ASSESSING VA APPROVED APPRAISERS AND HOW TO IMPROVE THE PROGRAM FOR THE 21ST CENTURY

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BEFORE THE

SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

OF THE

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ASSESSING VA APPROVED APPRAISERS AND HOW TO IMPROVE THE PROGRAM FOR THE 21ST CENTURY

Tuesday, April 4, 2017

COMMITTEE ON VETERANS' AFFAIRS,
U. S. HOUSE OF REPRESENTATIVES,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 2:34 p.m., in Room 334, Cannon House Office Building, Hon. Jodey Arrington, [Chairman of the Subcommittee] presiding.

Present: Representatives Arrington, Bilirakis, Wenstrup, Rutherford, Banks, O'Rourke, Takano, Rice, Correa.

Also Present: Representatives Roe, Walden, Bergman.

OPENING STATEMENT OF JODEY ARRINGTON, CHAIRMAN

Mr. ARRINGTON. Good afternoon. The Subcommittee will come to order. I want to welcome everyone to today's Subcommittee on Economic Opportunity Oversight Hearing entitled "Assessing VA Approved Appraisers and How to Improve the Program for the 21st Century."

Before we begin, I ask unanimous consent that our colleagues Chairman Walden and Mr. Bergman be allowed to sit at the dais and ask questions.

Hearing no objection, so ordered.

The benefits administered by VA's Loan Guaranty Program are one of the crown jewels of benefits that are provided to American servicemembers and veterans. Since its inception in 1944, the program has helped over 22 million veterans achieve their piece of the American dream.

I am proud to say that this program is also a win-win for taxpayers. Unlike most other VA benefit programs, the home loan program operates as a partnership between the VA and the private sector. It is because of the partnership and VA's high underwriting standards that VA-backed loans consistently have one of the lowest foreclosure and delinquency rates in the country. This means more veterans are staying in their homes and fewer taxpayers are footing the bill.

While this program is clearly performing well, it is the Subcommittee's job to conduct oversight over this program, as well as propose changes when needed. We need to examine all of VA's processes to ensure that requirements for appraisals are aligned with industry and that we are not hurting veterans' chances for purchasing homes because of outdated or unnecessary regulations.

It is also our duty to the veteran who is the customer here and to the taxpayers to modernize processes, so the administration of this program doesn't fall behind emerging technologies used in the private sector and end up like the systems in place to process disability claims which created the long wait times and backlogs that are still occurring.

Today we are specifically going to discuss VA's appraisal process for veteran home buyers. Receiving an accurate and timely appraisal is crucial to protecting the homeowner in any situation and it is even more important for VA-guaranteed loans so that we protect the taxpayers' interest if the veteran does default on the loan.

Currently, VA uses its own panel of approved appraisers and the cost of these appraisals are paid for by the veteran as a part of their closing costs. While the timeline for completing a VA-approved appraisal remains efficient for the veteran in most instances, there are growing concerns that with some veterans in highly rural areas and with a shrinking economy of appraisers nationwide that this timeline could begin to increase. This is important for today's discussion, because these wait times and higher costs could begin to affect the veteran's ability to close on a home.

While I understand that in many of these instances VA's hands are tied because the only option they really have is to increase the allowable fee for appraisals, I think it is time to examine new and emerging technologies to cut down on wait times and reduce the out-of-pocket cost to the veteran. My goal is to not advocate necessarily for wholesale replacement of the current appraisal process, but we should look at every regulation, every process to ensure that they are meeting the veteran's needs, which is the goal that I know everybody on the panel and my colleagues on the Subcommittee share.

Before I yield to the Ranking Member, I want to thank the witnesses for being here today after given somewhat short notice, and I want to specifically thank Mr. London with VA for the professional and timely assistance he and his staff have always provided and continue to provide to this Subcommittee on any home loan issue.

The Loan Guaranty Service and in fact all the business lines under the VA Office of Economic Opportunity, including the Education Service, continue to be a model for the rest of the department as to how positive interactions with Congress should work. And that is why Chairman Roe named me Chairman of this Subcommittee, right? He wanted to give me something that worked really well as a new Member of Congress and I appreciate that.

I again thank the witnesses for being here this afternoon. I look forward, as I am sure my colleagues do, to your testimony. I now want to yield to my friend from the great State of Texas, Ranking Member Beto O'Rourke.

OPENING STATEMENT OF BETO O'ROURKE, RANKING MEMBER

Mr. O'ROURKE. Thank you, Mr. Chairman. And I want to thank you for calling this hearing and bringing together these witnesses, who I am so excited to hear from, and to thank you also for highlighting some concerns that are reflected in communities that we care about throughout this country and certainly in Texas. We spoke to a realty company in Odessa, Trower Realtors, who reflected the concern in the long wait times and the fact that there are not enough VA appraisers right now. Those are things that we need to work on.

I agree with you we do not need to replace the system, we need to find out where we can improve it without sacrificing or diminishing the terrific success that the VA has had in ensuring that veterans, Americans have access to affordable home loans that perform, outperform the rest of the market. I think we can accomplish both things.

I am so interested in hearing from our witnesses today, Mr. Chairman, that I will prove it by concluding my opening remarks now and turning it back over to you.

Mr. ARRINGTON. Thank you, Mr. O'Rourke.

I want to recognize Dr. Phil Roe, the Chairman of what I call our parent Committee, the VA Committee or the Committee on VA Affairs. Dr. Roe.

OPENING STATEMENT OF DAVID P. ROE, CHAIRMAN, FULL COMMITTEE

Mr. ROE. Thank you, Mr. Chairman Arrington and Ranking Member O'Rourke, for allowing me to be here today to discuss the VA's home loan program and the appraisal process.

And I want to commend the work of the Loan Guaranty Service, as it is one of the most well run business lines within the Veterans Business Administration.

With that being said, I know there are rising concerns about the dwindling population of appraisers, as Mr. O'Rourke just said, across the nation, not just VA appraisers, and I want to ensure that we do everything we can to pursue and ensure veterans do not begin to experience long wait times to receive an appraisal.

I thank the Chairman for holding our hearing today, so we can discuss how to continue and to provide timely and efficient appraisals to veterans who are using their VA home loan benefits, but also improve the process where necessary so that veterans, especially those in more rural areas where I live, receive an appraisal in a reasonable amount of time and in a way that doesn't force them to spend more out-of-pocket money.

