



**NATIONAL  
ASSOCIATION OF  
REALTORS®**

January 20, 2023

The Honorable Denis McDonough  
Secretary  
U.S. Department of Veterans Affairs  
810 Vermont Avenue NW  
Washington, DC 20571

Dear Secretary McDonough,

The National Association of REALTORS® (NAR) thanks you for your efforts to support homeownership among veterans and active-duty service members. Accurate home valuations are a critical step in the housing finance process. As you consider the Congress' directive under public law no: 117-308 (formerly H.R. 7735 or the *Improving Access to the VA Home Loan Benefit Act of 2022*) to review the valuation processes of the Veterans Administration's (VA) guarantee program and implement modernization, NAR urges the VA to balance modernization and fast appraisal turn times with responsible protections for the guarantee program and future Veterans and to seek public comment for best practices.

#### **Modernization Takes Time and Research**

Valuations are the gateway to mortgage finance and the opportunity to attain the American Dream. They should be timely, accurate, cost efficient and conducted free from bias and discrimination. Valuations that are not credible or not independent harm communities and result in unintended consequences

These concerns must be addressed but require a thoughtful and deliberate approach. Using a professional appraiser for the entire valuation process remains the best practice, however, technological advances and market demands have led to the use of hybrid and bifurcated appraisals in certain circumstances.

For the past several years, appraisals have been a major focus area of regulators, legislators, industry stakeholders, and the media. There are concerns with appraiser availability and market knowledge in rural areas and small towns. There are also complaints of long appraisal wait times holding up deals in high-growth markets, which may have eased with higher mortgage rates and the market slowdown. Appraisers cite burdensome training requirements and a lack of supervisors for trainees as headwinds to diversifying the appraisal workforce, while the increasing use of automated valuation methods has raised concerns of safety and soundness. The recent media focus on allegations of appraiser discrimination has highlighted harmful incidences of discriminatory bias by individual appraisers and the greater inequalities in how majority non-White neighborhoods are valued as compared to majority White neighborhoods. Thoughtful appraisal modernization should balance these concerns.

NAR considers a bifurcated appraisal to be one that uses a state-credentialed appraiser to view the property and provide the data to another state-credentialed appraiser to complete the assignment. NAR considers a hybrid appraisal to be one that uses a third-party to collect data for the subject property. The third-party is not a state-credentialed appraiser. This data is provided to a state-credentialed appraiser to complete the development, analysis, and reporting of the assignment. NAR recommends that when an entity allows use of a hybrid approach, of paramount importance is the selection of a third-party property data collector. Selection should be based on criteria and due diligence that will assure proper training,

liability coverage, and access to necessary data. The third-party data collector must be able to provide unbiased information, and there should be enforcement to ensure proper performance. The appraiser should be able to communicate with the property data collector as necessary. The appraiser must be allowed to provide supplemental information in the report to address aspects of the assignment necessary to comply with the Uniform Standards of Appraisal Practice (USPAP). All data provided to the appraiser, including the report, must be available for retention in the appraiser's work file.

The USPAP do not require an in-person inspection, from the street photo and assessment of comparable sales. Instead of deciding there must be a completely different way to assess value in particular market segments, VA could simply align its requirements with USPAP and reduce the burden on the appraiser. With today's technology, including the many data programs available to appraisers such as the REALTORS® Property Resource® and even simple MLS data, the appraiser can find recent photos of comparable properties to properly use in determining an opinion of value. A thorough and deep assessment of current VA requirements for appraisals will likely find many more opportunities to improve appraiser capacity and reduce wait times for rural and high-volume markets.

Finally, the Fannie Mae and Freddie Mac (collectively the "Enterprises") recognize the risk in appraisal waivers and have indicated that certain borrowers and properties should not qualify for use of an appraisal waiver.<sup>1</sup> According to NAR research, in 2019, the median down-payment was 12 percent for all buyers, seven percent for first-time buyers, and 16 percent for repeat buyers.<sup>2</sup> As one of the requirements to obtaining an appraisal waiver is to have less than 80 percent loan-to-value, the majority of home purchase transactions would not qualify for VA financing. Likewise, the typical recently purchased home was built in 1993, roughly 30 years ago. As homes age, they are more prone to developing property characteristics that could reduce value. NAR urges continued limits on the use of waivers and that the VA explore and adopt the best practices from the Enterprises but tailored to the VA's unique guarantee program

### **Modernization and Risk to the Guarantee Program**

REALTORS® appreciate the VA's efforts to protect its guarantee program and support deliberate and appropriate valuation modernization steps that incorporate best practices developed by the private sector as well as the Enterprises over a reasonable timeline.

A rush to adopt new, untested practices could have catastrophic impacts for the guarantee program just as the Federal Housing Administration's (FHA) endeavor into seller-funded down payment assistance (SFDPA) did to its mortgage insurance fund. Under the SFDPA program, sellers would finance down payments, but some unscrupulous sellers simply adjusted the selling price upward by the same amount resulting in an effective down payment of zero. Mortgages with SFDPA made up roughly 4 percent of the FHA's portfolio in 2012, but 13 percent of its losses or roughly \$15 billion. In 2012, the FHA estimated that its fund, which fell sharply after the subprime crisis and below its congressional mandate, would have remained positive had it not been for the SFDPA loans.<sup>3</sup> The FHA repeatedly proposed eliminating SFDPA as a source of funding, but withdrew due to opposition until Congress adopted its recommendation in 2008.<sup>4</sup>

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<sup>1</sup> Fannie Mae Appraisal Waivers Frequently Asked Questions June 2020.

<sup>2</sup> National Association of REALTORS® 2020 Profile of Home Buyers and Sellers

<sup>3</sup> <https://www.hud.gov/sites/documents/111912FHAACREVPOLRESP.PDF>

<sup>4</sup> <https://crsreports.congress.gov/product/pdf/R/R43531/6>

NAR is an active member of the Enterprises' on-going form redesigns and a partner on its modernization. However, many of their programs are still being executed pilot programs hidden from the public and from public comment. NAR urges the VA to take a measured approach, learning from the improvements adopted by Enterprises before turning to unproven and potentially risky new valuation solutions.

### **Public Comment is Critical**

NAR typically supports innovation in real estate and new valuation solutions should always be assessed for their potential benefits to consumers and the valuation industry. As with all new Federal laws, the VA should follow the Administrative Procedure Act (APA) in seeking public comment and insights from the Enterprises as it seeks input on how to implement new regulations.<sup>5</sup> This vetting process is critical to expanding the VA's understanding of risks and opportunities to any aspect of modernization under consideration. The rapid response and implementation timeline required under public law no: 117-308 should not interfere with the ability of the VA to properly vet any proposed changes to its processes or programs for safety and soundness of its guarantee program.

### **Working Together**

Thank you again for taking the time to hear the concerns of REALTORS®. We appreciate your efforts to modernize the VA's valuation process and to protect the guarantee programs for generations of future active-duty and veteran homeowners. If you have any questions or comments, please feel free to reach out to Ken Fears, NAR's Director of Conventional Housing Finance and Valuation Policy at (202)383-1066 or [KFears@Nar.Realtor](mailto:KFears@Nar.Realtor). Thank you once again and we look forward to our next meeting.

Sincerely,



Kenny Parcell  
2023 President, National Association of REALTORS®

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<sup>5</sup> Administrative Procedure Act (APA)