, thrifts, and credit unions. Real estate transactions of mortgage bankers, brokers, pension funds, and insurance companies are not included.

entity called the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC) to monitor the title's implementation.³ As we reported in July 2011, the recent mortgage crisis renewed questions about real estate appraisals, including conflicts of interest in the appraisal process and perceptions that appraisal quality had diminished.⁴ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted by Congress in July 2010, amended Title XI and contains provisions designed to address these issues and gives ASC additional responsibilities and authorities.⁵

ASC is a small agency tasked with several key functions. ASC has 7 board member positions and 10 staff. Five of the board members are designated by the federal agencies that are part of FFIEC—the Board of Governors of the Federal Reserve System (Federal Reserve), the Bureau of Consumer Financial Protection (known as the Consumer Financial Protection Bureau or CFPB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC).⁶ CFPB has yet to designate its board member. The other two members of the ASC board are designated by the U.S. Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA). ASC's staff is headed by an Executive Director hired by the board. Among other things, Title XI requires ASC to monitor appraiser requirements established by the states, monitor requirements established by the federal financial institutions regulators with respect to appraisal standards, monitor and review the activities of the Appraisal Foundation (a private not-for-profit corporation that sets criteria for appraisals and appraisers), and maintain

³FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Bureau of Consumer Financial Protection, and to make recommendations to promote uniformity in the supervision of financial institutions.

⁴GAO, *Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry*, [GAO-11-653](#) (Washington, D.C.: July 13, 2011).

⁵Pub. L. No. 111-203, 124 Stat. 1376.

⁶The remaining member of FFIEC is the State Liaison Committee, which includes representatives from the Conference of State Bank Supervisors, the American Council of State Savings Supervisors, and the National Association of State Credit Union Supervisors.

a national registry of state-licensed and state-certified appraisers who may perform appraisals in connection with federally related transactions. ASC is a self-supporting agency that funds its activities and operations through a fee assessed against appraisers that states collect and forward to ASC.⁷

The Dodd-Frank Act directed us to study ASC's ability to carry out its functions and examine regulatory exemptions to appraisal requirements.⁸ Accordingly, this report discusses (1) how ASC is performing its Title XI functions that existed prior to the passage of the Dodd-Frank Act, (2) ASC's plans and actions to implement Dodd-Frank Act provisions, and (3) analysis and stakeholder views on existing dollar-based exemptions to appraisal requirements for federally related transactions. The act also directed us to provide data on state enforcement actions against appraisers and examine the extent to which a national appraisal repository would benefit ASC. Appendix II contains detailed information on state enforcement actions against appraisers from 2001 through 2010. Appendix III contains discussion of the potential benefits and challenges of a national appraisal repository.

To address these objectives, we reviewed Title XI of FIRREA and relevant Dodd-Frank Act provisions. We reviewed ASC policies and procedures, including its rules of operation, policy and procedures manual, Title XI policy statements, and compliance review manual. We also reviewed ASC records such as its annual reports to Congress, board meeting minutes, state compliance review reports, and documents concerning grants to the Appraisal Foundation. In addition, we analyzed data from ASC's national registry of appraisers and FFIEC's Home Mortgage Disclosure Act (HMDA) database.⁹ We tested the reliability of the data by conducting reasonableness checks on data elements to identify any missing, erroneous, or outlying data. We also reviewed documentation on the process that the data providers use to collect and ensure the reliability and integrity of the data. We concluded that the data we used were sufficiently reliable for our purposes. Using a Web-based

⁷ASC does not compensate its board members for their service.

⁸Dodd-Frank Act § 1476.

⁹HMDA data are reported to FFIEC by lenders and are estimated to capture 75 to 85 percent of conventional mortgages (those without government insurance or guarantees) and 90 to 95 percent of mortgages insured by HUD's Federal Housing Administration.

questionnaire, we surveyed appraiser regulatory agencies in the 50 states, the District of Columbia, and 4 U.S. territories about their experience in implementing Title XI and their views on ASC and provisions in the Dodd-Frank Act.¹⁰ We received completed surveys from 50 of the 55 agencies. A copy of the questionnaire, including summary responses to each question, can be found in an e-supplement to this report, [GAO-12-198SP](#). Finally, we interviewed ASC board members and staff; officials from CFPB, Federal Bureau of Investigation (FBI), FDIC, Federal Reserve, FHFA, HUD, NCUA, OCC, and Office of Thrift Supervision (OTS);¹¹ representatives of the Appraisal Foundation; state appraisal regulatory officials; and a range of appraisal industry participants, including trade groups that represent appraisers and lenders and officials from Fannie Mae and Freddie Mac, two government-sponsored enterprises (the enterprises) that establish standards for appraisals used in connection with mortgages that they purchase. Appendix I contains a more detailed description of our objectives, scope, and methodology.

We conducted this performance audit from November 2010 to January 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Before originating a residential mortgage loan, a lender assesses the risk of making the loan through a process called underwriting, in which the lender generally examines the borrower's credit history and capacity to pay back the mortgage and obtains a valuation of the property to be used

¹⁰The territories included in our survey are Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands. The only other U.S. territory—American Samoa—does not have a regulatory oversight structure for appraisers because real estate there can only be inherited. In the body of this report, we use the term "states" to refer to the 50 states, the District of Columbia, and the territories we surveyed.

¹¹The Dodd-Frank Act abolished OTS in 2011. In July 2011, OCC assumed oversight responsibility of federal savings associations from OTS, FDIC assumed OTS's oversight responsibility for state savings associations, and the Federal Reserve assumed OTS's oversight responsibility for savings and loan holding companies.

as collateral for the loan. Lenders need to know the property's market value, which refers to the probable price that a property should bring in a competitive and open market, in order to provide information for assessing their potential loss exposure if the borrower defaults.¹² Lenders also need to know the value in order to calculate the loan-to-value ratio, which represents the proportion of the property's value being financed by the mortgage and is an indicator of its risk level. Real estate can be valued using a number of methods, including appraisals, broker price opinions (BPO), and automated valuation models (AVM). Appraisals—the valuation method used in the large majority of mortgage transactions—are opinions of value based on market research and analysis as of a specific date. Appraisals are performed by state-licensed or -certified appraisers who are required to follow the Uniform Standards of Professional Appraisal Practice (USPAP).¹³ A BPO is an estimate of the probable selling price of a particular property prepared by a real estate broker, agent, or sales person rather than by an appraiser. An AVM is a computerized model that estimates property values using public record data, such as tax records and information kept by county recorders, multiple listing services, and other real estate records.¹⁴

In 1986, the House Committee on Government Operations issued a report concluding that problematic appraisals were an important contributor to the losses that the federal government suffered during the savings and loan crisis.¹⁵ The report states that hundreds of savings and loans chartered or insured by the federal government were severely weakened or declared insolvent because faulty and fraudulent real estate appraisals provided documentation for loans larger than justified by the collateral's real value. In response, Congress incorporated provisions in Title XI of FIRREA that were intended to ensure that appraisals

¹²The enterprises and federal financial institutions regulators define market value as the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

¹³USPAP covers both the principles appraisers must apply in developing appraisals and the information the appraisal report must contain.

¹⁴A multiple listing service is a database set up by a group of real estate brokers to provide information about properties sold and for sale.

¹⁵House Committee on Government Operations, *Impact of Appraisal Problems on Real Estate Lending, Mortgage Insurance, and Investment in the Secondary Market*, 99th Cong., 2nd sess., 1986, H. Rep. 99-891, 4-6.

performed for federally related transactions were done (1) in writing, in accordance with uniform professional standards, and (2) by individuals whose competency has been demonstrated and whose professional conduct is subject to effective supervision.¹⁶

Various private, state, and federal entities have roles in the Title XI regulatory structure:

- *The Appraisal Foundation.* The Appraisal Foundation is a private not-for-profit corporation composed of groups from the real estate industry that works to foster professionalism in appraising. The foundation sponsors two independent boards with responsibilities under Title XI. The first of these, the Appraisal Standards Board, sets forth rules for developing an appraisal and reporting its results through USPAP. Title XI requires real estate appraisals performed in conjunction with federally related transactions to follow USPAP. The second board, the Appraiser Qualifications Board, establishes the minimum qualification criteria for state certification and licensing of real property appraisers.¹⁷ Title XI requires all state-licensed and -certified appraisers to meet the minimum education, experience, and examination requirements promulgated by the Appraiser Qualifications Board.¹⁸ The foundation disseminates information regarding USPAP and the appraiser qualification criteria, which are periodically revised and updated, to state and federal regulators, appraisers, users of appraisal services, and the general public. The foundation is funded primarily by sales of publications but also receives an annual grant from ASC.
- *State-level regulatory entities.* Title XI relies on the states to (1) implement the certification and licensing of all real estate appraisers and (2) monitor and supervise appraisers' compliance with appraisal

¹⁶12 U.S.C. §§ 3331, 3339-3345.

¹⁷Certified appraisers are one of two broad categories of appraisers listed in Title XI, the other being licensed appraisers. Certified appraisers are qualified to appraise properties of greater complexity and value than licensed appraisers and must meet higher education and experience requirements.

¹⁸The Appraisal Foundation also sponsors a third independent board, the Appraisal Practices Board, which was established in 2010 to identify and issue opinions on recognized valuation methods and techniques. The Appraisal Practices Board does not have responsibilities under Title XI.

standards and requirements. To assure the availability of certified and licensed appraisers, all 50 states, the District of Columbia, and four U.S. territories have adopted structures to regulate and supervise the appraisal industry.¹⁹ These structures typically consist of a state regulatory agency coupled with a board or commission to establish education and experience requirements (consistent with or in excess of Appraiser Qualifications Board criteria), license and certify appraisers, and monitor and enforce appraiser compliance. These regulatory agencies generally oversee the activities of appraisers for all types of transactions, including those that are federally related.

- *Federal financial institutions regulators.* Title XI places responsibility for regulating appraisals and “evaluations” performed in conjunction with federally related transactions with the Federal Reserve, FDIC, OCC, and NCUA.²⁰ To meet this responsibility, these financial institution regulators have established requirements for appraisals and evaluations through regulations and have jointly issued Interagency Appraisal and Evaluation Guidelines.²¹ Among other things, appraisals for federally related transactions must, at a minimum, provide an estimate of market value, conform to USPAP, be in writing, and contain sufficient information and analysis to support the institution’s decision to engage in the transaction. By regulation, loans that qualify for sale to a U.S. government agency or U.S. government-

¹⁹The four territories are Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands.

²⁰Evaluations are estimates of market value that do not have to be performed by a state-licensed or -certified appraiser. The Federal Reserve oversees insured state-chartered member banks and nonbank subsidiaries of bank holding companies and savings and loan holding companies. FDIC oversees insured state-chartered banks that are not members of the Federal Reserve System, as well as state savings associations. NCUA oversees federal credit unions. OCC oversees federally chartered banks and federal savings institutions. Both the Federal Reserve and FDIC share oversight with the state regulatory authority that chartered the bank. The Federal Reserve also has general authority over lenders that may be owned by federally regulated holding companies but are not federally insured depository institutions.

²¹The federal financial institutions regulators permit evaluations to be performed (consistent with safe and sound lending practices) in certain circumstances, such as mortgage transactions of \$250,000 or less that are conducted by regulated institutions. According to the regulators’ guidance, an evaluation should provide an estimate of the property’s market value; identify the location of the property and provide a description of it and its current and projected use; describe the methods used to confirm its physical condition and the extent to which an inspection was performed; indicate all sources of information used in the analysis; and include information on the preparer of the evaluation.

sponsored agency and loans that are wholly or partially insured or guaranteed by such agencies are exempt from the appraisal requirements.²² In addition, loans that involve residential real estate transactions in which the appraisal conforms to Fannie Mae or Freddie Mac appraisal standards are exempt from these appraisal requirements. Under authority granted by Title XI, the federal regulators also have adopted regulations that exempt federally related transactions of \$250,000 or less from appraisal requirements, meaning that the services of a licensed or certified appraiser are not required (although an evaluation must be performed).²³ The regulations provide a similar appraisal exemption for real estate-secured business loans of \$1 million or less that are not dependent on the sale of, or rental income derived from, real estate as the primary source of repayment.²⁴ The regulations and guidelines also specify the types of policies and procedures lenders should have in place to help ensure independence and credibility in the valuation process. Additionally, the federal regulators have developed procedures for examining the real estate lending activities of regulated institutions that include steps for assessing the completeness, adequacy, and appropriateness of these institutions' appraisal and evaluation policies and procedures.

- *Appraisal Subcommittee.* ASC has responsibility for monitoring the implementation of Title XI by the private, state, and federal entities discussed previously. Among other things, ASC is responsible for (1) monitoring and reviewing the practices, procedures, activities, and organizational structure of the Appraisal Foundation—including making grants to the Foundation in amounts that it deems appropriate to help defray costs associated with its Title XI activities; (2) monitoring the requirements established by the states and their appraiser regulatory agencies for the certification and licensing of appraisers; (3) monitoring the requirements established by the federal financial institutions regulators regarding appraisal standards for federally related transactions and determinations of which federally

²²These loans are subject to the appraisal requirements of the enterprises or the federal agency that provides the insurance or guarantee.

²³OCC: 12 C.F.R. § 34.43(a)(1); Federal Reserve: 12 C.F.R. § 225.63(a)(1); FDIC: 12 C.F.R. § 323.3(a)(1); NCUA: 12 C.F.R. § 722.3(a)(1).

²⁴Loans that meet the exemption must have an evaluation. NCUA regulations do not contain an exemption from the appraisal requirements specific to business loans.

related transactions will require the services of state-licensed or -certified appraisers; and (4) maintaining a national registry of state-licensed and -certified appraisers who may perform appraisals in connection with federally related transactions.²⁵ Among other responsibilities and authorities, the Dodd-Frank Act requires ASC to implement a national appraiser complaint hotline and provides ASC with limited rulemaking authority. ASC provides an annual report to Congress on its activities and financial status in the preceding year. For fiscal year 2010, ASC reported total expenses (including grants to the Appraisal Foundation) of approximately \$3.6 million.

Some 20 years after the passage of Title XI, questions remain about oversight of the appraisal industry and the quality of appraisals. Although the federal financial institutions regulators have had guidance since the 1990s to help ensure the independence of appraisers, during the mid-2000s, some appraisers reported that loan officers and mortgage brokers pressured them to overvalue properties to help secure mortgage approvals. An investigation into allegations about a major lender's role in pressuring appraisers led to questions about what the enterprises, which had purchased many of the lender's mortgages, had done to ensure that the appraisals for the mortgages met the enterprises' requirements. A key outcome of that investigation was the enterprises' adoption of the Home Valuation Code of Conduct (HVCC), which set forth appraiser independence requirements for mortgages sold to the enterprises. Although the Dodd-Frank Act declared HVCC no longer in effect, it codified several of HVCC's provisions, and the enterprises have incorporated many of the other provisions into their requirements. As we reported in July 2011, appraiser independence requirements and other factors have increased the use of Appraisal Management Companies (AMC).²⁶ Some appraisal industry participants are concerned that some AMCs may prioritize low costs and quick completion of assignments over appraiser competence, with negative consequences for appraisal quality. Moreover, according to the FBI, appraisal fraud—the deliberate overstatement or understatement of a home's appraised value—is an ongoing concern. Of the 817 mortgage fraud cases the FBI closed from

²⁵12 U.S.C. § 3332.

