



## **Memorandum**

**TO:** Board of Trustees  
Appraisal Practices Board  
Appraiser Qualifications Board  
Appraisal Standards Board  
Sponsoring Organizations

**FROM:** David Bunton, President

**RE:** Valuation Studies Contained in the Dodd-Frank Reform Act

**DATE:** September 29, 2010

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### *Summary*

HR 4173, signed into law by President Obama in July of this year, contains many valuation provisions that you have been made aware of previously. It also contains a section which calls for the Government Accountability Office (GAO) to perform two valuation-related studies. As an aside, the GAO was formerly the "General Accounting Office" and it essentially performs the audit function for Congress. The GAO interviewed representatives of the Foundation in its previous valuation study and I anticipate we will be interviewed again.

### ***GAO STUDY #1 (HR 4173-826)***

#### *Scope of Study*

The Government Accountability Office (GAO) will conduct a study on—

(1) the effectiveness and impact of—

(A) appraisal methods, including the cost approach, the comparative sales approach, the income approach, and others that may be available;

(B) appraisal valuation models, including licensed and certified appraisals, broker-price opinions, and automated valuation models; and

(C) appraisal distribution channels, including appraisal management companies, independent appraisal operations within mortgage originators, and fee-for-service appraisers; and

(2) the Home Valuation Code of Conduct;

### *Timetable*

The study will be submitted to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives not later than 12 months after the date of enactment of the Act (not later than July 2011).

Within 6 months after the date of enactment of the Act (not later than October 2010) the GAO shall provide a report on the status of the study and any preliminary findings to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

### *Content of Study*

The study required by this section shall include an examination of the following:

(1) Regarding appraisal approaches, valuation models, and distribution channels:

(A) The prevalence, alone or in combination, of certain appraisal approaches, models, and channels in purchase money and refinance mortgage transactions.

(B) The accuracy of these approaches, models, and channels in assessing the property as collateral.

(C) Whether and how these approaches, models, and channels contributed to price speculation during the previous cycle.

(D) The costs to consumers of these approaches, models, and channels.

(E) The disclosure of fees to consumers in the appraisal process.

(F) To what extent the usage of these approaches, models, and channels may be influenced by a conflict of interest between the mortgage lender and the appraiser and the mechanism by which the lender selects and compensates the appraiser.

(G) The suitability of these approaches, models, and channels in rural versus urban areas.

(2) Regarding the Home Valuation Code of Conduct (HVCC):

- (A) How the HVCC affects mortgage lenders' selection of appraisers.
- (B) How the HVCC affects State regulation of appraisers and appraisal distribution channels.
- (C) How the HVCC affects the quality and cost of appraisals and the length of time to obtain an appraisal.
- (D) How the HVCC affects mortgage brokers, small businesses, and consumers.

Because other sections of the Dodd-Frank Reform Act (1) sunset the HVCC and (2) incorporate many of its provisions, it is unclear how this portion of the study will be performed.

***GAO STUDY #2 (HR 4173-827)***

Not later than 18 months after the date of enactment of this Act (not later than January 2012), the Government Accountability Office shall submit a study to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

The study shall include—

(A) an examination of—

- (i) the Appraisal Subcommittee's ability to monitor and enforce State and Federal certification requirements and standards, including by providing a summary with a statistical breakdown of enforcement actions taken during the last 10 years;
- (ii) whether existing Federal financial institutions regulatory agency exemptions on appraisals for federally related transactions needs to be revised; and
- (iii) whether new means of data collection, such as the establishment of a national repository, would benefit the Appraisal Subcommittee's ability to perform its functions; and

(B) recommendations from this examination for administrative and legislative action at the Federal and State level.