

Resolution No. 4

Date: 2/9/2012

City: Orlando, FL

NAHB Resolution

Title: Improving the Accuracy of New Construction Appraisals
Sponsor: Housing Finance Committee
Submitted by: Marty Mitchell

WHEREAS, the ongoing turmoil affecting the housing and credit markets has brought greater focus to the importance of fair and accurate appraisals;

WHEREAS, reports of homes failing to appraise at the sales price, or even construction cost have become prevalent;

WHEREAS, inaccurate new construction appraisals adversely affects the entire housing market to the detriment of existing homeowners;

WHEREAS, there are several factors that have contributed to restrictive appraisals which remain a major impediment to the housing recovery:

- In response to criticism that lax appraisals contributed to the financial crisis, tighter appraisal policies have been implemented by lenders, the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the United States Department of Agriculture, Rural Development, Fannie Mae, Freddie Mac and banking regulators;
- Shortcomings in appraiser competency and qualifications, particularly around new construction and green building significantly contribute to inaccurate or faulty appraisals;
- Insufficient new construction, energy efficient and green building data available to appraisers has an adverse effect on the quality of appraisals;
- The appraisal profession is lacking guidance on recognized valuation methods and techniques to apply in distressed markets;
- Current valuation practices do not provide a process for expedited appeals of inaccurate or faulty appraisals; and

WHEREAS, finding solutions to these appraisal problems is a major priority to NAHB,

NOW, THEREFORE, BE IT RESOLVED that National Association of Home Builders (NAHB) urge the following actions to raise awareness and address the problems of appraisals, which are essential to achieving a sound housing finance system and a sustained recovery in the housing industry and America's economy.

Strengthen Education, Training and Experience Requirements for Appraisers of New Home Construction, including:

- The development of improved education requirements and qualifications for those who are assigned appraisals of new construction that ensure minimum educational and experience criteria for appraisers of new construction to ensure that lot values and building costs, including those for energy efficient, green building and other evolving new construction techniques and mortgage products, are fully considered in valuation of new home construction.
- The incorporation of the qualifications for appraisers of new construction into appraisal regulations as required by the bank regulatory agencies, Fannie Mae, Freddie Mac, the Department of Housing and Urban Development, the Department of Veterans Affairs Loan Guaranty Service Home Loan Program and the United States Department of Agriculture, Rural Development.
- The prompt implementation of federal legislation directing the federal financial regulators to establish minimum state requirements for the regulation and licensing of appraisal management companies.

Improve the Quantity and Quality of Data for New Construction through:

- Establishment of an appraisal data base system for new construction.
- Standardization of loan level valuation data by Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), the Department of Veterans Administration (VA) and the United States Department of Agriculture, Rural Development in their Uniform Appraisal Dataset (UAD).
- Expansion of the UAD to include new construction, energy efficient and green building data standards.

Develop New Appraisal Standards and Best Practices for Conducting Appraisals in Distressed Markets by:

- Modifying current appraisal practices and procedures to consider all three approaches to value: cost, income and sales comparison in appraisals of residential properties.
- Giving greater weight in distressed markets to alternative means of valuation, such as the cost-based approach to value.
- Revising banking agency guidelines to require the appraisal entities used by financial institutions avoid the use of distressed sales as comparables for new construction sales, and if distressed sales are the only comparables available appropriate adjustments must be made to accurately reflect possible condition and stigma issues associated with the distressed property.

Develop Process for Expedited Appeals of Inaccurate or Faulty Appraisals through:

- Federal agency adoption of an appeals structure similar in design to that of the Department of Veterans Affairs Loan Guaranty Service Home Loan Program.
- The establishment of more efficient, timely and effective processes for State and local appraisal oversight.
- The establishment of a timely value dispute resolution process that is fair, balanced and appropriate to allow borrowers (mortgage and builder) to appeal appraisal values if bank appraisal assumptions are incorrect.

Strengthen Oversight of Appraisal Activities through:

- Full implementation of appraisal mandates in recent federal legislation:
 - Appraisal independence
 - Customary and reasonable fees
 - Mandatory reporting of USPAP violations
 - Strengthening of state appraisal oversight and enforcement of regulations.
 - Dispute resolution
 - Valuations other than appraisals
- Establishment of best practices for effective and consistent appraisal practices, policies and procedures.
- Creation of an effective state and federal regulatory system for appraisal oversight.

If approved, this resolution will replace two active policies: 2011.9 No. 6 Utilizing Cost Approach in Appraisals and 2010.9 No. 15 Strengthening New Construction Appraisals for the Future; and will supersede Section 4: Appraisals of 2009.1 No. 1 Evolving Housing Credit Conditions and Federal Housing Support.

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| Board of Directors Action: | Approved |
| Executive Board Action: | Recommends Approval |
| Resolutions Committee Action: | Recommends Approval |
| Single Family Small Volume Builders Committee Action: | Recommends Approval |
| Single Family Production Builders Committee Action: | Recommends Approval |
| Custom Home Builders Committee Action: | Recommends Approval |
| Federal Government Affairs Committee Action: | Recommends Approval |
| Housing Finance Committee Action: | Recommends Approval |
| Single Family Finance Subcommittee of the Housing Finance Committee Action: | Recommends Approval |