²⁶[GAO-11-653](#). AMCs are third parties that, among other things, select appraisers for appraisal assignments on behalf of lenders and help ensure separation between individuals with an interest in the outcome or dollar amount of a mortgage transaction and the appraiser.

the fourth quarter of fiscal year 2010 through the third quarter of fiscal year 2011, 92 involved appraisal fraud.²⁷

Several Weaknesses Have Potentially Limited ASC's Effectiveness in Performing Its Title XI Functions

ASC has been performing its monitoring role under Title XI, but several weaknesses have potentially limited its effectiveness. In particular, ASC has not fully developed appropriate policies and procedures for monitoring state appraiser regulatory agencies, the federal financial institutions regulators, and the Appraisal Foundation. As part of its monitoring role, ASC also maintains a national registry of appraisers, which includes data on state disciplinary actions.

ASC Has Improved State Compliance Reviews, but Its Enforcement Tools and Reporting Procedures Have Been Limited

ASC has improved its reviews of state compliance with Title XI, but its enforcement tools and procedures for reporting compliance levels have been limited. ASC has detailed policies and procedures for monitoring state appraiser regulatory programs and has issued 10 policy statements covering different aspects of states' implementation of Title XI requirements. The policy statements cover topics including submission of data to the national registry, license reciprocity (enabling an appraiser certified or licensed in one state to perform appraisals in other states), and programs for enforcing appraiser qualifications and standards. For example, Statement 6 states that license reciprocity agreements should contain certain characteristics, such as recognizing and accepting successfully completed continuing education courses taken in the appraiser's home state. Statement 10 sets forth guidelines for enforcing Appraiser Qualifications Board criteria for appraiser certification and complaint resolution. The policy statements are designed to assist states in continuing to develop and maintain appropriate organizational and regulatory structures for certifying, licensing, and supervising real estate appraisers. These statements reflect the general framework that ASC uses to review a state's program for compliance with Title XI. ASC staff told us that they had initiated actions to update the policy statements to reflect Appraisal Standards Board changes to USPAP, modifications to

²⁷The FBI defines mortgage fraud as a material misstatement, misrepresentation, or omission relied upon by an underwriter or lender to fund, purchase, or insure a loan. Prior to the fourth quarter of fiscal year 2010, the FBI's information system did not have a specific code for appraisal fraud.

Appraiser Qualifications Board criteria, emerging issues identified through state compliance reviews, and provisions in the Dodd-Frank Act.

Apart from the policy statements, however, ASC has functioned without regulations and enforcement tools that could be useful in promoting state compliance with Title XI. Prior to the Dodd-Frank Act, Title XI did not give ASC rulemaking authority and provided it with only one enforcement option. ASC's policy statements on specific elements of Title XI take the form of policies rather than regulations, which may limit ASC's leverage over states that are not in compliance. As discussed later in this report, the Dodd-Frank Act provides ASC with limited rulemaking authority. Prior to the Dodd-Frank Act, the only enforcement action ASC could take under Title XI was to "derecognize" a state's appraiser regulatory program, which would prohibit all licensed or certified appraisers from that state from performing appraisals in conjunction with federally related transactions. ASC has never derecognized a state, and ASC officials told us that using this sanction would have a devastating effect on the real estate markets and financial institutions within the state.

While ASC has until recently had limited enforcement tools, it has had a number of tools to encourage state programs to comply with the policy statements and therefore Title XI requirements (see table 1). ASC's primary tools for monitoring the states are routine and follow-up compliance reviews, which are performed on site by ASC's four Policy Managers. These reviews are designed to encourage adherence to Title XI requirements by identifying any instances of noncompliance or "areas of concern" and recommending corrective actions.²⁸ ASC conveys its findings and recommendations to states through written reports. Examples of areas covered by the reviews include timeliness in resolving complaints about appraiser misconduct or wrongdoing; degree to which education courses are consistent with Appraiser Qualifications Board criteria; adequacy of state statutes and regulations on certifying and licensing appraisers; timeliness and completeness of data submissions to the national registry and remittance of national registry fees; and validation of documentation supporting appraiser education and

²⁸ASC defines an area of concern as one in which the state is in compliance but could improve.

experience.²⁹ ASC supplements the compliance reviews with “priority contact visits” on an as-needed basis and off-site monitoring performed continuously.

Table 1: ASC’s Tools for Monitoring State Compliance with Title XI Requirements

Monitoring tool	Description	Frequency
Routine compliance reviews	Full on-site reviews of state appraiser regulatory programs.	Every 2 years or annually if ASC determines that a state needs closer monitoring.
Follow-up compliance reviews	On-site reviews focused on areas of noncompliance identified during routine compliance reviews.	6 to 12 months after previous compliance review.
Priority contact visits	On-site visits, usually to states with large populations of appraisers, to discuss potentially problematic emerging issues and maintain a close working relationship with the state agency.	As-needed.
Off-site monitoring	Telephone or e-mail contacts with state agencies regarding emerging compliance issues and progress in addressing previously identified issues.	Continuous.

Source: ASC.

ASC has enhanced its compliance review process over the years and uses a risk-based monitoring approach. For example, in 2006, ASC increased the frequency of its routine compliance reviews from once every 3 years to once every 2 years. In recent years, this schedule has resulted in 26 to 32 reviews annually. According to ASC staff, concerns with several states’ appraiser regulatory programs prompted the change, which has enabled ASC to identify and address compliance problems in a more timely way. In January 2009, ASC modified its review process by allowing states to respond to preliminary findings before a compliance review report is issued to a state and publicly released on ASC’s website. ASC considers the state’s response, which can include comments and corrective actions, in finalizing the report. That same year, ASC revised the format of the reports to convey findings in a more concise and structured way. According to one ASC board member, the new format has improved the consistency of ASC’s reporting. Consistent with ASC’s monitoring policies, our review of ASC’s records from 2007 through 2010 indicated that ASC reviewed states it had designated as higher risk more

²⁹Specific requirements related to some of these areas are that states should investigate and resolve complaints within 1 year of the complaint filing date, must adopt all relevant Appraiser Qualifications Board criteria, and must transmit appraiser data at least monthly to the national registry.

frequently than other states. As previously noted, ASC reviews most states on a 2-year cycle; however, it may move a state to a 1-year cycle if prior reviews or contacts have found serious Title XI noncompliance or raised concerns about the risk of future noncompliance.³⁰ During the 4-year period we examined, ASC conducted 1-year reviews of 12 states due to the seriousness of their compliance problems or state resource challenges that increased the risk of noncompliance. For example, a 2007 review of one state cited four instances of noncompliance and emphasized long-standing deficiencies in the state's process for investigating and resolving complaints as the primary reason for the 1-year review cycle. ASC staff also conducted a priority contact visit to this state within 10 months of the 2008 compliance review.

As shown in table 2, results of state compliance reviews from calendar years 2007 through 2010 identified areas in which noncompliance findings were numerous and others in which noncompliance was less common. Over that period, ASC reported 69 findings of state noncompliance with enforcement requirements such as those related to complaint processing; 59 findings of noncompliance with requirements for appraiser application processing; and 30 findings of noncompliance with requirements for statutes, regulations, policies, and procedures. The number of noncompliance findings concerning enforcement was fairly consistent during the 4-year period. Most of these findings were due to some states' failure to investigate and resolve complaints about appraisers in a timely manner, an area of long-standing concern in several states. For example, a 2010 compliance review report noted that ASC had cited a state for untimely investigation and resolution of complaints in every review since 2000. Noncompliance findings in the application process category encompassed a range of shortcomings in ensuring that approved applicants met Appraiser Qualifications Board criteria. For example, in a 2008 report, ASC cited a state for issuing certified appraiser credentials to individuals who lacked proper experience and noted that three previous reviews had made the same finding. State appraiser regulatory agencies—which are funded at the state level—have reported resource limitations as a key impediment in carrying out their Title XI responsibilities. Specifically, 15 of the 47 state agencies that responded to our survey indicated that their funding was

³⁰A 1-year review cycle can take a number of forms, including annual routine compliance reviews and routine compliance reviews every 2 years with follow-up reviews in between.

inadequate to carry out their statutory responsibilities.³¹ From 2007 through 2010, noncompliance was less common in the remaining four areas—temporary practice, national registry, reciprocity, and education.³² For example, over the 4-year period, ASC reported no noncompliance findings concerning reciprocity and eight concerning education.

Table 2: Number and Type of Noncompliance Findings Identified in ASC’s State Compliance Reviews, 2007-2010

Year	Type of noncompliance							Total
	Statutes, regulations, policies and procedures	Temporary practice	National registry	Application process	Reciprocity	Education	Enforcement	
2007	4	11	7	23	0	8	19	72
2008	15	8	4	8	0	0	16	51
2009	7	0	1	19	0	0	15	42
2010	4	1	1	9	0	0	19	34
Total	30	20	13	59	0	8	69	199

Source: GAO analysis of ASC annual reports.

Note: Prior to 2008, ASC used a broad “compliance” category to report certain types of noncompliance findings. Using the more specific reporting categories ASC adopted in 2008, we reclassified 35 findings reported in 2007 under the “compliance” category as statutes, regulations, policies and procedures noncompliance (4 findings); application process noncompliance (23 findings); and education noncompliance (8 findings).

At the completion of each review, ASC executive staff and board members deliberate on the findings and place the state into one of three broad compliance categories: “in substantial compliance,” “not in substantial compliance,” and “not in compliance”. According to ASC, “in substantial compliance” applies when there are “no issues of noncompliance or no violations of Title XI”; “not in substantial compliance” applies when there are “one or more issues of noncompliance or violations of Title XI but the concerns do not rise to the level of ‘not in compliance’”; and “not in compliance” applies when “the number, seriousness, and/or repetitiveness of the Title XI violations warrant this

³¹Three of the respondents to our survey did not provide a response to this question.

³²Temporary practice refers to a state’s recognition of the certification or license of an appraiser from another state provided: (1) the property to be appraised is part of a federally related transaction, (2) the appraiser’s business is of a temporary nature, and (3) the appraiser registers with the state appraiser regulatory agency in the state of temporary practice.

finding.”³³ From 2007 through 2010, 52 states were reviewed at least twice, so any changes in their compliance levels during this period can be observed. Over the 4-year period, 28 remained in the same category, 19 states moved to a more favorable compliance category, and 5 moved to a less favorable category.³⁴ Most of the states that moved to a more favorable category (17 of 19) went from “not in substantial compliance” to “in substantial compliance.”³⁵ Of the states remaining in the same category, most (22 of 28) were in the “not in substantial compliance” category.³⁶ All of the states that moved to a less favorable category went from “in substantial compliance” to “not in substantial compliance.”

Although ASC has been using the three compliance categories in its reports to states and annual reports to Congress (which provide aggregate statistics on the number of states in each category), it has not included the definitions of the categories in these reports or in its compliance review manual or policy and procedures manual.³⁷ In addition, ASC’s definition for “not in compliance” is not clear or specific. As discussed earlier, it states only that the category is to be used “when the number, seriousness, and/or repetitiveness of the violations warrant this finding” and does not elaborate on how these factors are weighed or provide examples of situations that would meet this definition. These shortcomings are inconsistent with our internal control standards, which

³³Because a state only has to have one noncompliance finding to be “not in substantial compliance,” this category can encompass a fairly wide range of performance. For example, in 2009, states in this category had from one to seven findings of noncompliance.

³⁴We could not assess changes in compliance categories for three states because only one routine compliance review was conducted of each state during the period we reviewed.

³⁵The remaining two states moved from “not in compliance” to “not in substantial compliance.”

³⁶Of the other six states, five were “in substantial compliance,” and one was “not in compliance.”

³⁷Although ASC developed definitions of the categories in 2005, it did not explicitly use the categories in its reports to states until 2009. For example, instead of saying that a state program was not in substantial compliance, a report would say that the state needed to address particular issues to bring the program into substantial compliance. In 2009, in conjunction with other revisions to its state compliance reports, ASC began explicitly using the compliance categories. That year, ASC also began reporting the number of states in each category in its annual reports to Congress.

state that federal agencies should have appropriate policies and procedures for each of their activities.³⁸ Without clear, disclosed definitions, ASC limits the transparency of the state compliance review process and the usefulness of information Congress receives to assess states' implementation of Title XI. Further, by not incorporating the definitions into its compliance review and policy and procedures manuals, ASC increases the risk that board members and staff may not interpret and apply the compliance categories in a consistent manner.

ASC Has Not Developed Policies and Procedures for Monitoring the Appraisal Requirements of the Federal Financial Institutions Regulators

Although Title XI charges ASC with monitoring the appraisal requirements of the federal financial institutions regulators, ASC has not developed policies and procedures for carrying out this responsibility. As previously noted, our internal control standards state that federal agencies should have appropriate policies and procedures for each of their activities.³⁹ While ASC's policy manual provides detailed guidance on monitoring state appraiser regulatory programs, it does not mention any activities associated with monitoring the appraisal requirements of the federal financial institutions regulators. Further, ASC officials acknowledged the absence of a formal monitoring process. The absence of policies and procedures specifying monitoring tasks and responsibilities limits accountability for this function and is inconsistent with federal internal control standards designed to help ensure effectiveness and efficiency in agency operations.

According to ASC officials, ASC performs this monitoring function through informal means, primarily through its board members who are employed by the federal financial institutions regulators. They said that several ASC board members represent their agencies on an interagency appraisal workgroup (not under the auspices of ASC) and provide information on agency appraisal policies to ASC staff and the other board members.⁴⁰

³⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999) and GAO, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

³⁹[GAO/AIMD-00-21.3.1](#) and [GAO-01-1008G](#).

⁴⁰However, the officials also indicated that the amount of information that could be shared was limited when agency policies or proposals were under deliberation or in a public comment period. The interagency workgroup includes officials from the Federal Reserve, FDIC, OCC, NCUA, FHFA, and CFPB. The workgroup develops uniform appraisal guidance that is issued by all of these agencies.

ASC officials also told us that the federal regulators sometimes seek technical assistance from ASC staff on appraisal practices and standards. Minutes from ASC's monthly board meetings and ASC's annual reports to Congress indicate that the monitoring activities of ASC as a whole have been limited. For example, our review of board meeting minutes from 2003 through 2010 found no instances of the board discussing the appraisal requirements of the federal financial regulators.⁴¹ Additionally, evidence of this monitoring function in ASC's annual reports is limited to a summary of any new appraisal requirements issued by the federal financial regulators and HUD during the preceding year.

Stakeholder views differ as to how to interpret the Title XI requirement that ASC monitor the requirements established by the federal financial institutions regulators with respect to appraisal standards.⁴² Specifically, some ASC board members told us that they understand their monitoring role as maintaining an awareness of the federal financial regulators' appraisal requirements. Further, one ASC board member told us that ASC's monitoring of the federal financial regulators was more limited than its monitoring of states because (1) board members from the federal financial regulatory agencies are knowledgeable of the appraisal requirements of their agencies, (2) the federal regulators' interagency process for developing appraisal guidelines (in place since 1994) has reduced the need for monitoring the consistency of guidelines across agencies, and (3) monitoring the states' appraiser requirements requires in-depth review of state processes for licensing, certification, and enforcement.