And I can tell you having just sold a piece of property here in Washington, D.C., it ain't cheap to do it here. And when you see the fees and so forth, if you take a first-time home buyer, and I have been a first-time home buyer, that can be really an obstacle to you purchasing a home. I mean, when you have very limited dollars and so much of it is chewed up on this fee, and you wonder what is that for and this appraisal is for and that and so on, I'm afraid it scares people away.

But again I want to thank you all for being here, and thank both Chairman Arrington and Ranking Member O'Rourke for allowing me to be here, and I yield back my time.

Mr. ARRINGTON. Thank you, Mr. Chairman, and thank you, Mr. O'Rourke.

I now want to recognize our first and only panel of witnesses. Today with us we have Mr. Jeffrey London, Director of VA's Loan

Guaranty Service, and he is accompanied by Mr. Gerald Kifer, who is the Supervisory Appraiser for VA's Loan Guaranty Service. We also have Michelle Bradley, the 2016 Real Property Valuation Committee Chair for the National Association of Realtors; Mr. Stephen Wagner, Vice President of the Appraisal Institute; and Mr. Russell Johnson, Chief Revenue Officer for Clear Capital.

Thank you all for being here today.

Mr. London, let's begin with you, and you have five minutes for your opening statement.

STATEMENT OF JEFFREY LONDON

Mr. LONDON. Good afternoon, Chairman Arrington, Ranking Member O'Rourke, and other Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the Department of Veterans Affairs Home Loan Program and its appraisal system and process.

With me today is Gerald Kifer, Supervisory Appraiser, Department of Veterans Affairs Home Loan Guaranty Program.

Our program's mission is a very simple one: we work to maximize opportunities for veterans and servicemembers to obtain, retain and adapt homes. However, our program does not generally make loans, build or sell houses, service loans, nor do we build adapted homes. Instead, we rely on lenders, realtors, appraisers, servicers, builders, and many others in the mortgage industry to help us deliver these benefits to our veterans, benefits which they have earned, many at great sacrifice.

Through these strong partnerships, our focus on veterans and our continuous drive to innovatively [sic] enhance operations and performance, we have built a program that has guaranteed over 22 million loans totaling over $1.9 trillion since the original GI Bill in 1944.

During 2016, at a time when the home ownership rate was at the lowest in 51 years, VA guaranteed over 705,000 loans, an all-time record last year. VA appraisal volume also rose over 70 percent between fiscal year 2012 and fiscal year 2016, from 361,000 to 615,000. And despite the worst housing market crash since the Great Depression which began around 2008, VA has successfully worked with private sector loan servicers to help over 630,000 veterans and their families retain their homes or avoid foreclosure since 2009.

Further, VA's foreclosure inventory rate, the percentage of loans in foreclosure has been one of the lowest foreclosure rates in the industry over the past eight years, second only to prime loans. In fact, VA outperformed prime loans during and immediately following the market crash for six of the last eight years.

VA has worked to increase our program's efficiency and effectiveness by partnering with our mortgage industry stakeholders like our colleagues here today, the National Association of Realtors and the Appraisal Institute. These stakeholders have helped make our program work better for our nation's veterans.

To ensure our partnerships remain effective, we maintain a robust oversight and risk-management program to secure a world-class veteran experience, ensuring these private sector stakeholders adhere to our program goals, values, statutes, and regulations.

In the appraisal program the last few years have been challenging as we strive to meet our mission to provide veterans with accurate assessments of property values and reasonable assurance that the property meets basic standards for a safe, sound, and sanitary home.

In recent years, the arena of residential property valuations, we like all of the mortgage industry have seen a decrease in the availability of qualified appraisers, particularly in remote or rural areas. As a result, there have been longer turn times for appraisals and competition for available appraisers. Fees in these areas have increased as lenders and programs compete to maintain a semblance of timely appraisal delivery.

We have worked to streamline our appraisal business process to ensure there are no bottlenecks in delivering a timely appraisal.

We have also undertaken several initiatives in the past fiscal year to increase appraisal fees, personalize and redouble appraiser recruitment efforts, and enhance our technology, all toward the goal of increasing the speed and quality of appraisals while decreasing wait times for appraisal assignments.

These efforts have been successful in significantly reducing the inventory of outstanding unsigned appraisals, but some remaining inventory exists because no appraiser is available to immediately take the case. For the first time in recent history, though, we have seen that our attempts at recruitment have been declined. Appraisers cite they are too busy to take on additional work.

We know the appraisal industry as a whole is challenged by the situation with finding, training, and retaining qualified appraisers. We look forward to working with our industry partners to collaborate on programs and policies that will bring qualified and talented individuals into the industry.

Mr. Chairman, I appreciate the opportunity to speak today, and I look forward to answering any questions that you or the other Members of the Subcommittee might have.

[THE PREPARED STATEMENT OF JEFFREY LONDON APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. London.

Ms. Bradley, you are now recognized for five minutes.

STATEMENT OF MICHELLE BRADLEY

Ms. BRADLEY. Thank you, Chairman Arrington, Ranking Member O'Rourke, and Members of the Subcommittee.

My name is Michelle Bradley. I have been a realtor for 31 years and a VA appraiser for 20 years. I served as the 2016 Chair of the Real Property Valuation Committee with the National Association of Realtors, and today I'm representing more than 1.2 million members working in all aspects of real estate. NAR is a strong supporter of housing opportunities for veterans.

The VA Home Loan Guaranty program is a vital tool, providing veterans with centralized, affordable and accessible method of financing home purchases with a zero down payment option. According to a recent NAR study, veterans made up 18 percent of all recent home buyers and 54 percent of them used a VA guaranty loan.

VA loans are among the safest loans made with one of the lowest foreclosure rates. Much of the credit can be given to the VA appraisal system and its appraisers.

The VA uses a panel of approved appraisers and appraisals are assigned in rotation. Every VA appraiser must have a minimum of five years' experience and must provide several letters of recommendation attesting to their knowledge and their character.

These appraisers, myself included, strive to provide well-documented, credited appraisals in a timely manner using both cutting-edge technology and traditional methods of analysis. Of course, nothing is perfect.

NAR is aware of complaints that have surfaced regarding the VA's appraisal system, particularly in rural markets. From the buyer's or agent's point of view, it takes too long to get an appraisal, so there must be a shortage. The sales price and the appraised value are sometimes far apart.

