Response of the Nation's Professional Appraisal Organizations to The Treasury Department's "Making Home Affordable" Program

Inadequate Home Valuation Requirements Leave Taxpayers Exposed To Unnecessary Losses and Homeowners Vulnerable To Improper Exclusion From Treasury's Loan Modification Plan

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WASHINGTON, D.C. – The nation's leading professional appraisal organizations (the American Society of Appraisers; the Appraisal Institute; the American Society of Farm Managers and Rural Appraisers and the National Association of Independent Fee Appraisers), representing 35,000 real property appraisers in the U.S., released the following statement in response to today's release of the underwriting details of the Administration's "Making Home Affordable" program:

Today, the Treasury Department provided the underwriting details of how millions of troubled mortgage loans are to be refinanced or modified under the "Making Home Affordable" program. Our organizations applaud the fact that the plan will allow millions of families to remain in their homes. However, we are deeply troubled that the Treasury Department's $75 billion government guaranteed modification program fails to protect taxpayers from avoidable losses when reworked loans default in the future, as some of them inevitably will; and fails to protect homeowners from mistakenly being declared ineligible for modification because they are told, erroneously, that the current market values of their homes do not meet plan underwriting criteria. Further, the plan retreats from prudent and long-standing banking regulations that encourage the use of appraisals in loan modifications and refinancings.

Reliable appraisals of the current values of homes are central to the success of the plan: for refinanced loans owned or guaranteed by Fannie Mae and Freddie Mac, homeowners will be declared ineligible for help if their mortgage loan exceeds 105% of the current value of their property. For homeowners seeking loan modification, they will be turned away if the net present value of cash flows expected from modification is less than the cash flows expected from allowing the mortgage to default. The current value of the collateral property is an essential component of establishing net present value. As a matter of good public policy, these critical home valuation decisions should only be made by valuation professionals.

Today, there are 120,000 professional appraisers in the U.S. who are highly trained, tested and supervised by appraiser regulatory agencies in the 50 states and U.S. territories. For reasons we find inexplicable, Treasury's plan ignores this invaluable "safety and soundness" human resource and, instead, relies on computer generated values and the opinions of real estate agents who are not subject to nationally accepted appraisal qualifications and standards to safeguard taxpayers and determine whether homeowners are or are not eligible to decrease their mortgage burden.

Professional real estate appraisers deliver a diverse menu of valuation services with many designed specifically to address distressed properties and others that can be used for most noncomplex transactions. Examples of the types of products that appraisers can deliver for loan modification or distressed asset purchases include:

- Appraisal updates and reviews, or updates to existing appraisals
- Drive-by appraisals, or appraisals of the exterior of the property
- Desktop appraisals, or appraisals performed from the appraiser's desktop without any exterior or interior inspection

Today's technology and current methodology allow real estate appraisers to deliver necessary services quickly and securely. Given the advances in technology, these services are very cost effective and affordable with delivery from the thousands of designated, certified, and licensed appraisers in every community in the country.

Treasury should do everything in its power to encourage the use of products prepared by regulated professionals in accordance with industry standards that have the force of law, particularly where there have been material changes in market conditions, as we see in many parts of the country today.

While we recognize that proper underwriting to determine the ability of a prospective borrower to repay a loan is the most critical element in any loan, the current economic crisis has shown the corollary importance of having current, competent measures of current market value of the underlying security, the real property, in the event of economic downturns that could affect a borrower's ability to repay a loan as well as the probability that the real property value will decline.

However, instead of relying for accurate valuations on the nation's 120,000 professional appraisers, the Administration's plan relies on computer-generated Automated Valuation Models (AVMs) and the estimates of real estate agents who are not subject to government mandated and nationally accepted appraisal training and ethical requirements. While we believe the valuation requirements established by Fannie Mae and Freddie Mac (in connection with their new mortgage refinancing program) are far superior to Treasury's loan modification plan, we also believe that the opinions of professional appraisers provide consumers and taxpayers with the most reliable determinations, by far, of residential home values.

We do not believe that homeowner eligibility for the mortgage relief programs and the protection of taxpayers should be dependent on the market value determinations of "black box" computer programs or any real estate agent who lacks appraisal training required by the federal government and 50 states. Broker price opinions are not overseen by any governmental regulatory authority, and they do not adhere to a uniform set of nationally accepted and tested valuation standards. Further, broker price opinions are provided by individuals who may have an interest in whether a mortgage is refinanced or defaults and the collateral property resold. While we acknowledge that AVMs and BPOs are cheap, they should not be regarded as acceptable alternatives to the conclusions of professional appraisers, who are tested and trained in valuation theory and practice and who are regulated by state appraiser licensing boards. The omission of professional appraisers from the foreclosure prevention plan (most glaringly from Treasury's loan modification program) is a serious mistake we hope the President or Congress will rectify.

For questions, contact Peter Barash, the government relations representative of the American Society of Appraisers, at 202-466-2221 or by e-mail at peter@barashassociates.com; or Bill Garber, Director of Government and External Relations for the Appraisal Institute, at 202-298-5586 or by e-mail at bgarber@appraisalinstitute.com.

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