In contrast, some appraisal industry stakeholders and observers have proposed a larger ASC role in monitoring the appraisal requirements of the federal financial institutions regulators. An ASC board member who conducted a review of ASC's operations in 2007 recommended a more structured and active monitoring role for ASC. The board member's report—which the board never officially adopted—suggested that ASC staff could be assigned to keep abreast of federal financial regulators' requirements and guidelines; the staff could then assess the impact of the

⁴¹The minutes indicated that on at least two occasions, the HUD representative to the ASC board provided updates on appraisal policies for mortgages insured by HUD's Federal Housing Administration.

⁴²12 U.S.C. § 3332(a)(2).

requirements on ASC's operations and policies. Under this proposed recommendation, ASC staff would annually report the results of this work to the ASC board members. Although ASC acted on several of the report's administrative proposals, ASC did not adopt the recommendation, and minutes from ASC's monthly board meetings do not contain discussion of the issue.⁴³ A former General Counsel of ASC told us that ASC's monitoring role should include critically assessing the adequacy of the federal financial regulators' appraisal requirements and evaluating how well the requirements are being implemented. He indicated that such assessment might have helped federal financial regulators and policymakers address issues such as appraiser independence, establishing dollar-based exemptions from appraisal requirements, and referral of Title XI violations to state agencies.⁴⁴ A representative of an appraisal industry group expressed a similar view and noted that ASC's annual reports did not provide substantive analysis or critique of federal appraisal requirements.

However, appraisal industry stakeholders also noted that implementing a more expansive interpretation of ASC's monitoring role would pose challenges. For example, existing ASC staff may not have the capacity to take on additional monitoring responsibilities. According to ASC officials, ASC's Policy Managers already spend the large majority of their time working on state compliance reviews and have other duties. Therefore, adding to these responsibilities could require the addition of more staff or reduce the time existing staff spend on monitoring the states. Even if ASC staff were able to independently analyze the federal regulators' appraisal requirements, the analysis would be subject to review by the ASC board, which, because of its composition, is not independent from the agencies

⁴³ASC adopted some of the report's recommendations such as creating a Deputy Executive Director position and allowing states to respond to preliminary compliance review findings prior to the issuance of final reports.

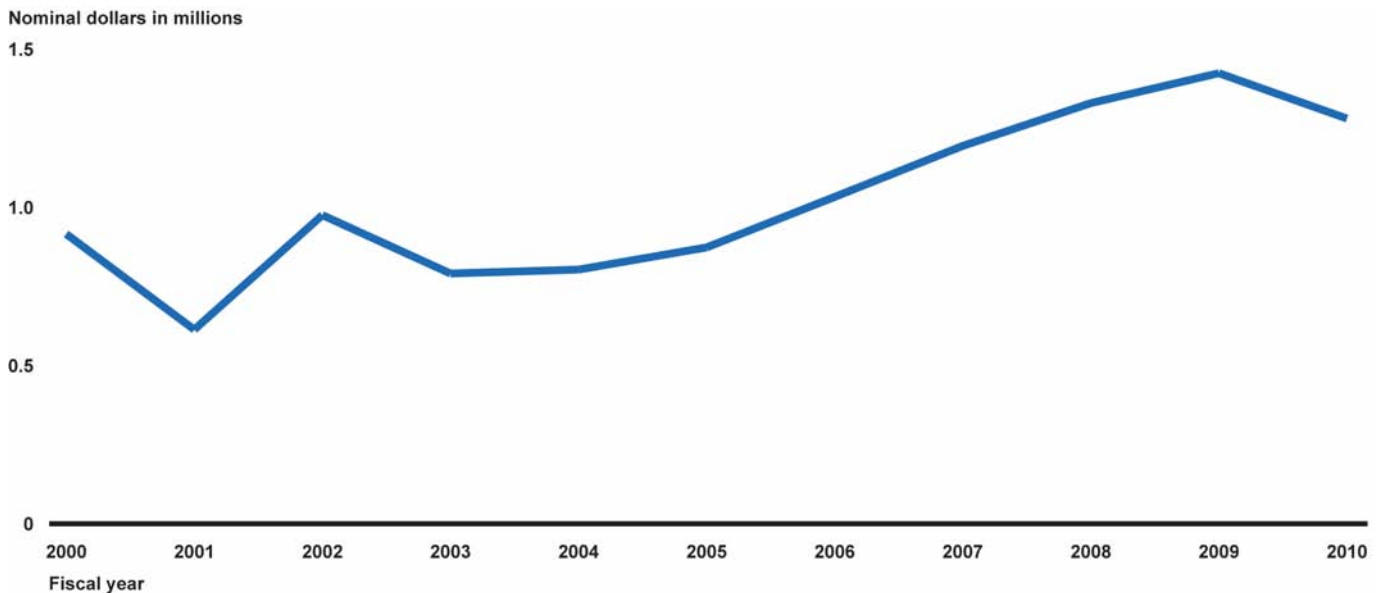
⁴⁴In a 2003 report, we discussed the view of state appraiser regulatory agencies that lenders and federal financial institutions regulators were not actively reporting Title XI violations to state regulators. See GAO, *Regulatory Programs: Opportunities to Enhance Oversight of the Real Estate Appraisal Industry*, [GAO-03-404](#) (Washington, D.C.: May 14, 2003). The Dodd-Frank Act amended the Truth in Lending Act to require lenders (among others) who have a reasonable belief that an appraiser has not complied with ethical and professional requirements under federal or state law or USPAP to report the failure to the appropriate state licensing agency. The Federal Reserve has implemented this requirement through its Truth in Lending regulations (known as Regulation Z). See 12 C.F.R. § 226.42(g).

that ASC is charged with monitoring. Board members stated that they were appointed to ASC primarily to represent their home agency's views and could not act without their agency's approval. Although not within the scope of our review, alternative organizational structures for ASC (for example, an independent entity within a nonbanking agency) could potentially address this limitation, but any benefits would have to be weighed against the implications for ASC's operating costs and performance of its other monitoring responsibilities.

ASC Monitors the Appraisal Foundation but Has No Written Policies for Determining Whether the Foundation's Grant Activities Are Title XI-Related

As discussed earlier, the Appraisal Foundation is a private not-for-profit corporation that sponsors independent boards that set standards for appraisals and minimum qualification criteria for appraisers. ASC approves an annual grant proposal and provides monthly grant reimbursements to the Appraisal Foundation to support the Title XI-related activities of the foundation and its Appraisal Standards Board and Appraiser Qualifications Board. The reimbursements cover the foundation's incurred costs for activities under the grant. From fiscal years 2000 through 2010, ASC provided the foundation over \$11 million in grant reimbursements, or about 40 percent of ASC's expenditures over that period. In nominal dollars, the total amounts reimbursed each year ranged from a low of about \$614,000 in fiscal year 2001 to a high of about \$1.4 million in fiscal year 2009 (see fig. 1).

Figure 1: ASC's Annual Grant Reimbursements to the Appraisal Foundation, Fiscal Years 2000-2010



Source: GAO analysis of ASC data.

ASC's initial grants to the Appraisal Foundation after the enactment of Title XI focused on supporting the development of uniform appraisal standards and appraiser qualification criteria.⁴⁵ For example, with the support of ASC grant funds, the Appraisal Standards Board issued a revision of USPAP in 1990 and the Appraiser Qualifications Board issued its original education, experience, and examination criteria in 1991. In more recent years, the Appraisal Foundation's grant activities have included developing a program to approve appraiser education courses, developing state investigator training courses, and updating USPAP. The voluntary course-approval program is designed to facilitate state approval of appraiser education courses submitted by course providers and acts as a national clearinghouse of appraisal courses, thereby streamlining the approval process for both course providers and states. The state investigator training courses were jointly developed and sponsored by the

⁴⁵The Appraisal Foundation existed prior to ASC. In 1986, nine leading professional appraisal organizations in the United States and Canada formed a committee that developed the original version of USPAP. The Appraisal Foundation was established in 1987 to implement USPAP, which was approved and adopted by the foundation's Appraisal Standards Board in 1989.

Appraisal Foundation and the Association of Appraiser Regulatory Officials with the goal of promoting more effective investigation and resolution of complaints against appraisers.⁴⁶ As previously discussed, investigation of complaints has been a long-standing weakness for some state appraiser regulatory agencies. The training covers topics such as planning investigations, interview and investigative techniques, and reporting findings and recommendations.

ASC monitors and reviews the Appraisal Foundation in the following four main ways:

- *Review of annual grant proposal.* Each year, ASC's Executive Director reviews the foundation's annual grant proposal, which details the foundation's activities for the upcoming year. The proposal contains a statement of work and supporting cost schedules. The Executive Director determines whether the proposed activities are Title XI-related and reasonable. To assess reasonableness, the Executive Director applies ASC or General Services Administration criteria for consultant, travel, and indirect costs and may request supplemental information from the foundation.⁴⁷ The Executive Director then prepares a memorandum summarizing his analysis and recommendations and presents it to the ASC board for approval. The ASC board reviews the recommendation and asks for additional information from the ASC staff or the foundation, as necessary. Additionally, foundation staff attend an ASC board meeting to present and answer questions about their grant proposal.
- *Review of grant reimbursement requests.* ASC reimburses the Appraisal Foundation for costs the foundation has incurred in performing grant activities. Each month, the Executive Director reviews the foundation's grant reimbursement request for Title XI-related costs incurred during the previous month. The review focuses on whether the requested reimbursement covers grant-related (and hence Title XI-related) activities and whether the costs are appropriate under the grant. The Executive Director prepares a memorandum

⁴⁶The Association of Appraiser Regulatory Officials is an industry group that represents state appraiser regulatory agencies.

⁴⁷For example, in reviewing the Appraisal Foundation's 2011 grant proposal, the Executive Director asked the Foundation for information about reasons for cost increases above the general rate of inflation and the rationale for increasing the scope of a project.

summarizing his analysis and recommendations regarding payment and presents it to the ASC board for approval.

- *Third-party review of grant records.* ASC contracts with an independent audit firm to annually assess, among other things, whether the Appraisal Foundation expended grant funds on and charged costs to activities allowed in the grant agreement.⁴⁸ The reviews from 2005 through 2010 identified no questionable grant expenditures or allocation of costs but noted some minor internal control deficiencies. For example, the 2005 review found that payment requests for postage, printing, and telephone costs lacked an authorizing signature.
- *Attending foundation meetings.* ASC staff, usually the Executive Director, attend every meeting of the foundation's Board of Trustees, Appraisal Standards Board, and Appraiser Qualifications Board.⁴⁹ ASC staff observe the meetings and provide input, as appropriate.

Although ASC monitors the foundation in several ways, ASC lacks specific policies and procedures for determining whether grant activities are related to Title XI. ASC's policies and procedures manual does not address how ASC monitors the Appraisal Foundation. Instead, ASC uses monitoring procedures contained in a memorandum prepared by a former Executive Director. The memorandum describes how he reviewed the foundation's grant activities but does not provide criteria for deciding what is Title XI-related. When we asked current ASC officials for the criteria they used, they indicated only that ASC staff "review submissions from the Foundation and supporting cost spreadsheets to determine that activities proposed in the annual grant request or the monthly reimbursement processes meet the requirements of Title XI." They said that once staff determine whether or not a submission falls within these parameters, they make a recommendation to the ASC board. However, determinations about what activities are Title XI-related are not always clear-cut. For example, in 2003, the Executive Director at the time

⁴⁸The review is an "agreed-upon procedures review," meaning that ASC determines what facets of the foundation's activities and records should be reviewed. According to the independent audit firm, the review is not an audit and does not express an opinion on the foundation's financial statements or any of its components.

⁴⁹ASC staff also attend meetings of the foundation's Appraisal Practices Board, which does not have responsibilities under Title XI and is not funded by ASC.

recommended that the foundation be reimbursed for certain legal expenses in connection with a complaint filed with the foundation's ethics committee. However, the ASC board rejected the reimbursement request because the expenses "were not sufficiently Title XI-related." ASC's records do not indicate what criteria either the Executive Director or the ASC board used as a basis for their decisions or why they disagreed. Similarly, our review of ASC documents for more recent grants found no supporting explanations for decisions about whether grant activities were Title XI-related. One ASC board member said the board had a common understanding of what activities were eligible for grants but acknowledged that the basis for funding decisions could be better documented. As previously noted, our internal control standards state that federal agencies should have appropriate policies for each of their activities. Without policies that contain specific criteria, ASC increases the risk that its grant decisions will be inconsistent, limits the transparency of its decisions, and lacks assurance that it is complying with federal internal control standards.

ASC Maintains a National Registry That Includes Data on State Disciplinary Actions

ASC maintains a national registry database that contains selected information about the nation's state-certified and -licensed real estate appraisers. Only state-certified or -licensed appraisers listed on the registry as having currently valid certifications or licenses (appraiser credentials) are authorized to perform appraisals in connection with federally related transactions. As of December 31, 2010, the national registry showed that there were nearly 110,000 active appraiser credentials.⁵⁰ In addition to eligibility information, the registry contains information about the number of active and inactive licenses, the types of licenses, and any disciplinary actions taken by states against appraisers. The registry contains both public and nonpublic information—for example, some data on disciplinary actions are restricted to authorized representatives of state regulatory agencies. Users of the registry—which include appraisers, federal and state agencies, financial institutions, and consumers—can access it via the Internet. ASC provides instructions to states for uploading data to the registry. In addition, ASC charges each individual who performs or seeks to perform appraisals in conjunction with

⁵⁰ Appraisers can hold credentials in more than one state. Therefore, at the national level, the total number of appraiser credentials is greater than the total number of appraisers.

federally related transactions an annual \$25 national registry fee, which states collect and forward to ASC.

According to ASC, the registry is designed to allow users to determine (1) whether an appraiser is eligible to perform appraisals in conjunction with federally related transactions and (2) whether the appraiser has been subject to disciplinary actions such as suspension or revocation of credentials. The registry also helps facilitate “reciprocity”—that is, allowing appraisers to use credentials from their home state to obtain credentials in another state without taking examinations or meeting additional requirements—by allowing states to determine the status of an appraiser’s credentials. Forty-nine of the 50 state appraiser regulatory agencies that responded to our survey said they used the registry to verify that applicants from other states are licensed or certified in those states, and 47 of the 50 said they used the registry to find out if disciplinary actions were taken against an appraiser in other states. In addition, financial institutions can receive updates via the Internet on revocations, suspensions, surrenders, and expirations of appraiser credentials.

