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Appraiser groups warn FDIC against BPOs

The groups wrote in a recent letter, "We are greatly concerned that the FDIC is proposing to allow loan servicers to use Broker Price Opinions prepared by real estate agents and brokers to demonstrate the current loan-to-value ratio on 'underwater' loans." Read on to learn more about their arguments. (11/20/2008)

The Appraisal Institute, American Society of Appraisers, American Society of Farm Managers and Rural Appraisers and National Association of Independent Fee Appraisers have sent a letter to the Federal Deposit Insurance Corp. in response to the FDIC's "Loss Sharing Proposal to Promote Affordable Loan Modifications" letter released Nov. 14.

That proposal calls for a systematic review of all loans that may qualify for participation in the program. The FDIC proposes to share up to 50 percent of losses incurred if a modified loan defaults, while establishing a reduced loss share percentage for "underwater" loans.

The appraiser groups wrote, "We are greatly concerned that the FDIC is proposing to allow loan servicers to use Broker Price Opinions (BPOs) prepared by real estate agents and brokers to demonstrate the current loan-to-value (LTV) ratio on 'underwater' loans. We believe that the LTV ratio should only be determined using valuations that are prepared by professional real estate appraisers. We urge the FDIC to revise this provision immediately to require the performance of appraisals for each property that is being considered for inclusion in the Loss Sharing Program."

They listed a number of points for the FDIC to consider:

- In as many as 24 states, it is illegal for a real estate broker or salesperson to perform a BPO for the purposes proposed by the FDIC. In these states, the performance of a BPO for anything other than establishing the sales or purchase price of property is strictly prohibited.
- Federal bank regulations require appraisals. The Loss Sharing Proposal is inconsistent with the FDIC's own regulations that set forth real estate appraisal requirements pursuant to Title XI of FIRREA 4, according to the groups. Specifically, those regulations state that an appraisal performed by a state certified or licensed appraiser is required for all real estate-related financial transactions.
- BPOs are largely unregulated and are performed with little oversight or training.
- BPOs answer a different question -- price -- than real estate appraisals, which provide opinions of value.
- Permitting reliance on BPOs would be a step toward loosening valuation requirements, which sends the wrong message in this time of economic crisis, the groups wrote.
- Use of other available products, such as automated valuation models and comparative market analyses, would present or similar shortcomings.

For the full text of the letter and the groups' arguments, see http://www.appraisalinstitute.org/newsadvocacy/downloads/ltrs_tstmny/2008/AI-ASA-NAIFA-ASFMRA_FDICLoanMods-11-19-Final.pdf.