



Broker Price Opinion – BPO Brief

Broker Price Opinion Defined:

Broker Price Opinion - BPO, is a method that a real estate agent or broker uses to estimate the probable selling price of a house. The estimate of price is submitted in a BPO report (2-3 pages) that includes an inspection of the subject house, subject neighborhood inspection and analysis, local and regional market information and trends, and comparable properties (comps) that are similar to the subject house. This method of estimating a selling price has similarities in methodology and report appearance to a residential appraisal and to a Comparative Market Analysis CMA.

BPOs offer a relatively fast turnaround time 1 - 4 days compared to an appraisal 1 – 2 weeks. BPOs are more cost effective typically \$30 - \$100 compared to an appraisal typically \$250 - \$450.

According to valuation industry internal studies, BPOs are generally close to appraisals in accuracy.

Relevance of BPOs:

The mortgage industry – banks, lenders, mortgage servicers – have utilized BPOs for years nationwide. BPOs are used for a variety of reasons (see attached Common BPO Usages) and according to industry estimates, over 12 million BPOs are performed annually across the country. BPOs provide critical information for decisions and have been widely adopted as a valuation tool in the mortgage industry due to the fast turnaround time, cost effectiveness, and accuracy of BPOs.

The FDIC and the Federal Reserve Board recently recognized the use of BPOs to determine the disposition of distressed properties. The Department of Treasury also recently recognized BPOs as a viable valuation method in the Home Affordable Modification Program which could affect 9 million homeowners nationwide.

Economic impact of BPOs:

Accurate information received in a timely manner is paramount to keep the credit markets associated with real estate as well as the real estate market moving and liquid. Restricting BPO usage slows the information flow and adds costs to each transaction. Aggregated to a statewide level, turnaround times and added costs are significant.

Allowing the restriction of BPO performance removes a significant supply of valuation vendors, agents and brokers, leaving only appraisers to satisfy the demand. Removing a large supply of valuation vendors will increase turnaround time, increase costs, and valuation quality will drop. An

economic precept indicates that when demand (the number of valuations needed) exceeds supply (the number of appraisers), then turnaround time increases (not enough suppliers to cover demand), costs increase (suppliers can charge more and get it), and quality diminishes (suppliers don't have to compete to get work as there is plenty of work to be had).

Removing BPO restrictions will ensure a good balance of valuation supply (appraisers, brokers, and agents) to meet the valuation demand. A balance of supply and demand ensures quality, timeliness, and cost effectiveness.

Federal Statute dealing with appraisals:

The Federal Institutions Reform Recovery and Enforcement Act – FIRREA, deals with appraisal regulation. Among other provisions, FIRREA dictates that when a mortgage is originally being collateralized on a property, an appraisal is required if the value of the loan is over \$250,000.

However, FIRREA does not restrict a lender from utilizing BPOs as a supplement to an appraisal and/or for other valuation purposes.

Opposition to BPOs:

Appraisal Organizations: Most appraisal organizations are adamantly opposed to the performance of BPOs. The apparent underlying motivation is that BPOs represent competition to appraisers' perceived market share. These organizations cite that agents and brokers do not have the qualifications and/or the education to perform valuations and that the BPO industry does not have standards.

Lack of awareness: BPOs are not very well known other than in the mortgage and real estate valuation industry. In some cases, even agent and broker organizations such as the Association of REALTORS are either not aware of or only have a cursory knowledge of BPOs. Even in instances where there is knowledge of BPOs, typically only industry insiders are aware of the relevance and impacts of BPOs. So when appraisal organizations lobby to restrict BPOs, there is relatively little resistance because in most people's minds, appraisals are the only valuation alternative and most people (including lawmakers) are simply not aware of the impact of allowing appraisals as the only valuation method.

BPO Professionalism, Quality, and Education:

A unique feature and the distinct advantage of a BPO is the fact that real estate agents and brokers deal directly with real estate buyers and sellers. Buyers (or lack of) have the greatest influence on any market and there isn't a group that is closer to real estate buyers than agents and/or brokers. To understand the buyer's mindset is to

understand the needs of the market and therefore the price that the buyers are willing to pay. A BPO combines the science of valuation techniques and procedures with the art of knowing and experiencing buyers and the market. The entire real estate industry, to include appraisers, rely heavily on the ability of agents and brokers to establish the list price of houses.

Arguing that brokers and agents do not have the knowledge or skill to perform price opinions can only be characterized as esoteric arguments of semantics due to the fact that agents and brokers are essentially the market makers of real estate. Couple this with the fact that BPOs have an established track record of reliability and accuracy with BPO companies, banks, lenders, and mortgage institutions, it is apparent that BPOs are an effective and reliable pricing/valuation product.

Professional Trade Associations and Organizations:

NABPOP: The National Association of BPO Professionals - NABPOP is a non-profit professional trade association comprised specifically of BPO practitioners. NABPOP derives and maintains a set of BPO standards and guidelines that are utilized throughout the industry. NABPOP tests for and grants a certification based on BPO practitioners' knowledge and application of the standards as well as their pricing knowledge and skills. Organizations that hire NABPOP BPO certified practitioners can rest assured that the BPO certified practitioners have the requisite knowledge and skills required to perform accurate and timely BPOs. Furthermore, members of NABPOP benefit from the professional advancement of robust BPO education and training, a stringent BPO certification process, BPO job resources, a Code of Ethics, and networking that is offered through the association. These features benefit and raise the bar for the entire industry. NABPOP is dedicated to advancing the professionalism and competency of BPO practitioners therefore elevating the BPO industry and, in part, the real estate valuation industry.

NABPOP facilitates and maintains the BPO Standards Board (BSB). The BSB derives and maintains BPO Standards and Guidelines (BPOSG). The BSB is comprised of subject matter experts throughout the BPO and valuation industry. The companies, that are involved with the BSB, are competitors that have come together for the betterment of the overall industry. The selfless dedication of the volunteers that participate in the BSB, is an indication of the high caliber nature of the BPO industry. The BSB derives, reviews, updates, and maintains BPO standards.

REVAA: The Real Estate Valuation Advocacy Association (REVAA) exists and operates as a strategic alliance of real estate valuation organizations for the advancement and advocacy of a diversified array of valuation products within the real estate valuation industry.

REVAA is a nonprofit trade association that is dedicated to the maintenance and further development of high quality standards within the real estate valuation industry and the advocacy of related causes. REVAA promotes high ethical standards, political awareness, and the growth of the real estate valuation industry. REVAA is comprised of companies that produce and sell, or benefit from, real estate valuation products including Appraisals, Broker Price Opinions (BPOs), Automated Valuation Models (AVMs) and other innovative approaches that benefit mortgage investors, servicers, originators and borrowers.

Most member companies of REVAA offer both BPOs and appraisal products. This situation offers a unique opportunity to compare BPO accuracy to appraisal accuracy. Based on member companies' data, REVAA has conducted internal comparison studies of BPOs versus appraisals and has determined that BPOs are generally very close in accuracy as appraisals.

In short, REVAA companies do not have a bias towards BPOs or appraisals as they offer both products. REVAA advocates the use of BPOs as well as Appraisals and AVMs.

More information:

More information about BPOs and/or the BPO industry can be found at www.nabpop.org/Advocacy-Home.php. You can also contact NABPOP at 800-767-0743 xt. 300 or Advocacy@nabpop.com with any questions.