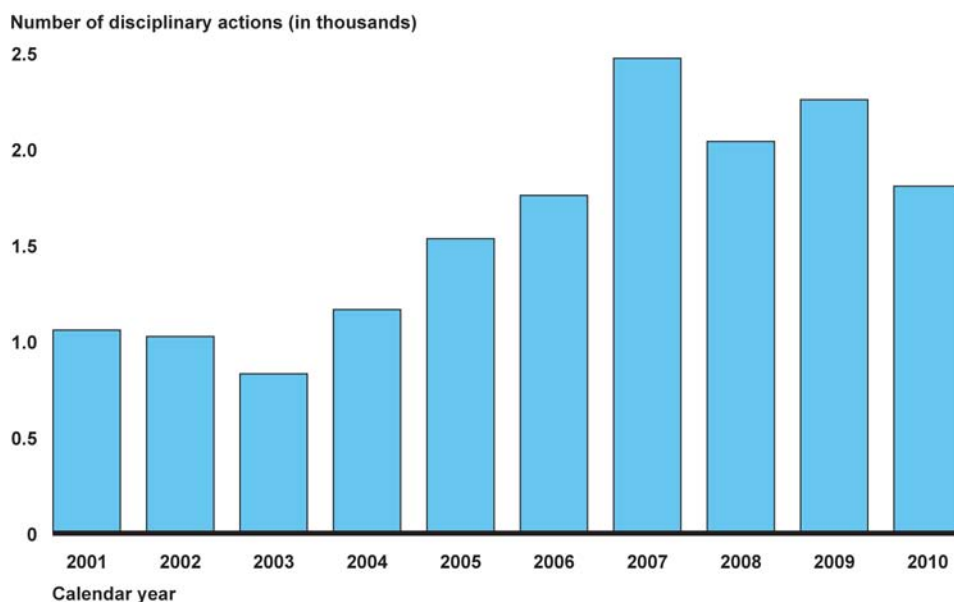
Information contained in the registry comes from the states, which must submit appraiser data to ASC at least monthly. In 2010, ASC redesigned the registry to, among other things, allow states to report data directly into the system rather than forwarding electronic files. Thirty-one of our state survey respondents indicated that they submitted data more than once per month. The registry has built-in edit checks to help ensure the reliability of the data entered into the system. Prior to officially updating the registry each day, ASC runs validation checks on the states’ data. If the validation fails, the failure is identified on an exception report reviewed by ASC’s Information Specialist, who contacts the state for corrected data, as necessary.⁵¹ Based on data submitted by the states, the registry also generates invoices for appraiser registration fees on a monthly basis. ASC then forwards the invoices to the states for payment.

From calendar years 2001 through 2010, states reported 15,938 disciplinary actions to the registry. Over that 10-year period, the number of actions reported annually ranged from a low of 830 in 2003 to a high of

⁵¹An exception report is a listing of abnormal items or items that fall outside of a specified range.

2,471 in 2007 (see fig. 2). For the 10 years combined, Florida reported the most disciplinary actions (1,480), while three states reported none. The types of actions reported by states included probation, suspension, and revocation of appraiser credentials, as well as fines and additional education. The most common action was a fine, and the least common was a downgrade in the appraiser's credentials (for example, from certified to licensed).

Figure 2: State Disciplinary Actions Against Appraisers, Calendar Years 2001-2010



Source: GAO analysis of ASC national registry data.

Appendix II contains additional information, including statistics on the number of active appraisers by type of credential as of December 31, 2010, and disciplinary actions reported by each state over the 10-year period.

Dodd-Frank Act Provides ASC New Authorities and Presents Implementation Challenges

The Dodd-Frank Act Expands ASC's Role and Provides New Tools to Oversee State Appraiser Regulatory Agencies

The Dodd-Frank Act contains 14 provisions that give ASC a number of new responsibilities and authorities. We identified 27 tasks associated with these provisions, ranging from complex undertakings to more straightforward administrative actions. Some of the more complex tasks include establishing and maintaining a national appraisal complaint hotline, making grants to state appraiser regulatory agencies, and implementing new rulemaking authority and enforcement tools. The act includes several other tasks such as encouraging states to accept appraisal courses approved by the Appraiser Qualifications Board and to establish policies for issuing reciprocal licenses or certifications to qualified appraisers from other states. As of October 2011, ASC had completed several tasks that required no rulemaking or creation of new programs and was in various stages of progress on the others. Appendix IV provides a summary of all 27 tasks and their status as of October 2011.

National Hotline

The Dodd-Frank Act requires ASC to determine whether a national hotline exists that receives complaints of noncompliance with appraisal independence standards and USPAP, including complaints from appraisers, individuals, or other entities concerning the improper influencing or attempted improper influencing of appraisers or the appraisal process. ASC completed this task in January 2011, within the statutory deadline, and reported that no such hotline currently existed.

The Dodd-Frank Act also requires ASC to establish and operate such a national hotline, including a toll-free telephone number and an e-mail address, if it determined that one did not already exist. Additionally, the act requires ASC to refer hotline complaints to appropriate governmental bodies for further action. ASC has not fully addressed this requirement but has researched how other agencies operate hotlines and make complaint referrals. ASC officials told us that the hotline would require significant staff and funds and that they were exploring options for implementing it, including hiring a contractor.

Appraisal industry stakeholders we spoke with identified a number of potential challenges in establishing and operating a hotline. They noted that creating and maintaining a hotline could be costly because it will likely require investments in staff and information technology to fully ensure that calls are properly received, screened, tracked, and referred to appropriate regulatory agencies. Stakeholders indicated that screening calls would be a critical and challenging task because frivolous complaints could overwhelm the system and identifying valid complaints would require knowledge of USPAP. Some stakeholders we spoke with expressed concern about consumers using the hotline simply to report disagreement with an appraiser's valuation instead of to report USPAP violations, concerns about appraiser independence, or potential fraud. Some appraisers said that frivolous consumer complaints could hurt an appraiser's ability to get future appraisal assignments, while federal financial regulatory officials said that frivolous complaints from appraisers against lenders could lead to costly and time-consuming investigations. Additionally, industry stakeholders noted that the hotline would only have value if valid complaints were followed up and resolved but pointed out that some states lack the resources to handle their existing volume of complaints. Further, stakeholders said that deciding which regulatory entities should receive complaint referrals could be difficult in some cases and that differing state requirements for complaints (such as forms, procedures, and standards) could complicate the referral process.⁵²

Nonetheless, appraisal industry stakeholders told us they believed that the hotline would offer several benefits. These included giving appraisers a central place to report when they feel they are being pressured, providing a conduit to forward complaints to appropriate entities, promoting the development of more uniform complaint and complaint follow-up procedures, and providing ASC with information that could be useful for its state and appraiser enforcement efforts. Among the state appraiser regulatory agencies we surveyed, views on establishing a hotline varied. For example, 13 of the 50 states responded that the hotline would improve their ability to regulate the appraisal industry in their state, while 9 viewed it as a hindrance. Of the remaining 28 respondents, 13 thought it would neither help nor hinder, 12 did not know, 2 commented on the potential for frivolous complaints, and 1 did not respond.

⁵²For example, some states require or request complaints to be notarized, while others do not.

Grants to State Regulatory Agencies

Additionally, 25 of the 50 states responded that the establishment of a hotline would increase the number of complaints they received.

The Dodd-Frank Act requires ASC to make grants to state appraiser regulatory agencies to support these agencies' compliance with Title XI, including processing and investigating complaints, enforcement activities, and submission of data to the national registry.⁵³ As previously noted, timely investigation and resolution of complaints has been a persistent problem for a number of states. Most of the state appraiser regulatory agencies we surveyed expressed interest in applying for ASC grants once the program is implemented. Specifically, 34 of the 50 states responding to our survey indicated they would likely apply for a grant, while 8 said they were unlikely to do so, and 3 said they were neither likely nor unlikely to do so.⁵⁴ States cited activities related to enforcement and complaints—such as training for prosecutors and investigation of complaints—as the most likely potential uses of grant funds. Other potential uses cited by states included technological improvements for submitting data to the national registry and hiring appraiser licensing staff.

While generally supportive of the grant program, appraisal industry stakeholders and ASC officials we spoke with noted several potential hurdles. Several stakeholders raised concerns about whether ASC had adequate resources to fund grants or sufficient expertise in grant administration and oversight. For example, officials from one appraisal industry group noted that ASC's grant resources could be spread thin if numerous states apply and that states may not find small grants to be worthwhile. ASC officials said they were unsure whether a planned increase in the national registry fee—from \$25 to \$40 per appraiser credential, effective January 2012—would be adequate to fund the grants and oversee them, especially in light of recent declines in the number of appraisers.⁵⁵ They also indicated that they would likely need to hire a grants specialist and an accountant to properly administer the grant program.

⁵³Pub. L. No. 111-203, § 1473(i) (codified at 12 U.S.C. § 3338(b)(5)). The act states that the grants are to be made in accordance with policies to be developed by ASC.

⁵⁴Four responded that they did not know, and one provided no response.

⁵⁵Although the Dodd-Frank Act also authorized ASC to collect registry fees from AMCs, revenues from this source may not be available for several years because regulations for AMC registration must be developed and implemented first.

Rulemaking Authority and Enforcement Tools

Additionally, appraisal industry stakeholders cited challenges that ASC could face in designing the grant program and the decisions it will need to make. Some noted the challenge of designing grant eligibility and award criteria that (1) do not reward states that have weak appraiser regulatory programs because they use appraisal-related fee revenues (from state appraiser licensing and exam fees, for example) for purposes other than appraiser oversight and (2) will not create incentives for states to use less of their own resources for regulation of appraisers.⁵⁶ They noted that some states direct (or “sweep”) appraisal-related revenues into the state’s general fund, which, in some cases may contribute to underfunding of the state’s appraiser regulatory agency. Twenty-six of the 50 state agencies that responded to our survey reported that their state government had the authority to sweep revenues collected by the agency into the state’s general fund, and 19 of these 26 indicated that their state had exercised this authority.⁵⁷ In addition, stakeholders had a range of views on what the grant award criteria should include. For example, some suggested flexible grants based on the number of complaints or the number of appraisers in a state. However, others, including an ASC board member, said that the grants should target specific, well-defined initiatives to help ensure that funds are used appropriately. The board member pointed to state investigator training funded through ASC grants to the Appraisal Foundation as an example of such an initiative. States responding to our survey identified other possible funding criteria, including the extent to which a state had established appropriate performance benchmarks and the state’s past efforts to address compliance deficiencies.

The Dodd-Frank Act also gives ASC the authority to prescribe regulations in four areas: temporary practice, the national registry, information sharing, and enforcement.⁵⁸ For purposes of prescribing regulations, the act requires ASC to establish an advisory committee of industry participants, including appraisers, lenders, consumer advocates, real estate agents, and government agencies, and hold meetings as

⁵⁶Most of the states appraiser regulatory agencies that responded to our survey indicated that they relied on fee revenues to fund their operations.

⁵⁷Of the remaining 24 respondents, 10 said their state had no such authority, 10 did not know, and 4 did not provide a response.

⁵⁸Pub. L. No. 111-203, § 1473(d) (codified at 12 U.S.C. § 3335). ASC must prescribe regulations in accordance with the Administrative Procedures Act after providing notice and opportunity for comment.

necessary to support the development of regulations. Although ASC already has policy statements covering the four areas, appraisal industry stakeholders and ASC officials indicated that regulations could be expected to strengthen ASC's leverage over states to comply with Title XI. In addition, ASC officials noted that rulemaking authority would allow them to establish mandatory state reporting requirements and provide them additional administrative options to address state noncompliance. However, as of October 2011, ASC had not established an advisory committee or drafted any regulations. ASC officials told us that these tasks were still in the early planning stage.

In addition to the rulemaking authority, the Dodd-Frank Act expands ASC's enforcement tools. As previously discussed, ASC's only enforcement option prior to the act was derecognition of a state's appraiser regulatory program. The act gives ASC the authority to remove a state-licensed or -certified appraiser or a registered AMC from the national registry on an interim basis, not to exceed 90 days, pending state agency action on licensing, certification, registration, and disciplinary proceedings. It also authorizes ASC to impose (unspecified) interim actions and suspensions against a state agency as an alternative to, or in advance of, the derecognition of the agency.⁵⁹ Many appraisal industry stakeholders we spoke with supported ASC's new authorities because they will allow ASC to take a more flexible, targeted approach to enforcement.

ASC has yet to implement these authorities and will face a number of decisions and challenges in doing so. ASC officials told us they would use their new rulemaking authority to promulgate regulations for removing an appraiser from the national registry. As part of the rulemaking, ASC officials said they plan to develop criteria for circumstances that warrant removal as well as due process procedures. Several appraisers we spoke with stressed the importance of having a process that will allow them to defend themselves prior to a removal action.⁶⁰ Officials from state bank

⁵⁹FDIC officials told us that ASC had the authority to remove an appraiser from the national registry prior to the Dodd-Frank Act, but only after a state had taken a major disciplinary action such as suspension or revocation of an appraiser's license. In addition, ASC's former General Counsel told us that ASC had informally removed appraisers when criminal actions were being investigated by state officials because of the length of time it took to resolve such cases.

⁶⁰One of these appraisers noted that temporary removal from the registry could result in loss of income and informal blacklisting even if the appraiser is ultimately absolved.

regulatory agencies told us that ASC may face challenges in collecting sufficient documentary evidence to justify removing an appraiser from the national registry because evidence collection is resource intensive. ASC officials said that determining the interim actions and suspensions they would take against state agencies also would be done through rulemaking, which can be a time-consuming process. Officials from several state appraiser regulatory agencies said that for such actions to be effective, they should be directed to higher levels of state government because the agencies have limited authority to make resource decisions or implement major changes. For example, some state appraiser regulatory agencies report to other agencies that control budget and policy decisions.

ASC Faces Resource Challenges and Is Developing a Strategic Plan

ASC confronts the challenge of implementing the tasks associated with the Dodd-Frank Act with limited resources. As previously noted, ASC has a small staff and, in recent years, its revenues have declined while its expenses have grown. ASC has 10 staff members, including an Executive Director, a Deputy Executive Director, a General Counsel, 4 Policy Managers, an Information Management Specialist, and 2 Administrative Officers.

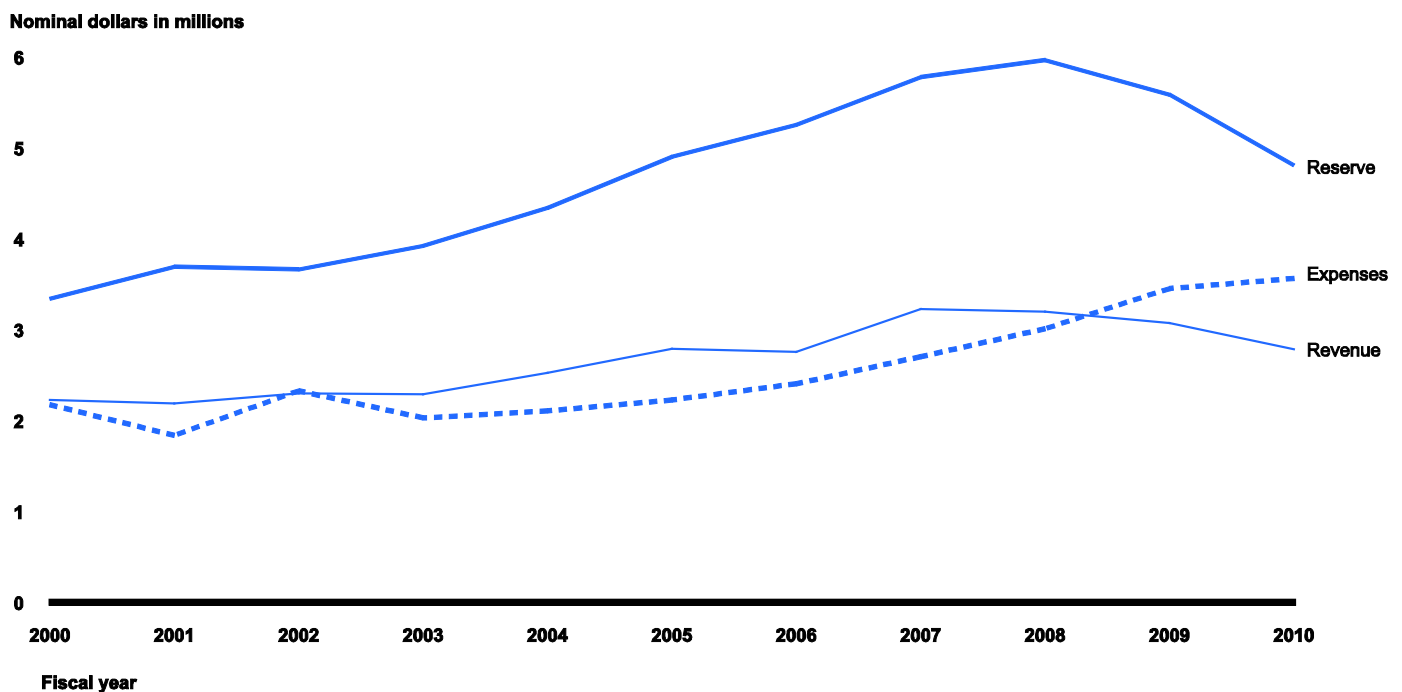
ASC's revenues—which come exclusively from national registry fees—rose (in nominal dollars) from \$2.2 million in fiscal year 2000 to a peak of \$3.2 million in fiscal year 2007 but declined to \$2.8 million in fiscal year 2010 (see fig. 3). According to ASC officials, revenue from registry fees allowed ASC to carry out its Title XI responsibilities and accumulate approximately \$6 million in reserves by fiscal year 2008. However, since 2007, the number of appraiser credentials in the registry has declined each year, causing ASC's revenues to shrink. Pursuant to a Dodd-Frank Act provision, ASC increased its registry fee from \$25 to \$40 (a 60 percent increase) effective January 2012, which will likely increase ASC's revenues.⁶¹ However, because the number of appraisers has been declining—by about 9.4 percent from 2007 through 2010—the fee increase may not result in a proportional rise in revenue.⁶² To illustrate, ASC's revenue in 2014 would be about \$4.4 million if the number of

⁶¹Pub. L. No. 111-203, § 1473(h)(1)(A) (codified at 12 U.S.C. § 3338(a)(4)(A)).