As a VA appraiser in rural Western Pennsylvania, I know these issues well, but there is more to the story. Let me give you an example.

There is a rural county near me where there are only two VA-approved appraisers. These individuals also happen to be sales agents who are related, but work for competing companies. If a buyer uses a VA loan to purchase a home in that area and one of these two related appraisers happened to be involved in the sale, both have a conflict of interest and neither can complete the appraisal. The VA then has to find an appraiser from an adjoining county, which results in a delay in loan processing.

Now, there are qualified appraisers in that county; however, they are not choosing to seek appointment to the VA panel. In my personal opinion, I am not speaking for NAR here, this is my personal opinion, this is because the VA fees are not always adequate in light of the requirements for completing highly rural market assignments. This is especially true in these rural areas where simply making exterior inspections and driving by the outside of our comparables may take several hours.

Over 50 percent of appraisers are dissatisfied with their compensation and feel overburdened by regulations. This is not just an issue in the VA system, but this is a general concern in the industry. Many appraisers are having difficulty taking on trainees and the requirements to enter the profession can be quite burdensome, which could affect future numbers of appraisers. NAR has been hearing stories of buyers regardless of the type financing losing out on a home because the appraised value is different than the sales price.

Unlike other forms of financing, the VA has a process called the reconsideration of value, sometimes referred to as the Tidewater Initiative. This allows a lender a way to provide relevant market data to appraisers prior to the completion of the value opinion. The purpose of Tidewater is not to make sure the transaction works, the purpose as it is intended is to assure the veteran and the lender that the appraiser has reviewed all relevant data. If the sales price is not supported by the appraisal, this protects the veteran from paying too much, and is also a reason the VA enjoys a very low foreclosure rate.

NAR is willing to work with Members of this Committee and the VA to address the issues brought up in this hearing, and I commend you Members of this Committee for your support of our veterans and thank you for the opportunity to address you today on this important issue.

[THE PREPARED STATEMENT OF MICHELLE BRADLEY APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Ms. Bradley.

Mr. Wagner, you are now recognized for five minutes.

STATEMENT OF STEPHEN S. WAGNER

Mr. WAGNER. Good afternoon, everyone. On behalf of the Appraisal Institute, thank you, Chairman Arrington, Ranking Member O'Rourke, and Members of the Subcommittee for the opportunity to testify on improving the VA Appraiser Fee Panel.

The Appraisal Institute supports the basic framework of the VA fee panel in contrast to what is currently found in the Federal Housing Administration or the private sector. By comparison, the structure of the fee panel facilitates a better degree of appraisal independence and represents a much more positive environment for real estate appraisers.

Outside of the VA, appraisers often face a litany of challenges, ranging from marginally qualified lender review processes to stifling fee compression. The panel is somewhat insulated from these trends in that it is a screened list of approved appraisers that are on a rotation.

The VA Appraiser Fee Panel enjoys support from other objective observers. A recent review by a reputable think tank concluded that the VA processes and procedures provide more taxpayer protection, and help to produce lower defaults and loss severity.

Generally speaking, the VA fee schedules tend to be more indicative of customary and reasonable than what is found in the private sector today. This is largely because the schedule is developed independently by the VA through surveys of local market participants.

Another positive: the VA has in place an innovative process referred to as the Tidewater Initiative that requires the appraiser to contact a party to the transaction when the appraisal does not support the sale price. This provides an opportunity to offer more information to the appraiser for consideration.

As a former VA panel appraiser, the VA staff I encountered were extraordinarily dedicated to veterans. I either personally witnessed or hears stories of veterans being treated with respect and assistance in times of challenge that have protected and benefitted them. In that vein, the panel is integral to protecting veterans, the VA, and the public interest.

Significantly changing the VA roster platform that provides for a critical level of independence would be a mistake. Furthermore, seeking alternative valuation products such as automated valuation models or even desktop appraisals would also be a mistake in terms of collateral risk mitigation.

I will acknowledge, on occasion the lending industry experiences high loan demand which can lead to appraisal delivery times that are elevated to less than optimum levels. Though these intervals can be somewhat protracted, they are temporary, as witnessed recently. Changing a working system is not the answer. Instead, we offer suggestions to enhance an already workable and successful system.

From time to time the VA recruits appraisers to the fee panel. Some of our members report an inconsistent response with regard to approvals. We recommend the VA enhance recruitment efforts by targeting appraisers who have completed peer-review requirements for professional appraiser designations. The panel would benefit from greater involvement by highly qualified appraisers, along with exploring a standby list of appraisers.

We also recommend to improve VA lender processes relative to timeliness issues by encouraging lenders to provide appraisers with better property information on the front end of the appraisal assignment.

Lastly, we believe the panel would be much more attractive to appraisers if concerns about past due or delinquent appraisal fee payments were rectified by the VA.

We think these enhancements can preserve the integrity of the panel, first and foremost to the benefit of veterans.

Thank you for the opportunity to testify today and I look forward to taking your questions.

[THE PREPARED STATEMENT OF STEPHEN S. WAGNER APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. Bradley—actually, Mr. Wagner, that would be your name. Sorry.

[Laughter.]

Mr. ARRINGTON. Finally, Mr. Johnson, you are now recognized for five minutes.

STATEMENT OF RUSSELL JOHNSON

Mr. JOHNSON. Chairman Arrington, Ranking Member O'Rourke, and Members of this Committee, on behalf of Clear Capital I am pleased to appear today to talk about new ideas of efficient appraisals and how they can help veterans realize home ownership by utilizing the Home Loan Program from the United States Department of Veterans Affairs.

I am veteran of the United States military. I was a deep sea diver in the U.S. Navy for four years.

When I left the U.S. Navy, becoming a homeowner was a top priority. I wanted to start a family, provide a safe place for my family to grow and call home.

I started the process by asking questions of the professionals in the real estate and lending industry, questions that would help me navigate this process that most people only experience a couple times in their lives. I always asked if I could use my VA loan benefit. I was told it is more expensive, I was told it takes longer, and that sellers are less likely to accept a VA-backed offer.

I realized that I was steered away from using my benefit and toward conventional mortgages. We know this isn't the position of the VA or relevant national, state and local trade organizations; nonetheless, this was my experience.

I work for Clear Capital now. Clear Capital's focus is applying new technologies to solve real estate valuation problems with the highest degree of integrity, quality and customer service to the mortgage, lending, investing, and housing industry.

