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February 4, 2019

The Honorable Joseph M. Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
U.S Department of Treasury
400 7th Street, SW
Washington, DC 20219

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20249

RE: Real Estate Appraisals, Docket ID OCC 2018-0038

Dear Comptroller Otting, Chairman Powell, and Chairman McWilliams

On behalf of the more than 1.3 million members of the National Association of REALTORS® (NAR), I thank you for the opportunity to comment on the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (collectively, the Agencies) proposal to increase the current appraisal threshold for federally related residential real estate transactions from $250,000 to $400,000. NAR agrees that the current appraisal threshold should be evaluated but disagrees with the proposed broad increase to the appraisal threshold without consideration for specific real estate markets.

The current residential real estate appraisal threshold level was set in 1994, over 20 years ago from the date of this comment. Without question, the real estate market has undergone significant changes since that period. For decades, Americans witnessed continuously rising real estate values across the country. Unfortunately, these gains in housing values were cut down following the dramatic collapse of the housing market as a result of the 2007 - 2008 financial crisis. As with most large-scale market failures, the U.S. government enacted new rules and regulations to rebuild the housing market and prevent future catastrophic loss. The appraisal industry was dramatically changed by new rules for appraiser independence and increased requirements to become an appraiser. Many argue these changes resulted in today's increase in appraisal costs as well as a shortage of appraisers in some areas. In the Agencies proposed rule, much of the reasoning for the need to increase the current appraisal threshold goes to reducing transactional costs and delays associated with the appraisal, with special concern for rural areas.

NAR is sympathetic to extreme delays and unreasonable costs in any real estate transaction, regardless of the source. Much anecdotal discussion has suggested that appraisals add considerable cost to a transaction. However, as noted by the Agencies in the proposed rulemaking, there is limited information on appraisal costs. The Agencies rely on the Department of Veteran's Affairs (VA) appraisal fee schedule as a proxy for cost, but this is a strange choice as VA appraisers must be admitted to the VA Fee Panel in their area and follow the specific requirements necessary to complete a VA appraisal. It is widely known in the appraisal industry that VA appraisers are paid higher than what is normal in their geographic area as developing the expertise in VA appraisals goes beyond the typical requirements for becoming a qualified appraiser. NAR's December 2018 Appraisal Experience Survey[1] demonstrates that VA appraisal costs are not the norm for most transactions. The median typical cost of an appraisal is $450, with 89 percent of REALTORS® stating the typical cost of an appraisal in their area is below $600. NAR believes these numbers better reflect the likely cost of appraisals for transactions under the Agencies regulations and should be used in assessing burden related to the cost of an appraisal.

In determining cost burdens, it is useful to look at total cost of the transactions. According to NAR's 2018 Profile of Home Buyers and Sellers[2], the median price for a home purchased was $250,000. Looking at the different regions of the county, the West has the highest median home purchase price at $362,400 while the Midwest has the most affordable homes at a median purchase price of $189,400.[3] Both of these median values are below the proposed appraisal threshold value of $400,000. Assuming the median home price of $250,000 would have a median appraisal cost of $450, the appraisal would be 0.18 percent of the total transaction cost – hardly approaching a "burdensome cost."

The Agencies note that increased cost burden is often the result of delays due to the lack of appraisal availability. NAR's own research shows that the typical wait time for an appraisal in 2018 was seven days, with 63 percent of REALTORS® reporting wait times to be seven days or less. The question is whether that wait time is burdensome. When asked about ease of obtaining an appraisal, 67 percent of REALTORS® felt it was "easy" or "very easy" to get an appraisal and only one percent noted it being "difficult" or "very difficult." Given the vast majority of REALTORS® feel getting an appraisal in their area is not a problem, it is hard to imagine that the wait time for an appraisal is resulting in a large number of cost-inducing delays. Based on the average appraisal costs and REALTOR® sentiment regarding appraisal wait time, NAR does not believe that appraisals are creating a cost burden on a national level, but that the problem is likely restricted to specific markets.