⁶²In November 2011, ASC's Executive Director told us that the number of credentials in the national registry had fallen to about 106,000.

appraiser credentials stayed at 2010 levels but would be about \$4.0 million if the number of appraiser credentials fell by another 9.4 percent from 2011 through 2014.⁶³ Although the Dodd-Frank Act also authorized ASC to collect registry fees from AMCs, revenues from this source may not be available for several years because regulations for AMC registration must be developed and implemented first.⁶⁴

Figure 3: ASC Revenues and Expenses, Fiscal Years 2000-2010



Source: GAO analysis of ASC data.

⁶³From 2007 to 2010, the number of appraiser credentials dropped from 121,407 to 110,026 (-9.37 percent). In 2010, the 110,026 appraiser credentials generated approximately \$2.8 million in revenue (based on the \$25 fee). If the number of appraiser credentials remains constant, the new \$40 fee will generate about \$4.4 million in 2014, a 60 percent increase over 2010. However, if the number of appraisal credentials drops by another 9.37 percent from 2011 to 2014 (i.e., from 110,026 to 99,717), the fee increase would generate about \$4.0 million (based on the \$40 fee) in 2014. This would represent a 45 percent increase in revenues compared with 2010. These calculations assume full implementation of the fee increase by 2014.

⁶⁴Pub. L. No. 111-203, § 1473(h)(1)(A) (codified at 12 U.S.C. § 3338(a)(4)(B)).

As shown in figure 3, ASC's total expenses in nominal dollars increased from \$2.2 million in fiscal year 2000 to \$3.6 million in fiscal year 2010. ASC's total expenses include operating expenses and grants to the Appraisal Foundation, both of which rose over that period. Operating expenses grew from \$1.3 million in fiscal year 2000 to \$2.3 million in fiscal year 2010, primarily due to an increase in personnel and administrative costs for conducting more frequent state compliance reviews. Grants to the Appraisal Foundation grew from \$916,000 in fiscal year 2000 to \$1.3 million in fiscal year 2010, partly to fund state investigator training courses. In fiscal years 2009 and 2010, ASC's expenses exceeded its revenues by \$380,581 and \$782,046, respectively. ASC used reserve funds to cover these amounts, reducing the reserve to \$4.8 million by the end of fiscal year 2010.

In light of these resource and implementation challenges, ASC officials began developing a strategic plan in May 2011 that encompasses both its existing activities and its new responsibilities and authorities under the Dodd-Frank Act. ASC also developed a more limited project plan that focuses specifically on tasks and milestones stemming from the act. According to an ASC board member, ASC did not previously have a strategic plan, due partly to stability in its functions over the years. The board member said that the new responsibilities contained in the Dodd-Frank Act prompted them to undertake a full strategic planning effort. ASC officials told us that they hoped to complete the plan by the end of 2011.

ASC officials told us that their strategic plan would include a mission statement and goals but did not provide specific information about the expected contents of their plan. Although ASC is not subject to the GPRA Modernization Act of 2010 (GPRAMA)—which amends the Government Performance and Results Act of 1993 (GPRA)—ASC officials told us that their plan would include GPRAMA's general components.⁶⁵ GPRAMA provides federal agencies with an approach to focusing on results and improving government performance by, among other things, developing strategic plans. Examples of GPRAMA plan components include a comprehensive agency mission statement; general goals and objectives, including outcome-oriented goals; and a description of how the goals and

⁶⁵Pub. L. No. 111-352, 124 Stat. 3866.

objectives are to be achieved, including the processes and resources required.

Most Recent Mortgages Were Below the Threshold for Appraisal Exemption, and Stakeholder Views on the Threshold Vary

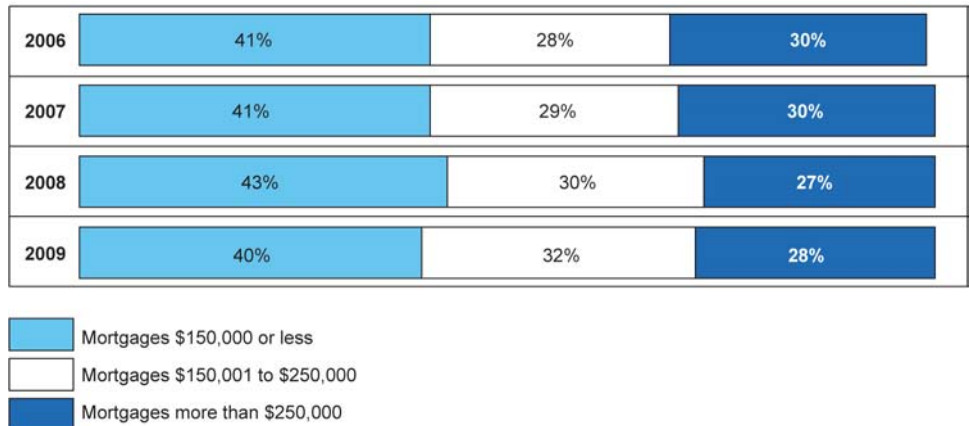
Our analysis of HMDA data found that approximately 71 percent of first-lien mortgages for single-family (one- to four-unit) homes originated from calendar years 2006 through 2009 were less than or equal to \$250,000—the regulatory threshold at or below which appraisals are not required for federally related transactions.⁶⁶ As shown in figure 4, the percentage varied little by origination year, ranging from a low of 69 percent in 2006 to a high of 73 percent in 2008.⁶⁷ For all four years combined, 41 percent of the mortgages were \$150,000 or less, and 30 percent were from \$150,001 to \$250,000. For the same 4-year period, we found that about 22 percent of mortgages for residential multifamily structures were at or below the \$250,000 threshold, as were about 98 percent of mortgages for manufactured housing.⁶⁸

⁶⁶This figure excludes mortgages for manufactured homes. We examined HMDA data for manufactured and multifamily properties separately. Data limitations prevented similar analysis of real estate-secured business loans, which have an appraisal exemption threshold of \$1 million. The volume of business loans that are \$1 million or less—commonly referred to as small business loans—is substantial. According to an analysis by the Federal Reserve Bank of Richmond, \$372 billion in small business loans secured by commercial real estate were made in 2009. However, some portion of those loans may not have met regulatory criteria for the appraisal exemption, which requires the primary source of repayment to be operating cash flow from the business rather than rental income or the sale of real estate.

⁶⁷The 2009 data were the most recent data for which we could complete our data processing and reliability steps within the time frame of our review.

⁶⁸For purposes of HMDA reporting, a multifamily property is a residential structure that houses five or more families. Even though apartment and condominium buildings can house five or more families, they comprise individual ownership-deeded units reported as one-to-four family dwellings. HMDA reporting uses HUD's definition of manufactured housing, which is housing that is factory-built and essentially ready for occupancy upon leaving the factory and being transported to a building site.

Figure 4: Percentage of First-Lien Mortgages for Single-Family Homes Above and Below \$250,000, 2006-2009 Originations



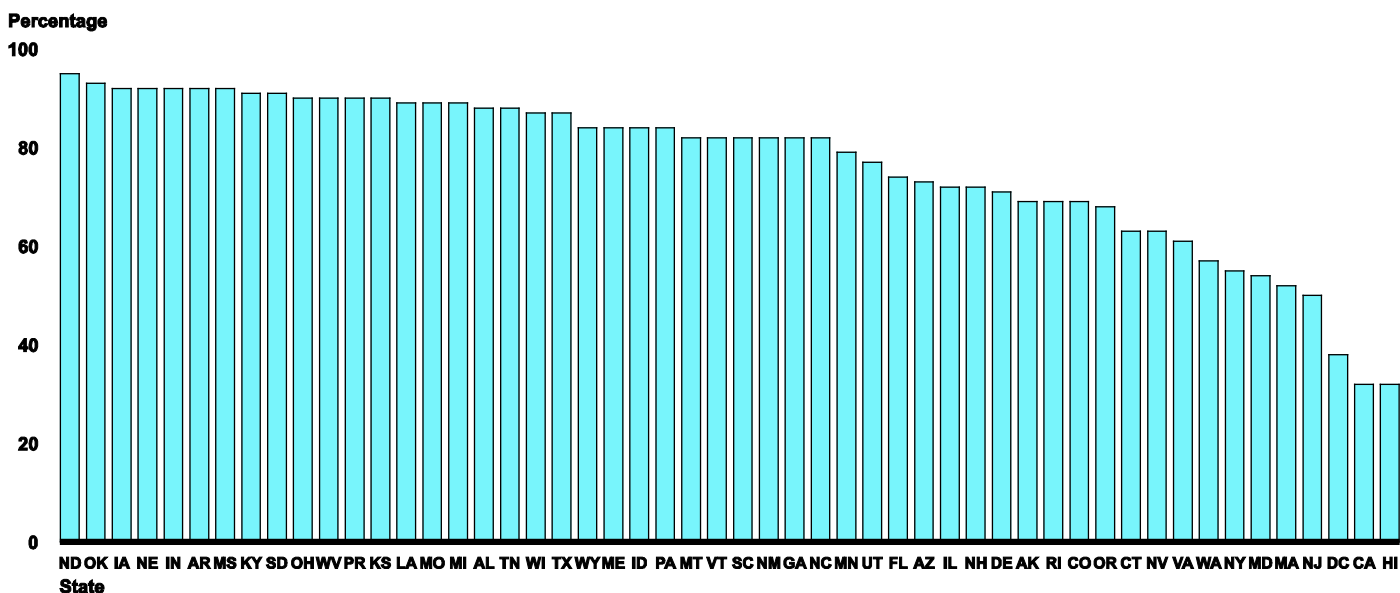
Source: GAO analysis of HMDA data.

Note: Figure excludes mortgages for manufactured homes.

The proportions of mortgages originated from 2006 through 2009 that were below the threshold varied considerably by state. The percentage of first-lien mortgages for single-family homes that were less than or equal to \$250,000 ranged from a low of 32 percent in California and Hawaii to a high of 95 percent in North Dakota. Two states, New Mexico and South Carolina, represented the median percentage of 82 percent (see fig. 5.) The only places in which more than half of the mortgage originations were greater than \$250,000 were California, the District of Columbia, and Hawaii. In states that experienced some of the steepest declines in house prices during the 4 years we examined, the proportion of annual mortgage originations that fell below the threshold increased substantially over the period. For example, the proportion rose 25 percentage points in Nevada, 17 percentage points in California, and 8 percentage points in both Arizona and Florida.⁶⁹

⁶⁹The proportion rose from 55.6 percent to 80.2 percent in Nevada, 25.1 percent to 42.4 percent in California, 72.4 percent to 80.2 percent in Florida, and 70.2 to 78.6 in Arizona. According to FHFA's purchase-only house price index, these four states had the greatest decline in average home prices from the first quarter of 2006 through the fourth quarter of 2009.

Figure 5: Percentage of First-Lien Mortgages for Single-Family Homes at or Below \$250,000 by State, 2006-2009 Originations Combined



Source: GAO analysis of HMDA data.

Note: Figure excludes mortgages for manufactured homes.

Despite the sizable proportion of residential mortgages at or below \$250,000, the threshold has had limited impact in recent years on the percentage of mortgages with an appraisal because mortgage lenders, investors, and insurers generally require them for mortgages, regardless of amount. Due to the sharp contraction of the private mortgage market that began in 2007, the large majority of mortgage originations are currently purchased or insured by the enterprises and HUD's Federal Housing Administration (FHA), which require appraisals on most mortgages.⁷⁰ In 2010, enterprise-backed mortgages accounted for more than 65 percent of the market and FHA-insured mortgages accounted for about 20 percent.⁷¹ As we reported in July 2011, data for the two

⁷⁰Regulations exempt loans that qualify for sale to the enterprises or are insured or guaranteed by a federal agency from Title XI appraisal requirements. OCC: 12 C.F.R. Part 34, subpart C; Federal Reserve: 12 C.F.R. Part 208, subpart E and 12 C.F.R. Part 225, subpart G; FDIC: 12 C.F.R. Part 323; NCUA: 12 C.F.R. Part 722.

⁷¹These market shares are expressed in terms of dollar volume and do not include home equity loans.

enterprises combined showed that they required appraisals for 85 percent of the mortgages they bought in 2010 and 94 percent of the mortgages they bought in 2009 that were underwritten using their automated underwriting systems.⁷² FHA requires appraisals for all of the home purchase mortgages and most of the refinance mortgages it insures. Furthermore, lender valuation policies may exceed investor or insurer requirements in some situations. For example, lender risk-management policies may require the lender to obtain an appraisal even when the enterprises do not, or the lender may obtain an appraisal to better ensure that the mortgage complies with requirements for sale to either of the enterprises.

The \$250,000 threshold could become more consequential if the roles of the enterprises and FHA are scaled back in the future. The administration and Congress are considering options that would diminish the federal role in mortgage finance and help transition to a more privatized market by winding down the enterprises and reducing the size of FHA.⁷³ If this were to occur, the proportion of mortgage originations not subject to the appraisal requirements of these entities could increase. If private investors and insurers were to impose less stringent appraisal requirements than the enterprises or FHA, more mortgages of \$250,000 or less may not receive an appraisal. However, whether the private market will require appraisals for mortgages below the threshold is unclear at this time.

⁷²[GAO-11-653](#). Available enterprise data for 2006 through 2008 showed that appraisals were required for almost 90 percent of mortgages, although the data covered a smaller proportion of the enterprises' total mortgage purchases than the data for 2009 through 2010. Because the enterprises' requirements are minimum requirements, lenders can and sometimes do exceed them. The enterprises do not require an appraisal when their underwriting analysis indicates that the default risk of a mortgage is sufficiently low to instead require validation of the sales price (or loan amount in the case of a refinance) by an AVM-generated estimate of value.