Over the past few years and across all home purchase products, VA and non-VA loans, appraisal wait times and costs have risen significantly in some pockets of the country. In large part this is a result of a shortage of appraisers in some markets.

The shortage of appraisers is slightly exaggerated with the VA program, because as I understand it the appraisal is more specialized, using separately approved appraisers to ensure greater protection of the veteran home buyer. This is a valuable benefit.

Clear Capital suggests that the VA consider the use of a desktop appraisal based on physical inspection of a subject property by an industry professional. The product is a hybrid of the traditional appraisal process and leverages a qualified, arm's length professional performing a visual inspection of the subject property, and providing other market insight and analytics.

Desktop appraisals are compliant with both Uniform Standards of Professional Appraisal Practice, USPAP, and the Interagency Appraisal and Evaluation Guidelines. The desktop appraisal process allows a single appraiser to complete several more appraisals per day than is possible with a traditional approach.

In some parts of the country, an appraiser spends 30 percent of his or her time driving to and from a property. This is not a productive use of time for these specially trained, skilled, and knowledgeable professionals.

Today's technology makes it possible for detailed property measurements, characteristics, market comparables, and other detailed information to be delivered to the appraiser within minutes of collection. This wasn't possible decades ago when the current model was created. Today we can quickly provide the appraisers with the information they need to perform accurate and timely appraisals of the highest quality.

Appraisers completing these reports would remain subject to the same licensing and certification requirements, as well as the standards provided under USPAP. Likewise, the process could be rolled out in agreed-upon cases for completion by appraisers on the VA panel and subject to appropriate quality-assurance reviews.

To conclude, the VA Home Guaranty Program provides our veterans and active duty personnel with an incredible and unique earned benefit. It has allowed them to improve their economic opportunity by accruing home ownership equity.

This earned benefit, thanks to the VA staff and lenders, performed exceptionally well, as stated earlier, in the last downturn. At the same time, we must work together to ensure that going forward this program continues to serve the veterans and active duty servicemembers efficiently, cost-effectively, and carefully.

I want to thank the Economic Opportunity Subcommittee for having me in today, and I thank the VA staff for their dedication and service to veterans.

[THE PREPARED STATEMENT OF RUSSELL JOHNSON APPEARS IN THE APPENDIX]

Mr. ARRINGTON. Thank you, Mr. Johnson.

I am delighted to have with us Chairman Greg Walden from the Energy and Commerce Committee. I know he has a great interest in this issue. And in the interest of your time, sir, I would like to give you five minutes for comments, questions.

Mr. WALDEN. Well, I thank the gentleman. Mr. Chairman, thank you very much.

And to the Members of the Committee, thanks for your courtesy in letting me come and share a few comments. And I appreciate what the witnesses have had to say, your testimony is most helpful, and I appreciate your Committee taking a look at this topic.

Throughout my district, I have heard from veterans who are waiting a long time, too long, frankly, to be able to get an appraisal on their VA-backed home loans. You all know this is going on. I have had a dozen or more different veterans contact me for assistance while facing significant delays in receiving their VA-guaranteed home loans due to this appraisal backlog.

I have also heard from realtors and loan officers who find that in their efforts to secure homes for veterans and their families receiving a VA-approved appraisal is the most challenging and time-consuming requirement. I have had seven town hall meetings in my district so far this year and I think in just about every one this topic has come up as an issue affecting our veterans and these are in different parts of Oregon.

Some of these veterans and their advocates have waited up to nine weeks to even have an appraiser assigned to their case, Mr. Chairman, nine weeks, making them far less competitive as prospective buyers in the housing market. One veteran even lost his prospective home when his interest rate lock expired as he waited for an appraisal and, I think we would all agree, that is simply unacceptable.

At the end of last year, I wrote to the VA Regional Loan Center to ask how we could address this problem head-on, and I hope in your hearing today we can get some answers to that.

I know that higher appraisal fees have been approved for some counties in my district. I heard that was one of the issues, that if you were doing a VA appraisal you didn't get paid as much if you were doing another kind, and I know they have tried to address that.

The VA has managed to cut down on some of the appraisal backlogs in rural Oregon and I appreciate your attention to that, but in my conversations with realtors, veterans groups, and VA approval I have heard that the appraisal shortage is a market-wide issue that may soon spill over into other federal programs and eventually into the private sector.

Increased federal regulations and barriers to entry for would-be appraisers seem to be moving us in the wrong direction. I think that is something we all have to figure out and that is not just the purview of this Committee, Mr. Chair, but I think Financial Services and other Committees probably have a role in this as well, but it is serious. An increase in VA appraisal fees may help in the short run, but it looks like we need some other policy changes as well.

So we have to look at the longer-term issue, but in the meantime we must take care of veterans; we must make sure they are not handcuffed by a process when they are just trying to get a roof over their heads.

So I look forward to working with you, Mr. Chairman, and Chairman Roe and my colleagues on this Committee to fix the problem here for our veterans, but also for others across our country. And I greatly appreciate the courtesy of being able to share those comments and I appreciate your leadership on this, Mr. Chairman, and I thank you and I return the balance of my time.

Mr. ARRINGTON. Thank you, Chairman Walden, and thanks for your great interest on this issue and for your time.

Now I would like to yield five minutes to the Ranking Member. Mr. O'Rourke.

Mr. O'ROURKE. Thank you, Mr. Chairman.

I would like to thank the panel for their comments and for ensuring that we understand your concerns, but also what I think what we are grateful for is some of the suggestions that you have offered to improve the process.

I wanted to ask Mr. London, how often is the Tidewater provision employed?

Mr. LONDON. Yes, thank you for that question. To my knowledge, the Tidewater Initiative is invoked, but we do not keep regular statistics about how often that initiative is invoked. But I am going to turn to Mr. Kifer, who may have more information about, generally speaking, how often that initiative is invoked.

Mr. KIFER. Thank you, Chairman Arrington and Mr. O'Rourke.

We do have automated systems these days to track some of these issues and we do track, just recently have started tracking what is called the Tidewater Initiative. It has been described briefly and it was developed in the Tidewater area of Virginia where we were experiencing very much the situation we are hearing about today with delays and property value appraisals not meeting sale prices, and so on and so forth. That was back—

Mr. O'ROURKE. I think what I am trying to get at and I am sorry to interrupt you, but just because I do not have a ton of time, but I want to know how often that is used and what that adds to the wait for someone, because then I want to get to the recommendation made by Mr. Wagner that there be better property information on the front end and I wonder if that would obviate the need to use Tidewater. And I may not understand the process totally.