Different areas of the country will see more issues with appraisals than others. Rural areas are often the source of concern with appraisal wait times and a lack of appraisers. Congress recognized these concerns and directed the Agencies to allow for evaluations in transactions where the loan value is $400,000 or less and the institutions were unable to obtain an appraisal in a reasonable time at a reasonable cost. Why the Agencies have determined rural areas need a more lax standard than the one determined by Congress is not clear. The Agencies use Home Mortgage Disclosure Act (HMDA) to assess the expected number and dollar volume to loans in rural areas, but HMDA does not require originators in rural areas to report. According to NAR's 2018 Profile of Home Buyers and Sellers, 13 percent of homes purchased were in a rural area. REALTORS® in those rural areas and small towns expressed more difficulty in obtaining an appraisal than their suburban and urban counterparts.[4] Rural REALTORS® have anecdotally shared situations where a lack of appraisers is making it difficult for closing to occur. Yet in NAR's recent Appraisal Experience Survey, rural REALTORS® who reported having a transaction fall through due to an appraisal noted it was usually the result of the appraised price or the need for repairs. While it is frustrating when an appraisal comes in lower than contract price or a house does not meet minimum property requirements, it is in these exact situations that the appraisal is acting as a safeguard for the lending institution and for the homebuyer. It does not make sense to remove the requirement for an appraisal if the main reason a transaction falls through is that the appraisal fulfilled its purpose of alerting the lender to possible issues with the collateral for the loan. The solution proposed by Congress would likely provide rural areas truly dealing with a lack of appraisers the relief from appraisal requirements they need.

The Agencies state that raising the appraisal threshold would remove 16 percent of regulated transactions from following appraisal requirements. However, the Agencies do not share which markets would be affected by that increase. NAR's analysis of median sales in metropolitan statistical areas does provides answers to that question. According to the research, metro areas with a median sales price between $400,000 and $250,000 would include Miami-Fort Lauderdale-West Palm Beach, FL; Las Vegas-Henderson-Paradise, NV; Raleigh, NC; Austin-Round Rock, TX; and Nashville, TN[5]. One can pick from a myriad of publications and news stories to recognize in this list several of the most talked about housing markets in recent years.

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[1] Available to the Agencies by request
[2] Available at nar.realtor and by request
[3] NAR determines region per the U.S. Census designated regions: Northeast, Midwest, South, and West
[4] NAR Appraisal Experience Survey December 2018
[5] See Attached Exhibit A

Nashville, Austin, and Raleigh are often cited as fast growing areas with housing markets that are consistently becoming more and more expensive. Las Vegas and Miami both acted as examples of the severe losses associated with the housing market crash. These metro areas should be wary of allowing lesser types of property valuations such as evaluations given the dynamic nature of their markets. These types of markets benefit from the sound and rigorous valuations provided by appraisals, which ensure against over-inflation of housing costs and the problems that brings. Increasing the appraisal threshold across the nation to $400,000 simply does not make sense.

The most important thing NAR's research shows is that housing prices vary tremendously across the country. Providing regulatory relief to markets that truly need it can be accomplished without allowing other markets an opportunity to take advantage of a harmful lack of credible real estate valuations. NAR firmly believes that any appraisal threshold should reflect the specific market. NAR proposes that the Agencies create a policy in which the appraisal threshold level is set at 50 percent of the Government Sponsored Entities (GSE) conforming loan limits for each county. In areas of the country with higher loan limits, such as California, lending institutions would be able to use the higher threshold value. The GSE conforming loan limits are an established standard throughout the real estate industry. Even the Federal Housing Administration (FHA) uses the GSE conforming loan limits to determine the floor and ceiling for FHA loans, which are backed by American taxpayers. The Agencies would be secure in setting the appraisal threshold levels to the conforming loan limits as the limits can rise and fall relative to the health of the real estate market.

All REALTORS® will tell you that real estate is local. While some rules and regulations must operate on a national scale, the value at which a transaction may use an evaluation instead of an appraisal is not one of them. Today it is feasible and easy for lending institutions to assess appraisal need by market, if not by transaction. NAR urges the Agencies to re-think the idea of a national appraisal threshold level and develop an appraisal threshold policy that allows for different threshold levels based on an area's real estate market.

Sincerely,

John Smaby
2019 President, National Association of REALTORS®