⁷³Department of the Treasury and Department of Housing and Urban Development, *Reforming America's Housing Finance Market: A Report to Congress* (February 2011).

Appraisal Industry Stakeholders Have Differing Views on Revising the Exemption Thresholds

The perspectives of appraisal industry stakeholders we spoke with—including appraisers, lenders, and federal and state regulators—did not provide a consensus view on whether or how the \$250,000 threshold or the \$1 million threshold that applies to real estate-secured business loans should be revised. Although no stakeholders advocated higher thresholds, a number recommended lowering or eliminating them, while others thought no changes were necessary. In addition, some stakeholders suggested alternatives to fixed, national dollar thresholds.

Appraiser industry groups, lending industry representatives, and some of the state regulators we contacted said that the appraisal exemption thresholds should be lower, in part to help manage the risk assumed by lending institutions. For example, 14 of the 50 state appraiser regulatory agencies that responded to our survey indicated that the \$250,000 threshold should be lowered to either \$50,000 or \$100,000. Several of the parties we spoke with pointed out that the median sales price of homes in the United States is below \$250,000, which exempts numerous mortgage transactions from regulatory appraisal requirements. An NCUA official noted that in large numbers, smaller home mortgages or business loans can pose the same risks to lending institutions as larger ones, so smaller loans should not necessarily be exempt from appraisal requirements. Additionally, appraisal industry stakeholders indicated that “evaluations” that may be performed as an alternative to an appraisal may include methods that are less credible and reliable, such as AVMs. These stakeholders acknowledged that while appraisal requirements are currently driven by the enterprises and FHA, the roles of these entities could change.

Additionally, while appraisals for residential mortgages are not intended to validate the purchase price of the property in question, some stakeholders believe that they serve a consumer protection function by providing objective information about the market value of a property that consumers can use in making buying decisions. One appraisal industry representative said this information can help homebuyers avoid immediately owing more on a property than the property is worth, a situation that can make resale or refinancing difficult or cost-prohibitive. The Dodd-Frank Act requires that any revisions to the \$250,000 threshold

take into account consumer protection considerations through the concurrence of CFPB.⁷⁴

Other appraisal industry stakeholders, including some state appraiser and bank regulatory officials, felt that the appraisal thresholds should remain where they are. For example, 17 of the 50 state appraiser regulatory agencies that responded to our survey indicated that the \$250,000 threshold should not be changed. A few of these stakeholders stated that lowering the threshold would potentially require more homebuyers to pay for appraisals, which are generally more expensive than other valuation methods. For example, according to mortgage industry participants, a typical appraisal can cost a consumer \$300 to \$450 on average, while a property valuation by an AVM can cost \$5 to \$25.⁷⁵ In addition, one appraisal industry participant said that lower thresholds could subject more real estate-related transactions for which an appraisal is not necessary to appraisal requirements. For example, he indicated that when the property in question is collateral for a loan that is much less than the probable value of the property, a cheaper and faster valuation method such as an AVM may be sufficient. An FDIC official said it was not clear that the exemption thresholds needed to be revised and noted that even for transactions below the thresholds, regulated financial institutions are expected to have a risk-based approach that determines when they will use an appraisal versus another method.

Some appraisal industry stakeholders said that changes in real estate market conditions and variation in housing markets argued for thresholds tied to median property values at the state or regional level. For example, some of the respondents to our state survey noted that a national \$250,000 threshold is largely irrelevant in some areas of the country. As previously shown in figure 5, in several states, over 90 percent of recent mortgages were \$250,000 or less. Some stakeholders felt that the thresholds should not be based solely on the loan amount and should include other factors that affect credit risk, such as the borrower's debt burden.

⁷⁴Pub. L. No. 111-203, § 1473(a) (codified at 12 U.S.C. § 3341(b)).

⁷⁵Appraisal costs can vary considerably depending on the location and size of the property, among other factors. See [GAO-11-653](#).

Conclusions

The critical role of real estate appraisals in mortgage underwriting underscores the importance of effective regulation of the appraisal industry. Title XI of FIRREA created a complex regulatory structure that relies upon the actions of many state, federal, and private entities to help ensure the quality of appraisals and the qualifications of appraisers used in federally related transactions. ASC performs an important function within that structure by, among other things, monitoring the requirements and activities of some of the key entities—state appraiser regulatory agencies, the federal financial institutions regulators, and the Appraisal Foundation. Although ASC is carrying out its monitoring function, it has not developed appropriate policies and procedures for some of its activities, potentially limiting its effectiveness. First, ASC could improve how it assesses and reports on states' overall compliance with Title XI. Specifically, developing and disclosing clear definitions of the compliance categories could help ensure consistent and transparent application of the categories and provide more useful information to Congress about states' implementation of Title XI. Second, ASC could better delineate its role in monitoring the appraisal requirements of the federal financial institutions regulators and thereby strengthen accountability for this function. Third, ASC could enhance its policies for determining which Appraisal Foundation activities are eligible for grants to help ensure consistent funding decisions and improve the transparency of the grant process. Addressing these areas would also improve ASC's compliance with federal internal control standards designed to promote the effectiveness and efficiency of agency operations.

Provisions in the Dodd-Frank Act will help ASC carry out its Title XI monitoring functions but will also create challenges that will require effective long-term planning. The limited rulemaking and enhanced enforcement authorities the act provides to ASC address prior weaknesses in its ability to promote states' compliance with Title XI. Implementing these authorities will involve significant follow-on steps, including drafting regulations and developing criteria and processes to remove problem appraisers from the national registry. Other tasks stemming from the Dodd-Frank Act, such as establishing an appraiser hotline and a state grant program, require resources and involve difficult decisions. ASC is facing these tasks at a time when its costs have been increasing, and its revenues from national registry fees have fallen because of a decline in the number of appraisers. To help address these challenges, ASC has for the first time undertaken a strategic planning process. Although this process was not far enough along for us to examine the details of ASC's plan, setting goals and identifying processes

and resources necessary to achieve them could help ASC align its new responsibilities with its mission and aid in resource allocation decisions.

Recommendations for Executive Action

To help ensure effective implementation of ASC's Title XI and Dodd-Frank Act responsibilities and improve compliance with federal internal control standards, we recommend that the Chairman of ASC direct the ASC board and staff to take the following three actions:

- clarify the definitions used to categorize states' overall compliance with Title XI and include them in ASC's compliance review and policy and procedures manuals, compliance review reports to states, and annual reports to Congress;
- develop specific policies and procedures for monitoring the appraisal requirements of the federal financial institutions regulators and include them in ASC's policy and procedures manual; and
- develop specific criteria for assessing whether the grant activities of the Appraisal Foundation are Title XI-related and include these criteria in ASC's policy and procedures manual.

Agency Comments and Our Evaluation

We provided a draft of this report to ASC, CFPB, FDIC, the Federal Reserve, FHFA, HUD, NCUA, and OCC for their review and comment. We received written comments from the Chairman, ASC; the Assistant Director for Mortgage Markets, CFPB; the Executive Director, NCUA; and the Acting Comptroller of the Currency, which are reprinted in appendixes V through VIII. We also received technical comments from FDIC, the Federal Reserve, and OCC, which we incorporated where appropriate. FHFA and HUD did not provide comments on the draft report.

In their written comments, ASC, NCUA, and OCC agreed with our recommendations. ASC noted that it had already taken preliminary actions to address our recommendations and would consider the report's findings as it continues to implement its new authority under the Dodd-Frank Act. OCC also acknowledged the challenges ASC faces in implementing its new responsibilities and authority under the act.

CFPB neither agreed nor disagreed with our recommendations but said that the report provided a comprehensive analysis of ASC's role and highlighted resource and operating constraints that may challenge ASC's ability to implement its new duties under the Dodd-Frank Act. CFPB also

noted that if federal regulators contemplate revising the \$250,000 appraisal exemption threshold, CFPB would evaluate whether the proposed change would provide reasonable protection for homebuyers. Additionally, CFPB indicated that it hoped to designate an ASC board member in the near future and that, in the meantime, CFPB serves on the ASC board in an advisory capacity.

We are sending copies of this report to the appropriate congressional committees, the Chairman of ASC, the Chairman of FFIEC, the Chairman of FDIC, the Chairman of the Federal Reserve, the Acting Director of FHFA, the Secretary of Housing and Urban Development, the Chairman of NCUA, the Acting Comptroller of the Currency, the Director of the Bureau of Consumer Financial Protection, and other interested parties. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IX.



William B. Shear
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires GAO to examine the Appraisal Subcommittee's (ASC) ability to carry out its functions, as well as related issues, including regulatory exemptions to appraisal requirements, state disciplinary actions against appraisers, and the extent to which a national appraisal repository would benefit ASC. Our objectives were to examine (1) how ASC is performing its functions under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) that existed prior to the passage of the Dodd-Frank Act, (2) ASC's plans and actions to implement provisions in the Dodd-Frank Act, and (3) analysis and stakeholder views on existing dollar-based exemptions to appraisal requirements for federally related transactions. For the first objective and for information that appears in appendix II, we also examined the number of state-licensed and -certified appraisers, as of December 31, 2010, and the number of disciplinary actions that states took against appraisers from 2001 through 2010. Finally, for information that appears in appendix III, we examined the views of appraisal industry stakeholders on the potential benefits and challenges of a national appraisal repository for ASC.

ASC's Title XI Functions Prior to the Dodd-Frank Act

To determine how ASC is performing its Title XI functions that existed prior to the passage of the Dodd-Frank Act, we reviewed Title XI of FIRREA and its legislative history. We reviewed ASC's policies and procedures, including its rules of operation, policy and procedures manual, policy statements, compliance review manual, bulletins, and notices. We consulted GAO's *Standards for Internal Control in the Federal Government and Internal Control Management and Evaluation Tool* to assess ASC's policies and procedures.¹

We reviewed a wide range of ASC reports and records relating to each of ASC's functions. With respect to ASC's monitoring of states, we reviewed reports on ASC's compliance reviews of states from 2007 through 2010, state response letters to compliance reviews, and summary statistics in ASC's annual reports to Congress on the results of compliance reviews. We analyzed this information to determine how often ASC reviewed states, the type and frequency of noncompliance problems ASC identified, and the number of states in each of three overall compliance categories ("in substantial compliance," "not in substantial compliance,"

¹[GAO/AIMD-00-21.3.1](#) and [GAO-01-1008G](#).

and “not in compliance”). We identified states that ASC reviewed at least twice from 2007 through 2010 to determine any changes in these states’ overall compliance levels over that period. Regarding ASC’s monitoring of the federal financial institutions regulators, we reviewed ASC board minutes from 2003 through 2010, ASC’s annual reports to Congress for those years, and a 2007 internal review of ASC’s operations, which addressed this monitoring responsibility. With respect to ASC’s monitoring of the Appraisal Foundation, we reviewed foundation grant proposals, statements of work, and reimbursement requests from 2003 through 2010; ASC decisions on grant proposals and reimbursement requests for that period; agreed-upon procedures reviews of the foundation from 2005 through 2010 by an independent auditing firm; and miscellaneous correspondence between ASC and the foundation. We also reviewed ASC’s annual reports to Congress and board meeting minutes from 2003 through 2010 to obtain information about the foundation’s activities and ASC’s monitoring process. Regarding the national registry, we analyzed selected information from ASC’s national registry database, including the number of active appraiser credentials by type and state as of December 31, 2010, and the number and types of disciplinary actions against appraisers that states took and reported from calendar years 2001 through 2010. To assess the reliability of the registry data, we (1) reviewed information related to data elements, system operations, and controls; (2) performed electronic testing for obvious errors in accuracy and completeness; and (3) interviewed ASC officials knowledgeable about the data. We concluded that the data elements we used were sufficiently reliable for our purposes.

In addition to our document review and data analysis, we interviewed current ASC staff, including the Executive Director, Deputy Executive Director, and General Counsel, as well as a former ASC General Counsel. We also interviewed ASC board members, which, at the time of our fieldwork, included officials from the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Federal Reserve), Federal Housing Finance Agency (FHFA), Department of Housing and Urban Development (HUD), National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS).² We also interviewed officials from the Federal Financial Institutions Examination Council

²The Dodd-Frank Act abolished the Office of Thrift Supervision in 2011.

(FFIEC); representatives of the Appraisal Foundation; state appraisal regulatory officials; and a range of other appraisal industry participants and stakeholders, including trade groups that represent appraisers and lenders, officials from the government-sponsored enterprises Fannie Mae and Freddie Mac (the enterprises), and officials from the Federal Bureau of Investigation (FBI).

Finally, to support this objective and our other reporting objectives, we conducted a Web-based survey of appraiser regulatory agencies from the 50 states, the District of Columbia, and the U.S. territories of Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands.³ During May 2011, we conducted four telephone pretests of the survey instrument with officials from different state regulatory agencies. The pretest results were incorporated into the survey questions as warranted. We fielded the survey to officials from the 55 state and territorial regulatory agencies on June 7, 2011. The survey had a closing deadline of July 8, 2011. Fifty of the 55 agencies completed the survey; the remaining five either did not start or did not finish the survey. Among other things, the survey collected information on how the state and territorial agencies carry out their Title XI responsibilities (including submitting data to the national registry and following up on complaints against appraisers); agency funding and staffing issues; and state views on ASC, appraisal-related provisions in the Dodd-Frank Act, and the \$250,000 appraisal exemption threshold. The results are contained in an e-supplement to this report that includes the questions asked and a summary of the answers provided. View the e-supplement at [GAO-12-198SP](#).

Implementation of Dodd-Frank Act Provisions

To describe ASC's plans and actions to implement Dodd-Frank Act provisions, we reviewed pertinent sections of the act and analyzed ASC records and other documents that described specific tasks stemming from the act and ASC's progress in addressing them. These records and documents included ASC board meeting minutes, ASC Dodd-Frank Act summaries and implementation timelines, and Federal Register notices. We also interviewed ASC board members and staff about progress and challenges in implementing these tasks. To gain perspective on ASC's resources for implementing the Dodd-Frank Act provisions, we reviewed

³In this appendix, we use the term "state" to refer to the 50 states, the District of Columbia, and the territories we surveyed.

information from ASC's annual reports and financial statements. More specifically, we examined the number and responsibilities of ASC's staff positions and ASC's revenues, expenses, and reserves from fiscal years 2001 through 2010. In addition, we estimated ASC's fee revenues in 2014 under two scenarios. The first assumed no change in the number of appraiser credentials after 2010, and the second assumed a 9.4 percent drop after 2010 (mirroring the decline that occurred from 2007 through 2010). To examine ASC's strategic planning efforts, we interviewed ASC board members and staff about their planning process and time frames. We also reviewed the GPRA Modernization Act (GPRAMA), which provides a framework for federal agency's strategic plans.⁴

Dollar-Based Appraisal Exemption Thresholds

To examine existing dollar-based appraisal exemption thresholds, we analyzed data from FFIEC's Home Mortgage Disclosure Act (HMDA) database and obtained stakeholder opinions about the thresholds. HMDA requires lending institutions to collect and publicly disclose information about housing loans and applications for such loans, including the loan type and amount, property type, and borrower characteristics. These data are the most comprehensive source of information on mortgage lending and are estimated to capture about 75 to 85 percent of conventional mortgages (those without government insurance or guarantees) and 90 to 95 percent of mortgages insured by HUD's Federal Housing Administration.⁵ Lenders with small total assets and lenders that do not have a home or branch office in a metropolitan statistical area do not have to report HMDA data. We analyzed HMDA data from 2006 through 2009 to determine the proportion of mortgages less than or equal to \$250,000—the regulatory threshold at or below which appraisals are not required for federally related transactions.⁶ We focused primarily on purchase and refinance mortgages for single-family (one-to-four unit) site-

⁴Pub. L. No. 111-352. ASC is not subject to GPRAMA requirements, but ASC officials indicated their strategic plan would include GPRAMA's general components

⁵According to enterprise and Federal Reserve officials, HMDA data do not capture all of the loans the enterprises purchase, including (1) many loans initially sold to intermediaries (e.g., bank affiliates) and subsequently to the enterprises and (2) loans originated and purchased in different years. In addition, the Federal Reserve has noted that turmoil in the housing and mortgage markets resulted in higher levels of nonreporting by lenders who ceased operations in 2007.