So if you can tell me how often it is used and how much that adds to it, that would be helpful, and then that helps us assess Mr. Wagner's recommendation in terms of the impact.

Mr. KIFER. Our recent data shows that the Tidewater Initiative is employed approximately 24 percent of the time. It adds typically two days to the appraisal process. The process calls for the appraiser when they recognize they are not going to meet the sale price that they must contact the lender or the lender's point of contact and give them two days to submit additional support for the case.

So it typically is a two-day issue.

Mr. O'ROURKE. That is helpful. When we heard from the Chairman of the Energy and Commerce Committee, the gentleman from Oregon, his concern about folks waiting nine weeks, the concern is probably with those appraisers who choose not to work with the VA and within this system, and perhaps just the number of appraisers in general who are willing to do this kind of work, that we need more appraisers in those under-served communities.

I wonder if Mr. London or Mr. Kifer could also comment on Mr. Johnson's recommendation for desktop appraisals. It seems like, you know, we know more and more, especially with Mr. Wagner's suggestion that we include more on the front end about the properties and relative valuations in the area, that all that could be put in in the front end, and we could have a pretty good idea of valuation and a pretty good idea of the borrower's ability to pay back.

What are your thoughts on his recommendation?

Mr. LONDON. Yes, first I want to respond by saying that VA currently has a process where we use front-end data. We have a tool that has been developed by CoreLogic Corporation where not only are they an AMC or appraisal management company, but they also are a data aggregator, and they collect front-end information across the entire marketplace. So today every VA appraisal that is completed actually goes through CoreLogic's system to look at the market data that is available on the front end, and we actually grade every single appraiser and every single appraisal to ensure that it meets VA standards and that it also is using good information to determine value.

The other thing that it helps us to do is to allow us to conduct oversight of the appraisal process as well.

One of the challenges that we have had, and I think this is a market problem, is in some of the rural and remote areas these systems do not have enough data to have the integrity that you would need to have the confidence that you can rely on the data. So that is one of the limitations that the industry is dealing with.

So having a geographic competency to actually go in and look at the properties, especially if you are an appraiser who is familiar with that territory, has been something that has been very helpful.

But I will turn it to Mr. Kifer to see if he has additional thoughts.

Mr. O'ROURKE. You know what, I am going to have to take that for the record. I am out of time, but I appreciate the answers, and I have got some follow-up questions that we may we submit for the record.

So thank you very much.

Mr. LONDON. I look forward to addressing those. Thank you.

Mr. O'ROURKE. Yes.

Mr. ARRINGTON. Thank you, Mr. O'Rourke.

I now want to yield five minutes to Dr. Wenstrup.

Mr. WENSTRUP. Thank you, Mr. Chairman, and I would like to yield to Mr. Bergman.

Mr. BERGMAN. Thank you, Dr. Wenstrup.

Thank you, Mr. Chairman, and thank you for inviting me to be here for a few minutes today.

Veterans have given a lot for their country. In life, they took on life, you know, in tough situations, we shouldn't make it tougher for them when they come back. We know that, that is why we are here having these hearings.

I represent the 1st District of Michigan, a lot of veterans, higher than the national average, almost double the rest of the veterans in districts within Michigan, but a very rural district.

Now, do I understand correctly, and this is anybody to answer, I don't have this specific, when a veteran applies for a VA loan for a specific home or project they need three comparables?

Mr. LONDON. That is correct, sir. In our policy we do say that the appraiser submits at least three comparable properties.

Mr. BERGMAN. Is there a geographic distance, put the pin in the middle of the project and what the distance is?

Mr. LONDON. In our guidance, we are somewhat general, we say that the comparables have to be in close proximity to the properties. But as I alluded to, in some rural or remote areas the next comparable could be miles away and the appraiser would have that knowledge, so they are able to use that.

Mr. BERGMAN. How about potentially hundreds of miles? And the point is, what do we have in your system for relief when we have a delay in the process because the appraiser cannot meet the requirements for the comparables, yet everything is validated, I guess. I have heard from veterans, I have heard from realtors, I have heard from home builders in our area, they can't comply with the rules because of the sparse population. What do we do?

Mr. LONDON. Well, again, we say that you need to have at least three comparable sales. However, we do have some latitude in our process to accept the available information that the appraiser has, including if the property is not in close proximity, because one of the things that you would look to, and I turn it to my appraiser professionals to explain it a little bit more in depth, but you can look at like properties that have similar characteristics of the subject property that you are examining.

Mr. BERGMAN. The challenge we have is the tyranny of distance and because of veterans coming, a lot of times we will be building a new project, potentially getting a VA loan and there hasn't been a whole lot of new housing. So what we are looking for is a way for those appraisers to somehow create a valid appraisal so that the loan be approved, so that veteran can either buy or build that home when there really isn't three comparables within any relatively close distance, and that is all I am looking for is how do we do that.

Mr. WAGNER. There are some conditions at times where it can be a really big challenge for an appraiser to accumulate data that would fit within the parameters such as Mr. London was referencing. In those situations, when you have a professional appraiser out there in the field taking a look at that type of situation, he can use his judgment to say go back in time. Not all the comparables have to be six to twelve months, within six to twelve months, unfortunately, maybe it's 18 months or something like that and find a comparable perhaps in a competitive market that is representative of the subject property.

So there is more than one way to do this. Certainly the parameters that Mr. London mentioned would be ideal to begin with and that is where you start, but sometimes you have to make adjustments and be flexible and use your judgment.

Mr. BERGMAN. Okay. So what I hear you saying is, when I go back to the 1st District I can find out who the appraisers are and I can tell them that they can use their best judgment?

Mr. WAGNER. I think that they can use their best judgment with an awful lot of support and explanation.

Mr. BERGMAN. Well, no problem. The commonalities are easy to handle, it is the differences between the norm and the edges where in life some situations fall through the cracks and I just happen to live in a district where that is quite honestly the majority of our 24,000 square miles.

Mr. WAGNER. Clearly, that is a challenge, and in the underwriting area they need to be able to have adequate support and explanation from the appraiser that shows that this is the best that can be done at this point, and that should make it acceptable.

