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BLISS

1/17/2019
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Dear members of the Department of the Treasury, the OCC, the Federal Reserve System, and the FDIC:

I write you today due to your request for comments regarding a proposed rule to increase the threshold level at or below which appraisals would not be required for residential real estate-related transactions from $250,000 to $400,000.

I graduated from Iowa State University in December of 2002. I have been a full time residential real estate appraiser with Bliss Associates in Kansas City, MO since June of 2003. Bliss Associates is one of the most well respected appraisal companies in the Midwest, having been founded in 1933 by George Bliss. In 2012 I became a designated member of the Appraisal Institute by obtaining an SRA designation, and I am told that only approximately 1% of residential appraisers in the United States have this designation. I tell you all of this so that you may take my advice as a credible source of information regarding residential appraisals, especially since I have been appraising from both before the 2008 market crash, and after it.

First, I understand the idea of cutting government regulations and letting the free market take over. The problem with this theory in the lending industry is that some control needs to be exercised over certain unscrupulous lenders who just want to loan money out, regardless of the value of the collateral. If they were loaning their own money, I imagine they would probably want a good quality appraisal done by a credible appraiser. However, in cases where they are loaning money that is not their own, they may prefer to just make a loan. It is for that reason that we rely on you to make sure that these lenders are loaning money in a responsible manor; since we have seen time and time again that a crash in the housing market has devastating consequences for the citizens of this country.

I understand the idea that the threshold has not been raised from $250,000 in a very long time, and I understand that with inflation you can easily justify with math increasing it to $400,000. But to me that is not the question. The true question is whether $250,000 was too high to begin with. After all, it did not stop the crash from taking place in the 2008 time period. In regards to still requiring an evaluation for these transactions, I think this is better than nothing. However, the problem with evaluations is that many times it seems that no one is viewing the inside of the house, which could result in someone not getting credit for improvements that the owners have made to the property such as an updated kitchen or bathrooms, and it could also result in the inability of the person performing the evaluation to see things that could be wrong with the inside of the property such as a bowed-in foundation or water leaking into the basement. So if a standard interior appraisal is $400 and an evaluation is $150, the traditional thought is that the borrower is saving $250. However, what are they getting for that savings when the interior of the house is not viewed? Many times, I have seen with an exterior or desktop appraisal or evaluation that the borrower is not happy with the value that the exterior or desktop appraisal came in at, and the owner requests that an interior appraisal be performed so that the appraiser can see the improvements that they have made to the house with their own eyes. In those cases they end up paying for both an evaluation or drive-by appraisal, and an interior appraisal, and at the end of the day they end up paying more than if a standard interior appraisal had been ordered to begin with.

I have tried to answer the questions that were asked in the Federal Register below:

Question 1. The agencies invite comment on the cost data for evaluations and appraisals detailed above. Should the agencies consider other data and data sources in assessing the costs of appraisals and evaluations to regulated institutions and consumers?

I would like to address this cost question. I have seen in the comments in the Federal Register posting that the costs of appraisals typically range from $375 to $900. While it is true that appraisers charge higher fees for more complex property types (properties on acreage, large houses, lake houses, etc.), most appraisers that I have seen typically seem to charge on the very low end of this range for a typical URAR/1004 appraisal. The biggest reason for an increase in cost that I have seen is the increase in the number of lenders that have started using AMCs (Appraisal Management Companies). The lender will pay the AMC to find an appraiser, and the lender will pay the AMC say $525 for an appraisal. The AMC will pay an appraiser say $400 to do an appraisal and keep the remaining $125. There are some good AMCs out there, and there are some really bad AMCs out there. The really bad AMCs don't care about getting a good quality appraisal and just want the quickest and cheapest appraisal. So in those cases, they may get $525 from the lender for the appraisal and find an appraiser who will perform the appraisal for $275 so that they can get $250 for their cut. Good appraisers typically do not perform quick and cheap appraisals, so therefore appraisers who cut corners are funneled more work. Bad AMCs are a huge problem for the residential appraisal industry in my opinion. They are supposed to be paying "reasonable and customary" fees; however, I have heard that there are a lot of AMCs out there who are not. I believe strongly that a rule should be implemented that the lender disclose to the borrower how much of the appraisal fee is actually going towards the appraisal itself (the appraiser's fee), and how much is being paid to the AMC for ordering the appraisal. I have talked to neighbors who have done refinances, and they are not even aware that an AMC is involved in the process, and were confused to know that part of their appraisal fee was going towards an ordering function that could have been performed by the lender.

In my opinion, it is much better when a lender has a designated person at the lending institution who orders the appraisals directly from reputable appraisers. Some would say that having the lender order the appraisal directly may cause some lenders to try and pressure appraisers to hit a certain value. However, after the regulations that were imposed after the 2008 crash including the Dodd-Frank regulations, I have not seen lenders put "estimated values" on their order forms or try to pressure appraisers to hit a certain value, even when the appraisal is ordered directly from the lender. So I think that these regulations have had a great success in removing this pressure from the appraiser.

The other main contributor to fee increases in my opinion is scope of work increases by lenders. Some lenders will just give us an address and request that we perform an appraisal. Of course, they want it done on the standard 1004/URAR form meeting USPAP requirements. But there are many lenders who increasingly ask for many additional items to be included in the report which are many times not necessary to perform a credible assignment, such as active listing comparables to be included or pending sales to be included. I think that these additional scope of work requests should be made on a case-by-case basis, and not placed as a boiler-plate requirement for every appraisal that is ordered. Eliminating unnecessary scope of work requirements could help to reduce appraisal costs while still having an appraiser view the inside of the property and perform a standard appraisal.

