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# Appraisal Subcommittee

*Federal Financial Institutions Examination Council*

Testimony on the Current State of the Appraisal Industry Oversight and Regulation  
by

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Chairman, Appraisal Subcommittee  
Before the  
Housing and Transportation Subcommittee

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## **Executive Summary**

In general, the Appraisal Subcommittee (“ASC”) oversees the real estate appraisal process as it relates to federally related transactions – any real estate related financial transaction entered into on or after August 9, 1990, that a Federal banking agency or any regulated depository institution engages in or contracts for, and requires the services of an appraiser. The ASC membership includes representatives from each of the five members of the Federal Financial Institutions Examination Council, and from the Department of Housing and Urban Development.

Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“Title XI”) created a unique and complex oversight structure for real estate appraisals that involves private, State, and Federal entities. Two private entities establish uniform rules for real estate appraisals and set minimum criteria for certifying appraisers. State regulatory agencies certify appraisers based on these criteria. The Federal financial regulatory agencies (“Agencies”) oversee financial institutions’ use of appraisals.

Title XI sets out the ASC’s general responsibilities, which include: monitoring compliance with Title XI by the States; monitoring the requirements established by the Agencies regarding appraisal standards for federally related transactions and determinations of which federally related transactions will require the services of State licensed or State certified appraisers; maintaining a national registry of State licensed and certified appraisers who may perform appraisals in connection with federally related transactions; and monitoring and reviewing the practices, procedures, activities, and organizational structure of the Appraisal Foundation.

Generally, States do a good overall job of enforcing compliance with Title XI, given the resource limitations facing most States. Although some States have areas that need improvement, we have found most States generally compliant with Title XI. Most States address our concerns in a timely manner. Currently, the most problematic area involves complaint investigation and resolution. Because this area requires specialized personnel and expertise, it is one of the more complex and costly functions for the State appraiser regulatory agencies. Consequently, some States are not as timely in their complaint investigation and resolution efforts as they should be.

The most significant challenges facing the appraiser industry include: removing barriers to easy interstate appraisal activities (*i.e.*, temporary practice and reciprocity issues); inconsistent requirements from State to State regarding education acceptance and other matters; the failure to include mortgage brokers in the Federal and State regulatory system; the appropriate use of automated valuation methodologies; and rapidly increasing residential values in some markets.

Some contend that the need for Federal law and Federal oversight of the appraiser regulatory system no longer exists. Given the difficulties we have experienced in achieving some level of consistency among States to better facilitate interstate lending and appraising activities, we believe that a lack of Federal law and oversight would allow the system to become increasingly fragmented to the overall detriment of the appraisal industry.

Considering the complexity inherent in the appraiser regulatory structure and the weaknesses discussed above, the system functions reasonably well.

Sincerely,

Steven D. Fritts  
Chairman