Mr. BERGMAN. Well, thank you.

Mr. Chairman, thank you very much for the time and I yield back.

Mr. ARRINGTON. Thank you, General Bergman, for your time and interest.

And now I will yield five minutes to Mr. Takano.

Mr. TAKANO. Thank you, Mr. Chairman. And I want to ask Mr. London a few questions.

Mr. London, thank you for the work you do to ensure that eligible veterans and their families are getting into safe and structurally sound homes and, through the appraisal panel process, owning homes that represent a sound financial investment. Clearly, these efforts on behalf of veterans by the Loan Guaranty Service have been successful in that, as you said, VA's foreclosure inventory is so low.

Can you describe a little more in detail how you are attempting to deal with the shortage of VA-approved appraisers in rural locations?

Mr. LONDON. Yes, thank you for that question.

What we have done, especially in areas where we have identified that either they are rural or remote areas, or they are hot real estate markets, we have taken a look at the appraisal Subcommittee's available appraiser list and we have literally contacted every single licensed appraiser in those remote and rural areas to invite them to apply to be Members of our panel.

We have had some success over the last year in doing so. Because of this initiative, nationwide we have added over 700 appraisers to our fee panel. And specifically in Washington, Oregon and Colorado, in the past six months we have added over 120 appraisers to our panel through this recruitment effort.

So the first thing that we did is just identify where we are in a severe need and we again contacted every single licensed appraiser to invite them to apply to the panel.

Mr. TAKANO. How do you decide what is customary and reasonable compensation in booming markets where appraisers are in high demand?

Mr. LONDON. Yes, we actually survey lenders and other program participants who are actually on the ground in those specific geographic markets, and we ask them for real-time information and what they are experiencing of what the going rate for an appraisal in that particular area.

We used to do those surveys on an annual basis or sometimes on a biannual basis, but more recently we have been looking at these fees on a quarterly basis to make sure that we are reflective of the current marketplace.

Mr. TAKANO. Wow, you can change that fast.

How do the VA panel appraisers and lenders negotiate a mutually acceptable fee in a high-demand situation and when it is inconsistent with those set forth in the VA schedules, what does VA do?

Mr. LONDON. So from a VA perspective, the fee that we permit the veteran to pay is the fee that we set forth. However, that does not preclude a veteran if he or she wishes to choose to pay a premium for an appraisal assignment, the lender could offer that and the veteran can make a decision on whether or not he or she is willing to pay the difference, but VA's fee is the fee that we say is permissible for that assignment.

Mr. TAKANO. And what should industry be doing to encourage qualified appraisers to join local VA panels?

Mr. LONDON. Well, one of the things that we have to do is make sure that the appraisers don't have a misconception about the VA program, because some may be thinking about old experiences that they have had or even some of their colleagues have had sometimes a decade or more ago. The VA program is extremely flexible and we make sure that we provide the appraisers with clear guidance on what we expect and we also ensure that they understand that we are good partners with them.

So that is the first thing that we have to do is make sure that we get over the misperception.

And I will also use a second point, which you were questioning me about and with the fees, we want to make sure that we have competitive fees. And I think that one of the things that we really don't have to educate appraisers on is the fact that when they do a VA assignment they are getting the full fee, whereas if they were doing a conventional appraisal, sometimes they do that through an appraisal management company that may take a portion of the fee.

So it was discussed earlier that sometimes appraisers have to travel long distances to go to their assignment and they have that burden of those extra expenses, with the VA fee you get the full fee for that assignment.

Mr. TAKANO. Did you anticipate the 70-percent appraisal volume increase from the years 2012 to 2016?

Mr. LONDON. Well, we have enjoyed in the last few years an increase in the program and veterans and servicemembers taking advantage of their benefit, so we were aware of the increase. And that is one of the reasons why we implemented the tool that I mentioned, the tool that we have with CoreLogic, so that we can make sure that we have an appraisal processing system that can meet veterans' needs and demands.

And actually the recruitment process that I described actually began a few years ago where we noticed that we were losing some fee panel members and we had various recruitment efforts over the years to ensure that we had adequate appraisal fee panel members around the country.

Mr. TAKANO. Thank you.

I'm sorry, Mr. Chairman, I went over time.

Mr. ARRINGTON. Thank you, Mr. Takano.

And I now yield five minutes to Dr. Wenstrup.

Mr. WENSTRUP. Thank you, Mr. Chairman.

I appreciate everybody being here today. I mean, in my opinion, this is what we are supposed to be doing, right? To be able to sit and discuss any nuances or problems that we are having within our programs and try and work those out, and I appreciate the efforts of everybody involved here today.

Mr. London, one question I have is, what is the reason or origin for the different standards between VA appraisers and FHA appraisers from the beginning?

Mr. LONDON. Some of the requirements that we have are statutory. For instance, it was described earlier that you have to have recommendations from other appraisers to join the panel, also that you have to go through a background check, things of that nature. Some of those requirements are statutory, so it begins there.

Mr. WENSTRUP. No, I appreciate that. I have a VA home loan, I am pleased to say, actually. I think one of the things that helped us is that we were looking both at VA and then outside of a VA home loan through the bank, and our appraiser happened to also be a VA appraiser and so things went pretty smoothly. So at one point people thought it was going to be a glitch, but it ended up working out for us.

But again, that is really the only question I have, and I do appreciate everybody being here. And hopefully we will make the process smoother and continue to help more veterans through the process.

Thank you.

Mr. LONDON. Thank you.

Mr. ARRINGTON. Thank you, Dr. Wenstrup.

And now we will yield five minutes to Miss Rice.

Miss RICE. Thank you, Mr. Chairman.

So we spent a lot of time talking about the effect of the appraiser process in rural areas. I happen to come from the State of New York, which has some of the highest home prices in the country. And I know that there have been times when veterans have come in expressing frustration with the fact that it is almost impossible to get a loan in the amount that you need to to put a roof over your head in the places where you want to live.

Just one quick question. There was a note in here that said that there was loan that was guaranteed in Malibu, California for $9 million, I was just curious about what that is all about.

Mr. LONDON. Yes, I am familiar with that case and I actually looked at that appraisal myself to make sure that it was accurate. Fortunately, some of our veterans and servicemembers, just like other Americans, they do well.

Miss RICE. I just wanted to make sure that that was the reason.

Mr. LONDON. That is correct.