⁶The 2009 data were the most recent data for which we could complete our data processing and reliability steps within the time frame of our review.

built residences. At the national level and for each state, we calculated the proportion of these mortgages that were \$250,000 or less by year of origination and for all 4 years combined. In addition, for each state, we calculated the change in the proportion of mortgages at or below the \$250,000 threshold from 2006 through 2009. Using FHFA's purchase-only house price index, we also examined the extent to which states with large increases in the proportion of mortgages at or below the threshold also experienced large house price declines over the 4-year period. We analyzed mortgages for residential multifamily housing (five or more units) and manufactured housing separately and at the national level only. Specifically, we calculated the proportions of these mortgages that were at or below the \$250,000 threshold, combining data for 2006 through 2009. Due to a lack of readily available data, we were not able to perform a similar analysis for real estate-secured business loans, which have an appraisal exemption threshold of \$1 million or less. To assess the data reliability of the HMDA data we used, we reviewed documentation on the process used to collect and ensure the reliability and integrity of the data; reviewed Federal Reserve and HUD analysis of the data's market coverage; conducted reasonableness checks on data elements to identify any missing, erroneous, or outlying data; and spoke with officials from the Federal Reserve and the Bureau of Consumer Financial Protection (also known as the Consumer Financial Protection Bureau or CFPB) knowledgeable about the data. We concluded that the data we used were sufficiently reliable for our purposes.

To provide perspective on the impact of the \$250,000 threshold, we relied on information in a report we issued in July 2011, which included information on the proportion of residential mortgage originations from 2006 through 2010 that had appraisals. In that report, we indicated that the enterprises and the Federal Housing Administration (FHA) have commanded a large share of the mortgage market in recent years and that these entities require appraisals on the large majority of the mortgages they back, both above and below \$250,000.⁷

To obtain stakeholder views on the \$250,000 and \$1 million thresholds, we interviewed ASC board members and staff; officials from the federal financial institutions regulators, FHFA, HUD, and CFPB; and representatives from the Appraisal Foundation and state appraiser

⁷[GAO-11-653](#).

regulatory agencies. We also interviewed other appraisal industry participants, including trade groups that represent appraisers and lenders and officials from the enterprises. Additionally, we drew on the results of our state survey, which included questions about the \$250,000 threshold.

National Appraisal Repository

To obtain stakeholder views about whether new means of data collection, such as the establishment of a national appraisal repository, might assist ASC in carrying out its responsibilities, we interviewed ASC board members and staff; officials from federal financial institutions regulators, CFPB, FBI, FHFA, HUD, and the enterprises; representatives of the Appraisal Foundation; and state appraiser regulatory officials. We also interviewed representatives of trade groups that represent appraisers and lenders, as well as individual mortgage lenders, appraisers, and appraisal industry researchers.

We conducted this performance audit from November 2010 to January 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Data on the Number of Appraiser Credentials and State Enforcement Actions Against Appraisers

ASC's national registry of state-licensed and -certified appraisers contains information on four classes of appraiser credentials: certified general, certified residential, licensed, and transitionally licensed.¹ As of December 31, 2010, the database reported nearly 110,000 active appraiser credentials.² The number of appraiser credentials reported by state appraiser regulatory agencies ranged from 8 in the Northern Mariana Islands to 13,050 in California (see table 3.) Nationwide, certified general and certified residential appraiser credentials accounted for about 84 percent of the total appraiser credentials.

Table 3: Active Appraiser Credentials, by State and Type, as of December 31, 2010

Issuing state or U.S. territory	Type of appraiser credential				Total
	Certified general	Certified residential	Licensed	Transitionally licensed	
Alabama	532	696	94	^a	1,322
Alaska	108	126	^a	^a	234
Arizona	812	1,185	503	^a	2,500
Arkansas	370	396	67	^a	833
California	3,448	6,436	3,166	^a	13,050
Colorado	1,148	1,461	655	^a	3,264
Connecticut	552	926	^a	^a	1,478
Delaware	259	342	63	^a	664
District of Columbia	262	276	200	^a	738
Florida	2,124	4,597	31	^a	6,752
Georgia	1,771	1,668	704	^a	4,143
Guam	11	^a	9	^a	20

¹A certified general appraiser can perform any real property appraisal. A certified residential appraiser can perform appraisals for noncomplex, commercial real estate transactions valued at \$250,000 or less and appraisals in connection with residential real estate of any value, without regard to complexity. A licensed appraiser can perform appraisals when the services of a certified appraiser are not required by statute or regulation. In most states, licensed appraisers may appraise noncomplex, one- to four-family residential transactions up to \$1,000,000, and commercial real estate transactions up to \$250,000. A transitionally licensed appraiser has passed a test but has not met all of the education or experience requirements for a state license. The Dodd-Frank Act effectively eliminates transitional licenses because it requires all practicing appraisers to meet or exceed Appraiser Qualifications Board requirements for a state license.

²Appraisers can hold credentials in more than one state. Therefore, at the national level, the total number of appraiser credentials is greater than the total number of appraisers.

Issuing state or U.S. territory	Type of appraiser credential				Total
	Certified general	Certified residential	Licensed	Transitionally licensed	
Hawaii	192	340	31	^a	563
Idaho	292	339	122	^a	753
Illinois	1,333	2,983	^a	^a	4,316
Indiana	727	1,116	408	^a	2,251
Iowa	567	546	^a	^a	1,113
Kansas	472	467	187	^a	1,126
Kentucky	520	818	21	^a	1,359
Louisiana	450	803	^a	^a	1,253
Maine	262	203	236	^a	701
Northern Mariana Islands	6	^a	2	^a	8
Maryland	731	1,223	809	^a	2,763
Massachusetts	664	1,240	434	^a	2,338
Michigan	1,018	1,022	1,073	^a	3,113
Minnesota	811	1,093	231	^a	2,135
Mississippi	524	478	348	^a	1,350
Missouri	783	1,475	158	^a	2,416
Montana	210	163	51	^a	424
Nebraska	395	215	152	^a	762
Nevada	469	595	200	^a	1,264
New Hampshire	301	465	145	^a	911
New Jersey	1,146	1,290	683	^a	3,119
New Mexico	288	383	62	^a	733
New York	1,653	2,403	397	^a	4,453
North Carolina	1,085	2,066	152	^a	3,303
North Dakota	131	39	50	^a	220
Ohio	939	1,345	952	^a	3,236
Oklahoma	388	457	211	^a	1,056
Oregon	578	707	452	^a	1,737
Pennsylvania	1,328	2,084	^a	^a	3,412
Puerto Rico	216	169	8	^a	393
Rhode Island	172	279	91	^a	542
South Carolina	841	1,128	314	^a	2,283
South Dakota	169	67	74	^a	310
Tennessee	690	1,005	167	^a	1,862
Texas	2,382	2,495	648	22	5,547

Issuing state or U.S. territory	Type of appraiser credential				Total
	Certified general	Certified residential	Licensed	Transitionally licensed	
Utah	403	738	230	^a	1,371
Vermont	162	144	66	^a	372
Virgin Islands	15	9	3	^a	27
Virginia	1,057	1,756	1,025	^a	3,838
Washington	1,014	1,828	287	^a	3,129
West Virginia	192	235	173	^a	600
Wisconsin	623	1,057	451	^a	2,131
Wyoming	198	123	^a	^a	321
Total	37,794	55,500	16,596	22	109,912

Source: GAO analysis of ASC national registry data.

^aNot applicable because the state either does not offer that type of credential or had no cases to report.

As previously noted, the national registry contains information on disciplinary actions taken and reported by state regulators. Table 4 summarizes this information for calendar years 2001 through 2010.

Table 4: Number and Types of Appraiser Disciplinary Actions Reported by States, 2001-2010

State or U.S. territory	Revocation	Suspension	Probation	Fine	Official reprimand	Voluntary surrender	Downgrade	Additional education	Warning	Other	Total
Alabama	6	28	3	2	9	13	^a	^a	^a	^a	61
Alaska	1	1	5	6	^a	3	^a	4	3	^a	23
Arizona	26	21	45	^a	2	30	1	^a	^a	319	444
Arkansas	2	15	122	2	^a	5	^a	13	^a	74	233
California	55	18	34	200	1	70	^a	40	13	22	453
Colorado	29	49	24	168	1	63	2	165	2	11	514
Connecticut	4	5	^a	131	1	6	^a	29	^a	1	177
Delaware	1	12	4	3	10	^a	^a	9	^a	^a	39
District of Columbia	2	4	8	17	2	^a	^a	2	^a	^a	35
Florida	221	168	530	447	1	16	^a	96	1	^a	1,480
Georgia	230	103	^a	^a	^a	31	^a	^a	^a	97	461
Hawaii	^a	^a	^a	8	^a	^a	^a	2	^a	^a	10
Idaho	4	10	48	117	3	4	^a	86	^a	^a	272
Illinois	77	78	15	60	10	1	1	12	309	3	566
Indiana	139	101	169	21	48	14	^a	14	7	862	1,375

State or U.S. territory	Revocation	Suspension	Probation	Fine	Official reprimand	Voluntary surrender	Downgrade	Additional education	Warning	Other	Total
Iowa	10	5	44	28	17	28	^a	68	3	1	204
Kansas	18	10	91	37	^a	13	^a	111	8	^a	288
Kentucky	2	33	1	129	^a	17	^a	78	3	3	266
Louisiana	2	10	^a	22	^a	^a	^a	^a	14	^a	48
Maine	19	17	14	92	51	6	^a	52	11	3	265
Maryland	11	33	^a	65	10	2	^a	33	1	1	156
Massachusetts	12	6	58	64	149	26	^a	3	6	^a	324
Michigan	75	19	22	313	^a	3	^a	114	^a	^a	546
Minnesota	59	35	1	314	27	^a	^a	35	21	3	495
Mississippi	7	12	26	^a	2	4	^a	38	1	216	306
Missouri	69	120	170	^a	2	8	^a	^a	1	28	398
Montana	7	8	17	31	1	^a	^a	30	^a	2	96
Nebraska	1	6	6	2	^a	8	2	49	^a	14	88
Nevada	25	19	9	70	^a	32	3	124	3	^a	285
New Hampshire	2	7	^a	45	^a	^a	^a	30	^a	^a	84
New Jersey	16	45	29	136	66	2	^a	35	5	^a	334
New Mexico	8	6	2	24	11	1	^a	52	5	^a	109
New York	114	78	^a	98	^a	^a	^a	23	48	1	362
North Carolina	13	143	^a	3	38	38	1	148	6	^a	390
North Dakota	1	3	11	^a	^a	4	^a	8	^a	1	28
Ohio	24	138	^a	158	5	20	^a	237	72	^a	654
Oklahoma	166	120	6	62	3	15	3	30	2	9	416
Oregon	9	28	^a	275	19	13	^a	18	^a	18	380
Pennsylvania	5	36	27	205	11	16	^a	131	^a	^a	431
Puerto Rico	^a	2	^a	8	^a	^a	^a	1	^a	8	19
Rhode Island	3	3	^a	16	^a	1	^a	11	^a	2	36
South Carolina	10	13	60	97	65	13	^a	39	3	^a	300
South Dakota	3	13	^a	38	29	3	^a	35	2	2	125
Tennessee	11	26	14	126	8	10	4	85	39	26	349
Texas	70	33	65	182	13	28	^a	269	3	5	668
Utah	13	2	3	126	^a	24	5	61	^a	18	252
Vermont	2	4	1	4	^a	2	^a	7	12	3	35
Virginia	17	65	2	8	^a	5	^a	4	106	1	208
Washington	25	31	51	40	^a	^a	^a	10	8	^a	165
West Virginia	3	27	24	37	11	^a	^a	29	^a	2	133
Wisconsin	14	54	8	122	93	39	^a	182	12	8	532

State or U.S. territory	Revocation	Suspension	Probation	Fine	Official reprimand	Voluntary surrender	Downgrade	Additional education	Warning	Other	Total
Wyoming	1	^a	5	5	^a	2	^a	4	^a	3	20
Total	1,644	1,823	1,774	4,164	719	639	22	2,656	730	1,767	15,938

Source: GAO analysis of ASC national registry data.

Note: According to an ASC official, the “other” category includes limitations on an appraiser’s ability to appraise certain types of property or suspension from supervising other appraisers. In general, only ASC and state regulatory agencies have access to the details of disciplinary actions classified as other.

^aNot applicable because the state either does not take that type of action or had no cases to report.

Appendix III: Potential Benefits and Challenges of a National Appraisal Repository for ASC

The Dodd-Frank Act asked us to examine whether new means of data collection, such as the establishment of a national repository of appraisal information, would benefit ASC's ability to perform its functions. We spoke with a range of appraisal industry stakeholders, including appraisers, lenders, regulators, and ASC officials about what a national repository might contain, its potential benefits and challenges, and the extent to which it would help ASC carry out its responsibilities.

The Dodd-Frank Act does not specify the information that a national appraisal repository would contain if one were to be created. Appraisal industry stakeholders we spoke with identified a number of possibilities, ranging from a compilation of scanned appraisal reports to a searchable database of appraisal information such as the location and characteristics of the subject property, name of the appraiser and mortgage lender, appraised value, and properties used as "comparables."¹ Some stakeholders indicated that a repository could potentially be linked to other data such as geographic information (e.g., digital maps), mortgage and borrower characteristics (e.g., status of mortgage payments), and housing market and economic statistics (e.g., local sales activity and rental and vacancy rates). Stakeholders said that multiple listing services and other proprietary databases contain some of this information.²

While the potential uses of a repository would depend on who had access to it, appraisal industry stakeholders identified a variety of benefits that a repository could provide. Some indicated that a repository could help regulators detect problematic appraisals and appraisers. For example, knowing the entities associated with every appraisal (e.g., appraiser, appraisal management company, and lender) could help regulators identify patterns of questionable behavior by individuals or firms. Additionally, the ability to view appraisals of the same property over time and appraisals for nearby properties could help regulators identify outliers (i.e., unusually high or low values) that may merit further investigation. Appraisers also could benefit from a repository by having access to additional data with which to perform their valuations. For example, one

¹The most common appraisal approach is to find recent sales of comparable properties and make adjustments to the selling prices of those properties based on any differences between them and the subject property to estimate market value.