Question 2. The agencies invite comment on the time associated with performing and reviewing appraisals versus evaluations. Should the agencies consider other data and data sources in assessing the time associated with performing and reviewing appraisals and evaluations?

In response to the question of timing, I don't believe that this proposed rule would have a great impact on reduced timing. Most residential appraisals that my company performs are completed in 1-2 weeks, and this is considered to be somewhat slow because we focus on quality. Most AMCs require a turn time of less than a week to complete the appraisal from the time it is ordered. As far as the reduced time to review the appraisal versus the evaluation goes, this may be true; however, if you are talking about it taking an hour to review an appraisal versus 15 minutes to review an evaluation, does this really make a difference in the grand scheme of things? I certainly can't see why that would greatly delay a loan closing. I think timing should be given the least amount of weight in your decision to increase the threshold. I would recommend that you perform a study to determine the average turn time for appraisals from the time the lender orders the appraisal until the time the appraisal is returned to the lender, and I would be very surprised if it was more than 2 weeks on average.

Question 3. What valuation information, if any, would consumers lose in practice if more evaluations are performed rather than appraisals? What additional comments, if any, are there relative to the presentation or content of evaluations for residential real estate transactions in practice? Please provide data or other evidence to support any comments.

I believe that consumers would lose valuable information if more evaluations were performed instead of appraisals. When we perform a standard interior appraisal, we measure the house and the basement finish. Many times the owner will ask me how big the house is. I explain that the appraisal will include a sketch of the house, and the appraisal will show both the above-grade gross living area, and the basement finish square footage. When performing an evaluation, it seems likely that no interior inspection and no measurement of the house would be performed. This is valuable to the consumer so that when they go to sell the house, they know how big it is, and if the county assessor has an inaccurate square footage, they can appeal the amount they have to pay each year in property taxes. I have had some situations where the county shows the square footage as being much larger than the house actually is, and the owners have been able to save money by correcting the mistake. The on-site viewing also allows the owner to ask questions about how the appraisal process is performed, and lends public confidence to the process. When a regular interior appraisal is performed, the appraiser also has an opportunity to view the floor plan and the layout of the house. Things like having to walk through the kitchen to access one of the bedrooms may be missed if an evaluation is performed.

Question 4. To what extent do appraisals or evaluations provide benefits or protections for consumers that are purchasing 1-to-4 unit single family residences? What are the nature and magnitude of the differences, if any, in consumer protection, including any differences in credibility, arising from the use of evaluations rather than appraisals, especially with respect to residential real estate transactions of $400,000 or less? For example, are there any differences with respect to negotiating the price of a home or canceling a transaction when an evaluation rather than an appraisal is obtained? Please provide data or other evidence to support any comments.

I don't know why anyone would ever use an evaluation for a purchase transaction. If the appraisal came in lower than the contract price, I would think that those involved in the transaction would not lightly accept the fact that the person who performed the evaluation didn't even look at the inside of the house. Although not perfect, a full interior and exterior appraisal would at least assure all parties involved in the transaction that the appraiser made their best effort to take everything into consideration that should be considered, and I would think that it would give the buyer a better argument for re-negotiating a lower sales price if the appraisal came in below the contract price.

Question 5. To what extent is useful property valuation information readily available to consumers through public sources?

Appraisers are required by USPAP to have access to the types of data sources that are necessary to produce credible assignment results in the area in which they are appraising. It scares me to think that someone at a lending institution may be trying to perform an evaluation without access to the local MLS database to search for the best available comparable sales that have sold in the area recently. Some appraisers go above and beyond and subscribe to additional data sources outside of the local MLS database. For example, my company subscribes to the KC Data Service database, which provides square footage and property characteristic information with hundreds of thousands of property data records available for the Kansas City area.

Question 6. How often do institutions use their own internal staff to prepare evaluations? What challenges, if any, to meeting requirements and standards for independence, particularly in smaller institutions, do internally-prepared evaluations present? Similarly, what challenges, if any, to meeting requirements and standards for independence are presented by evaluations prepared by third parties?

I don't know the answer to this question, but I have heard that some lenders use internal staff to prepare evaluations. Many appraisal companies are willing and able to perform restricted appraisal reports, which are similar to evaluations, and could alleviate the concern of having the evaluation performed by someone who works for the lender.

Question 7. Are there any other consumer protection concerns raised by the proposal that the agencies should consider?

Please don't be responsible for the next big residential real estate crash by increasing this threshold. I worry what could happen to our country if we have a repeat of what happened in 2008. And think of all of the people who are buying houses and taking out loans of less than $400,000. It is middle class America who could be impacted the most. Please recognize that although there are some bad appraisers out there, just like there are in any industry, the best course of action to prevent another big crash in my opinion is responsible lending practices. I recommend lowering the threshold requirement for an appraisal to around $100,000 or maybe even less. It is important to remember that a lot of the foreclosures that seem to have taken place in the 2008 time period were for properties with loans of less than $250,000. I think that the improvements that you made after the last big crash in 2008 have partially worked. I think you should encourage lenders to not use AMCs, but rather chose an unbiased person at the lending institution to order appraisals directly from reputable and credible appraisers. I recommend keeping the rule in place that allows lenders to provide us with additional information, but that does not allow them to try to pressure us into hitting a certain value. I truly believe that you will not regret lowering the threshold or leaving it the same, but I fear that you may come to regret increasing the threshold to $400,000. I wish you the best of luck in your responsibility to ensure that the country maintains fair and responsible lending practices.

Thank you for your time and please feel free to contact me with any questions that you may have.

Sincerely,

Matthew J. B

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