Miss RICE. It was not just a total—

Mr. LONDON. And the interesting thing about that particular case is that veteran obviously had the means to purchase a very expensive home, but as we stated earlier this program is a benefit entitlement program and that retired officer wanted to use his VA benefit, and he obviously put down a sizeable down payment on that loan.

Miss RICE. Well, as well as he should have been able to for sure, he or she who could afford it.

So what are the instances where there is a long period of time to get an appraisal and in how many instances does that affect the interest rate, say, that a veteran can get from a financial institution that is working on this program?

Mr. LONDON. One of the things that we encourage our lender partners to do is if they have a deal that there is a risk the seller will no longer be involved in the transaction or in the instance that you're saying, that the interest rate is about to expire, we encourage lenders to contact VA so that we can get involved to make sure that we can find an available appraiser on our fee panel to take that assignment more quickly. And more times than not, when lenders do reach out to us, we are able to work with the lender and with our appraisal partners to find an appraiser to take on that assignment more expeditiously.

Miss RICE. And so in a place like New York where home prices, like other places in the country, are high, I mean, is there an access issue here? I mean, I know today we are talking about the appraisal process, but that is just one aspect of it. I mean, if you are living in an urban or city area that, you know, in any of the boroughs of New York, I mean, it used to just be Manhattan that you were priced out of, now it is hard to find a home in Queens or Brooklyn that you can afford.

So how do you address that, especially in the instance where they are not required to put any money down and in those instances do you have higher default rates than you do elsewhere around the country? Because I know that it didn't say the percentage, but whatever your default rate is, it seemed pretty low, you know, as compared to the private sector.

Mr. LONDON. Sure, and thank you for that question. The first point that I would like to make is that VA by statute is limited on the amount that we will guarantee. So right now we are currently tied to the Freddie Mac conforming loan limit; however, that does not preclude a veteran from using his or her VA loan eligibility to purchase a property.

Basically, what a veteran would do in a situation in a high-cost area that the Freddie Mac conforming loan limit does not meet the sales price of the home is he or she would have to pay a down payment at that point for 25 percent of the difference of the amount above the Freddie Mac conforming loan limit. So the veterans can still take advantage of the VA Home Loan Program and certainly can make a smaller down payment than if they chose another loan product.

The second thing that I would say is that when it comes to cost, you know, I think we see a lot of veterans take advantage of the program not only because of the down payment aspect, but because the fees for VA are much less than other alternative loan products. So even in high-cost areas veterans can take advantage and save some of the money that they have or would not have to come with so much money to the table because the fees for VA are much lower.

And for almost the last two years VA loans have enjoyed the lowest interest rate in the marketplace than any other loan product. So veterans are incentivized to use the VA loan program even in high-cost areas.

Miss RICE. Well, and they certainly should be the recipients of that benefit. I think it is one of the great moral failures of this country that we have even one homeless or jobless veteran. So thank you all for everything you are doing.

Mr. LONDON. And I do want to address the one that you made about loan performance, I apologize. Based on our analysis internally in VA, we found that high-cost loans, if you will, even though VA loans overall enjoy a low foreclosure rate and a low serious delinquency rate, we found that the higher-cost loans actually perform better than even the lower-cost loans.

Miss RICE. Well, maybe you can let us in on that little secret, how that is happening, that would be great.

Thank you all very much.

I yield back. Thank you.

Mr. ARRINGTON. Thank you, Miss Rice.

Now I would like to yield five minutes to Mr. Rutherford.

Mr. RUTHERFORD. Thank you, Mr. Chairman.

Ms. Bradley, let me ask on your study that the National Association of Realtors conducted, I noticed that the foreclosure rate for the VA is great actually, if you look at it, particularly between 2009 and 2014, they were the lowest of any other loan, what I am wondering, did you—so that is a good thing. So the quality of what they are doing in protecting veterans, because it is a protection for them too, because they don't get foreclosed on by buying a home that they can't afford, did you look at rural versus urban in the wait time situation?

Ms. BRADLEY. I was not part of that original study. The VA foreclosure rate is enjoying a very low foreclosure rate because of the dual—there is the lender can overwrite, underwrite the appraisal, the VA then does their own oversight, so that dual protection protects the veteran, ultimately giving a zero down payment.

And if I may address the rural aspect of that. It is not just about fees, folks, it is not just about the appraisal fees, sometimes the VA—or the appraiser, excuse me, simply cannot take the assignment. If we do not have the data to develop geographic competency in that market, we simply cannot take on that assignment. So not just the—

Mr. RUTHERFORD. And that kind of leads to my next question for you.

Mr. London, when did CoreLogic come into use in the appraisal process?

Mr. LONDON. A little over three years ago.

Mr. RUTHERFORD. Okay, so that would have been '14 roughly?

Mr. LONDON. Yeah, about '13, 2013.

Mr. RUTHERFORD. Okay. And has there been a change, Ms. Bradley, in the wait time since then, do you know?

Ms. BRADLEY. I would like to emphasize that overall the wait times are not extraordinary.

Mr. RUTHERFORD. Okay.

Ms. BRADLEY. We have had a perfect storm in our country over the past few years. We have historically low interest rates, we have pent-up housing demand from all of these borrowers who wanted to buy a home but were nervous after the ten years ago we had the biggest housing collapse in our recent history. So we have a pent-up demand and we also have a lot of veterans looking to purchase a home now because we have so many more vets.

So we have a perfect storm of a situation. It is not a nationwide problem, this is in highly rural markets that they are experiencing that. I am from a rural market myself and the VA has called me often and asked me to do appraisals in an adjoining county. If I don't have access to that data to be able to develop a competent appraisal that is credible, that could protect the veteran by making sure that there is sufficient collateral for that loan, I can't take that assignment.

Mr. RUTHERFORD. Right. Let me ask you this. From 2004 to 2015, there was a great loss of certified appraisers, but there was a huge—I'm sorry, licensed appraisers, there was a huge drop in the licensed appraisers, but there was a 20-percent increase in certified appraisers. Does VA use certified appraisers and is that part of the issue here as well?

Ms. BRADLEY. No, actually VA uses both licensed and certified appraisers.

Mr. RUTHERFORD. Okay.

Ms. BRADLEY. They have to have a minimum five years' experience. That is not part of the issue.

Mr. RUTHERFORD. So that is not an issue at all. Okay.

