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March 18, 2016

Mr. Edward Golding
Principal Deputy Assistant Secretary for Housing
US Department of Housing and Urban Development
Washington, DC 20410

Dear Mr. Golding:

I am writing on behalf of more than 1.1 million members of the National Association of REALTORS® (NAR) in response to member concern about appraisal practices required in the Federal Housing Administration's (FHA) recently released *Single Family Housing Policy Handbook*. Since the Handbook's release, both appraisers and real estate agents have been confused and frustrated by the inclusion of appraiser duties not previously required by FHA.

The National Association of REALTORS® (NAR) is America's largest trade association, including our eight affiliated Institutes, Societies and Councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,400 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 30,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers.

With the busy spring home buying season heating up, borrowers relying on FHA-insured loans need to have access to experienced appraisers in order to be competitive homebuyers. Appraisers provide an independent and impartial analysis of local housing markets, and a credible opinion of the value of a house. This analysis is a critical component of the home mortgage transaction, helping to ensure the buyer is paying a fair market value for the property, and that the lender is fully informed when determining loan terms.

Unfortunately, many appraisers have become wary of participating in FHA-insured home loan transactions given the confusion with the Handbook requirements. Concerns over liability are leading many appraisers to require the current homeowner to take time away from work to physically test washer/dryers, stoves, etc., so that the appraiser cannot be blamed for any related damage.

The result is that many appraisers are increasing their fees for FHA appraisals. Some appraisers have opted out completely of FHA appraisals, or are asking for additional home inspections to comply with the Handbook. Consequently, the entire transaction becomes more costly and time-consuming; hindering an FHA borrower's ability to compete in today's housing markets. In particular, first-time homebuyers, low to moderate-income households and minorities are put at a disadvantage as an FHA-insured loan is their best, if not only, option to purchase a home.

To ensure that that the FHA home buying process functions smoothly and without delay, NAR asks FHA to address the following:



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1. Changes to the FHA Single Family Handbook

Remove “operate all conveyed appliances and observe their performance”

By far, the majority of criticisms with the Handbook concern new requirements on how to evaluate appliances. According to the Handbook, an appraiser “must *operate all conveyed appliances and observe their performance.*”¹ NAR members feel the highlighted phrase creates considerable confusion among the homebuyer, the lender, the seller, the appraiser and the real estate agent as to the role of the appraiser. Each party has a different interpretation of the requirement of the appraiser in evaluating appliances as the Handbook does not explain the extent of testing needed to determine if an appliance is operational. NAR members have told us that appraisers are being asked to run washer/dryers and operate stove burners, without any sense of how long to run the washer/dryer or how far up to turn the burner, in order to fulfill FHA requirements. This type of performance evaluation is beyond the normal scope of an appraisal assignment and adds considerable time to the appraisal process. NAR asks that FHA require appraisers to determine whether the conveyed appliances are in a condition to be operated based on a visual observation, by noting connection to an electric or water supply, and remove the instruction to “operate” or “observe their performance.”

Change “observe, analyze and report” to “observe and report”

According to the newly published Handbook, “[t]he Appraiser must *observe, analyze and report,*” that a property meets HUD’s Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) for safety and soundness purposes.² The quoted language is new to the FHA guidelines for appraisals and can be construed to increase the appraiser’s scope of work, such that tasks traditionally undertaken during a home inspection are being covered by the appraisal. This creates an expectation by the borrower and lender that qualified home inspections are taking place as part of an appraisal – but that is simply not the case. NAR urges FHA to change “observe, analyze and report” to “observe and report,” which will remove confusion as to the role of the appraiser. Further, FHA should provide additional clarification that the appraiser is to specifically list the areas where the MPRs and MPSs are not met, including language for any corrections. This will help define the appraiser’s role to all parties involved.

2. Revise form HUD-92564-CN, For Your Protection: Get a Home Inspection

Since the Handbook was published, NAR members have shared situations in which homebuyers and lenders confuse the role of the appraisal with that of a home inspection. Borrowers and lenders now expect the appraisal to highlight problems in mechanical systems, such as electrical wiring. Other than to determine whether or not an appliance has power, the typical appraiser is not qualified to advise the borrower on the electrical wiring itself. In many cases, a buyer is choosing not to undertake a home inspection in the belief that the appraisal covers the same points. For many FHA homebuyers, a proper home inspection should be a key element in their decision making process and financial considerations. NAR urges FHA to revise form HUD-92564-CN, For Your Protection: Get a Home Inspection, to give consumers a clear understanding of the differences between a home inspection and an appraisal. FHA should consider:

- Changing the paragraph header text “Appraisals are Different from Home Inspections” to “Appraisals are **NOT** Home Inspections.”
- Changing the paragraph text “An appraisal is different from a home inspection and does not replace a home inspection,” to “An appraisal is not a home inspection and is not an alternative to a home inspection.”
- Adding the text “An appraisal makes sure that the house meets FHA minimum property standards and requirements, which do not include all items reviewed in a home inspection.”

Thank you again for your consideration of these suggestions. If I may be of any assistance to you, please do not hesitate to contact me or our Regulatory Policy Representative, Sehar Siddiqi, at (202) 383-1176 or SSiddiqi@REALTORS.org.

Sincerely,



Tom Salomone
2016 President, National Association of REALTORS®

¹ II.B.3.e.iii pg.486 (emphasis added).

² II.B.3.a pg. 467 (emphasis added).