²A multiple listing service is a database set up by a group of real estate brokers to provide information about properties sold and for sale.

ASC board member said a repository that included the selling price of the comparables used in each appraisal would give appraisers access to sales information in states where such data are not publicly disclosed. In addition, industry stakeholders indicated that an appraisal repository could be integrated with mortgage portfolio information to help manage financial risk—for example, by assessing relationships between appraisal quality and loan performance. The government-sponsored enterprises Fannie Mae and Freddie Mac (the enterprises) have undertaken a joint effort, under the direction of FHFA that illustrates this concept. Known as the Uniform Mortgage Data Program (UMDP), this effort will collect consistent appraisal and loan data for all mortgages the enterprises purchase from lenders and will produce a proprietary dataset for use by the enterprises and FHFA.³ According to officials from the enterprises, UMDP will allow the enterprises to work with lenders to resolve any concerns regarding appraisal quality prior to purchasing mortgages.

While a repository could provide some benefits, appraisal industry stakeholders also identified a number of challenges related to data collection and analysis, access rights, and resources. For example, they indicated that reporting of appraisal data would need to be more standardized for the repository to be useful. They also said questions exist about the extent to which appraisal reports are proprietary and could be included in a database that would potentially be widely accessible. Some stakeholders said analyzing data in a repository would not be straightforward because potential differences in the scope of work for each appraisal (e.g., an interior and exterior inspection versus an exterior inspection only) would complicate comparison of appraisal results. Additionally, some stakeholders expressed concerns about who would have access to the repository and whether broad access would encroach upon the privacy of appraisers. Further, a number of stakeholders and ASC officials said that a national repository could be very costly to create and maintain. They indicated that ASC was not the appropriate agency to develop a repository because it lacks the necessary resources. Some stakeholders also said that development of a repository would partially duplicate the enterprises' efforts under UMDP.

³The enterprises are planning to fully implement UMDP by March 2012. FHFA officials told us that they had not made any decisions about whether to make the dataset available more widely. See [GAO-11-653](#) for a fuller discussion of UMDP.

Appraisal industry stakeholders and ASC officials questioned how much a national repository would help ASC carry out its monitoring responsibilities. They said that the high-level nature of ASC's monitoring responsibilities did not require detailed information on individual appraisals. For example, ASC officials said it was unclear how a repository would help them monitor states' appraiser regulatory programs, a process that involves examining state appraiser licensing and certification requirements and assessing their compliance with Title XI. Other industry stakeholders said they were not sure how ASC could use a repository because ASC is not charged with assessing appraisal quality or proactively identifying individual appraisers or institutions responsible for problem appraisals.⁴ Additionally, one appraisal industry participant noted that analyzing information from a repository could require expertise and resources that ASC may not currently have.

⁴However, as discussed in the body of this report, the Dodd-Frank Act authorizes ASC to temporarily remove individual appraisers from the national registry, pending disciplinary action by a state.

Appendix IV: Status of ASC Tasks Stemming from the Dodd-Frank Act

Subtitle F, Section 1473 of the Dodd-Frank Act, includes amendments to Title XI of FIRREA. These amendments expand ASC's responsibilities and authorities. We identified 27 tasks for ASC stemming from the Dodd-Frank Act provisions. A description and the status of each task as of October 2011 is presented in the table below.

Table 5: Summary Description and Status of ASC Tasks Stemming from the Dodd-Frank Act, as of October 2011

Subsection of Dodd-Frank Act	ASC task	Status as of October 2011
1473(b)	1. Submit an annual report to Congress by June 15 of each year describing in detail how it carries out its assigned functions and the results of its state compliance reviews.	Addressed
	2. In the annual report, include a description of the conditions causing any ASC disapprovals of state appraiser regulatory agencies (e.g., derecognition) and remedial actions taken by states.	To be addressed when ASC takes a disapproval action
1473(c)	3. Hold public sessions but may close certain portions of these meetings (e.g., those portions related to personnel or preliminary state compliance reports).	Addressed
	4. Describe matters discussed in closed sessions in <i>Federal Register</i> notices.	Addressed
1473(d)	5. Implement authority to prescribe regulations for four areas (temporary practice, national registry, information sharing, and enforcement) and establish an industry advisory committee for this purpose.	To be addressed if ASC exercises this discretionary authority
1473(f)	6. Monitor states' requirements for registration and supervision of appraisal management companies (AMC).	To be addressed when federal regulators establish requirements for state AMC registration
	7. Maintain a national registry of AMCs.	To be addressed when federal regulators establish requirements for state AMC registration
1473(g)	8. Require states to report on their supervision of AMCs or other third-party appraisal providers.	To be addressed when federal regulators establish requirements for state AMC registration
1473(h)	9. Collect increased annual registry fees from appraisers.	To be addressed when fee increase becomes effective in January 2012
	10. Implement authority to impose a minimum annual registry fee for AMCs.	To be addressed when states register AMCs
	11. Subject to the approval of FFIEC, adjust the registry fees up to a maximum of \$80 per annum, as necessary to carry out its functions.	Addressed
	12. Consider at least once every 5 years whether to adjust the dollar amount of the registry fees to account for inflation.	Addressed

Subsection of Dodd-Frank Act	ASC task	Status as of October 2011
	13. Provide flexibility, when implementing any registry fee change, to the states for multiyear certifications and licenses already in place, as well as a transition period to implement the changes in registry fees.	Addressed
	14. Place incremental revenues collected based on fee increases in a separate account at the United States Treasury.	Partially addressed. ASC is pursuing the establishment of an account for deposit of increased registration fees
1473(i)	15. Use amounts appropriated or collected to make grants to state appraiser certifying and licensing agencies and to inform states of surrendered, revoked, or suspended appraiser credentials.	To be addressed when new registration fees are collected
1473(j)	16. Notify states that appraiser licensing procedures and any state qualification requirements for trainee and supervisory appraisers must meet or exceed applicable Appraisal Qualifications Board criteria.	Addressed
	17. Implement authority to enforce qualification requirements for trainee and supervisory appraisers.	To be addressed as part of state compliance reviews
1473(k)	18. Assess sufficiency of state appraiser regulatory agency funding and staffing as part of its state monitoring function.	To be addressed as part of state compliance reviews.
	19. Implement authority to remove appraisers or a registered AMC from a national registry on an interim basis.	Not addressed
	20. Implement authority to impose sanctions against a state agency that fails to have an effective appraiser regulatory program.	To be addressed when ASC is considering a disapproval action
1473(l)	21. Notify states of requirement to establish a reciprocity policy and consequences for failing to do so.	Addressed
1473(n)	22. Monitor state appraiser independence requirements, policies, and procedures.	To be addressed as part of state compliance reviews
1473(o)	23. Encourage states to accept courses approved by the Appraiser Qualifications Board.	Addressed
1473(p)	24. Determine by 6 months after law's enactment whether a national hotline exists that meets the requirements of the Dodd-Frank Act.	Addressed
	25. Establish and operate such a national hotline with a toll-free telephone number and an e-mail address if one is determined not to exist.	Partially addressed. ASC has researched how other agencies operate hotlines and is exploring potential hotline options.
1473(s)	26. Include Bureau of Consumer Financial Protection and Federal Housing Finance Agency as members.	Addressed
	27. At all times, have at least one board member who is a credentialed appraiser.	Addressed

Sources: GAO analysis of the Dodd-Frank Act and ASC documents.

Appendix V: Comments from the Appraisal Subcommittee

□ □ □ □ □
Appraisal Subcommittee
Federal Financial Institutions Examination Council

December 14, 2011

Via Email

Mr. William B. Shear, Director of Financial Markets
and Community Investment
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548
shearw@gao.gov

Dear Mr. Shear:

Thank you for the opportunity to review the GAO draft report titled “Real Estate Appraisals – Appraisal Subcommittee Needs to Improve Monitoring Procedures” (GAO Report). The GAO Report provides an assessment of the Appraisal Subcommittee’s (ASC) performance of responsibilities under Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI). As noted in the GAO Report, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amended Title XI in ways that expand the ASC’s mission and authority.

Title XI created the national appraiser regulatory system to provide that the federal financial and public policy interests are protected through effective regulation and supervision of credentialed appraisers performing real estate appraisals for federally related transactions. The ASC recognizes its critical role of oversight, and will continue to improve its monitoring procedures.

The GAO Report recommends the ASC take the following three actions:

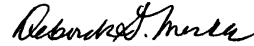
- clarify the definitions used to categorize state’s overall compliance with Title XI and include them in the ASC’s Compliance Review and Policy and Procedures Manuals, Compliance Review Reports to States, and Annual Reports to Congress;
- develop specific policies and procedures for monitoring the appraisal requirements of the federal financial institution regulators and include them in the ASC’s Policy and Procedures Manual; and
- develop specific criteria for assessing whether the grant activities of the Appraisal Foundation are Title XI-related and include these criteria in the ASC’s Policies and Procedures Manual.

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The ASC agrees with the above recommendations and has already taken preliminary actions to address them. As the ASC continues to implement our new authority under the Dodd-Frank Act, we also will consider the findings included in the GAO Report.

Sincerely,



Deborah S. Merkle
Chairman

cc: Ms. Alexandra Y. Martin-Arseneau, Senior Analyst
Ms. Yola C. Lewis, Senior Analyst
Ms. Jocelyn Yin, Analyst

Appendix VI: Comments from the Consumer Financial Protection Bureau



1500 Pennsylvania Ave., NW (Attw) 1001-1-54
Washington, DC 20020

December 15, 2011

William B. Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for the opportunity to comment on the GAO's draft report titled *Real Estate Appraisals: Appraisal Subcommittee Needs to Improve Monitoring Procedures*.

The report provides a comprehensive analysis of the role of the Appraisal Subcommittee (the ASC) in monitoring compliance with the appraisal oversight requirements in Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. ASC plays a vital role in supervising the integrity of the appraisal process so that lenders can reliably ascertain the value of the collateral securing residential mortgages. In the Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress expanded the ASC's Title XI responsibilities and instructed GAO to examine ASC's effectiveness.

GAO's report highlights resource and operating constraints that may challenge ASC's ability to implement fully its new duties under the Dodd-Frank Act. In addition, the report finds that less than 30 percent of residential mortgages originated from 2006 through 2009 were for principal amounts of over \$250,000, which triggers mandatory appraisals for loans by federally regulated lenders. While Fannie Mae, Freddie Mac, and the Federal Housing Administration currently require appraisals for most residential mortgages in any amount, it is uncertain whether a more privatized future housing finance market would continue to do so. GAO suggests that this uncertainty raises a question whether the threshold should be changed.

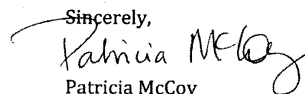
The activities of the Consumer Financial Protection Bureau (CFPB or Bureau) relate to the findings of the report in three respects. First, Section 1473 of the Dodd-Frank Act provides that any change to the \$250,000 threshold requires concurrence by the Bureau "that such threshold level provides reasonable protection for consumers who purchase 1-4 unit single-family residences." If federal regulators contemplate revising the \$250,000 threshold, the Bureau will evaluate whether the proposed change would provide reasonable protection for homebuyers.

consumerfinance.gov

Second, GAO's report notes that one of the ASC's board members shall be a CFPB representative. The Bureau has not yet designated a board member, but hopes to do so in the near future. Meanwhile, the Bureau currently serves on the ASC board in an advisory capacity.

Finally, as the report notes, in Title XIV of the Act, Congress strengthened the requirements for appraisals, appraisal management companies, and appraisers and authorized the CFPB, together with the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration Board, and the Federal Housing Finance Agency to jointly prescribe regulations to implement those requirements. All of these federal entities, including the CFPB, are currently participating in an interagency group working to develop uniform appraisal standards for adoption by all six. The CFPB looks forward to working together with the other agencies to strengthen the nation's system of residential real estate appraisals.

Sincerely,



Patricia McCoy
Assistant Director for Mortgage Markets
Consumer Financial Protection Bureau

consumerfinance.gov

Appendix VII: Comments from the National Credit Union Administration



Executive Director

National Credit Union Administration

December 12, 2011

Mr. William B. Shear, Director of Financial Markets
and Community Investment
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548
shearw@gao.gov

Dear Mr. Shear:

Thank you for the opportunity to review and comment on the Government Accountability Office's draft report titled, *Real Estate Appraisals – Appraisal Subcommittee Needs to Improve Monitoring Procedures* (GAO-12-147) (hereinafter, the "Report"). The Report focused on how the Appraisal Subcommittee (ASC) is carrying out its original responsibilities under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, ASC's actions and plans to implement provisions and new authorities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and regulatory thresholds for determining when an appraisal is required.

The Report appropriately describes the oversight structure of ASC and recommends ASC take the following actions:

- clarify the definitions used to categorize state's overall compliance with Title XI and include them in the ASC's Compliance Review and Policy and Procedures Manuals, Compliance Review Reports to States, and Annual Reports to Congress;
- develop specific policies and procedures for monitoring the appraisal requirements of the federal financial institution regulators and include them in the ASC's Policy and Procedures Manual; and
- develop specific criteria for assessing whether the grant activities of the Appraisal Foundation are Title XI-related and include these criteria in the ASC's Policies and Procedures Manual.

NCUA agrees with the GAO's conclusions and recommendations in the draft report. We believe the provisions in the Dodd-Frank Act rule making and enforcement authority will enhance the Appraisal Subcommittee's effectiveness in enforcing compliance with the Title XI requirements, as amended. NCUA looks forward to working with the ASC

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and its other Board Members to implement the GAO's recommendation. Thank you again for the opportunity to comment on this Report.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. M. Marquis', is written over the printed name.

David M. Marquis, Executive Director
National Credit Union Administration

Appendix VIII: Comments from the Office of the Comptroller of the Currency



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

December 15, 2011

Mr. William B. Shear
Director, Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Shear:

The Office of the Comptroller of the Currency (OCC), one of the federal regulatory agencies represented on the Appraisal Subcommittee (ASC), has reviewed your draft report titled "Real Estate Appraisals: Appraisal Subcommittee Needs to Improve Monitoring Procedures." Your report responds to the mandate in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) for a study of the ASC's ability to carry out its functions and to examine regulatory exemptions to appraisal requirements.

You found that: (1) several weaknesses potentially limited the ASC's effectiveness and noted, as an example, that Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI) did not originally provide the ASC with rulemaking and enforcement authority that could be useful in promoting state compliance; (2) the ASC faces potential challenges with implementation of its new authority under the Act; and (3) the majority of residential mortgages made from 2006 to 2009 were exempt from the appraisal requirements for federally related transactions.

To help ensure effective implementation of the ASC's responsibilities under Title XI, you recommend that the ASC clarify and report the criteria it uses to assess states' overall compliance with Title XI and develop specific procedures for its other monitoring responsibilities.

We agree with your recommendations. Consistent with your second finding above, the OCC acknowledges the challenges for the ASC with implementing its new responsibilities and authority under the Act. The OCC, through representation on the ASC, is committed to ensuring that the ASC is positioned to effectively carry out its statutory mandates.

We appreciate the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "John Walsh".

John Walsh
Acting Comptroller of the Currency

Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the individual named above, Steve Westley, Assistant Director; Alexandra Martin-Arseneau; Yola Lewis; John McGrail; Marc Molino; Carl Ramirez, Kelly Rubin; Jerome Sandau; Jennifer Schwartz; Andrew Stavisky; and Jocelyn Yin made key contributions to this report.

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