And I would also ask, Mr. London, what is your view of desktop-based appraisals? Mr. Johnson I think sounded very supportive of them, thinks that they are effective. Does VA use that very often or at all?

Mr. LONDON. We currently do not do desktop appraisals as described today; however, as I mentioned, we do have the CoreLogic system that does have that information available. And again, one of the limitations that we have of that current system—and again, this is not a CoreLogic issue, this is an issue across the industry—is that for these rural and remote areas the data simply just is not there to do those type of assignments through a desktop.

Again, that is why we are harkening back to geographic competence from an individual who is familiar with that particular geographic area.

And I attend many industry conferences and obviously meet with many lenders who participate in our program, and what lenders tell me is that they because of risk, because the data has not been proven, most lenders tell me that they are not supportive of that type of review, that they feel more comfortable with the current appraisal process.

Mr. RUTHERFORD. Okay, I see I am out of time.

Thank you all very much for what you are doing for our veterans. Thank you.

Mr. Chairman, I yield back.

Mr. ARRINGTON. Thank you, Mr. Rutherford.

And now we will yield five minutes to Mr. Banks.

Mr. BANKS. Thank you, Mr. Chairman. And thanks to each of you.

There is nothing more infuriating to me than when we discuss issues or restrictions, government bureaucracy or rules that prevent us from serving our veteran population better. So on one hand, while I am pleased that we are having the discussion that we are having today, it is very difficult at times to understand why we make it so much more difficult than it has to be to better serve our veteran population.

So with that, Mr. London, one area where I am scratching my head is how exactly do we justify the more stringent, significantly more stringent vetting process for the VA than what the FHA has for appraisers? What is the justification, how do I defend that to the veteran constituents in my district who are frustrated?

Mr. LONDON. Sure. Thank you for that question.

As I alluded to earlier, VA is simply following the statute. The statute requires us to go through this vetting process. But what I will add to that comment is the fact that, again, this is a benefit that veterans and servicemembers have earned, again, as I stated earlier, many at great sacrifice. And so not only does the vetting process and our overall appraisal process protect the government and the risk that it may take if the home goes to foreclosure, but it also protects that veteran and servicemembers when he or she is purchasing the home because they know that they are getting a home, even though the VA appraisal process is not an insurance program, because it can't give the veteran an insurance, we request that they get a home inspection to get added assurance.

But the appraisal process that we have, because we look at minimum property requirements to make sure that the home is sound, safe, and sanitary, that is giving that veteran and servicemember that extra comfort that not only are they utilizing the benefit that they have earned, but they are getting a sound asset as well.

Mr. BANKS. So I am brand new, I am a freshman Member of Congress, brand new to this Committee, I have a lot to learn, but I did serve in the state house for six years. You said the more stringent vetting rules are per the statute?

Mr. LONDON. That is correct.

Mr. BANKS. Is that a statute of rules, administrative rules from the VA, or are those congressionally approved rules that have created that more stringent process?

Mr. LONDON. The statutory reference is 38 U.S.C. 3731, so congressional.

Mr. BANKS. So are those rules that your organization could repeal?

Mr. LONDON. No, sir.

Mr. BANKS. Make less stringent?

Mr. LONDON. No, sir, we cannot, not without a statutory change.

Mr. BANKS. So you are pointing the finger at this Committee, the Congress to solve that rather than through the administrative process that you would be involved with?

Mr. LONDON. Well, let me make sure we are clear when we talk about a more stringent, you know, process.

First and foremost, as Ms. Bradley indicated, VA can use licensed appraisers, whereas FHA in comparison have to use a certified residential appraiser, which is a bar above.

Mr. BANKS. Well, what I am trying to get to the bottom of is who has created this more stringent rules?

Mr. LONDON. Understood. It is statutory, is my understanding.

Mr. BANKS. It is your understanding?

Mr. LONDON. That is correct.

Mr. BANKS. So it sounds like maybe we need to do a little bit more homework. Maybe you and I, maybe us together with you to find out how we scale back those more stringent rules.

Mr. LONDON. I will assist you in any way I can and any other Member of the Committee.

Mr. BANKS. I appreciate your willingness to do that.

And I appreciate the interest of this Committee on this topic, as it is a source of frustration of so many veterans who do deal with this process.

And with that, Mr. Chairman, I yield back.

Mr. ARRINGTON. Thank you, Mr. Banks.

I yield myself five minutes.

I want to follow the line of questioning of my colleague Mr. Banks. I just want to start with the fundamental question, why do we need a certification? Why do we need government certification? We are exposed, as my understanding, 25 percent of the loan, the private sector has 75 percent exposure, they have more risk in this. Why would we need additional standards beyond, and I am looking at one of the surveys, the conventional prime, you know, process for appraising, why do we need more than that?

I know you didn't write the law, I am not blaming you, Mr. London, but let's just say you have a blank slate. Let's say that there are no statutory requirements and restrictions on you. What would you do to change the law so that we could manage risk and serve the customer, being the veteran?

Mr. LONDON. Well, as I stated, I will be happy to work with you and other Members of the Subcommittee on any legislation that you may propose to improve the appraisal process.

One of the things that I can say about the current system and process that we have is I think in part it bears out in the performance that we stated today with the low foreclosure rate and the low delinquency rate. The fact that, for instance just use one of the examples of one of the vetting steps that you have to go through to serve on the panel, is you have to have recommendations from other appraisers, and a second step that is also statutory is that you have to have a demonstration project or demonstration appraisal to show that you have the competency.

So the fact that we actually look at the fact of whether or not the person is competent and that their peers will attest to their competency, I think that has helped with the current success that the program is enjoying to serve our veterans.

Mr. ARRINGTON. I do think that the foreclosure rate is good but, you know, it is comparable to the conventional prime, I mean, it is right there, and yet when the NAR did a survey of appraisers and asked which ones are least desirable among a long list, the number one by far that was least desirable was to conduct appraisals for VA loans. And then when she cited, Ms. Bradley, the regulatory burden is the top reason that appraisers are leaving the profession, that leads one to believe that there may be too many regulations, too much regulatory burden.

So, you know, I could mitigate risk to almost zero, but not serve my customer very well. So there is a balance, I think you would appreciate that.

Help me again understand—well, what are the unnecessary regulatory restrictions, in your opinion, those things that don't have a cost-benefit value in this process?

Mr. LONDON. Well, if I look at the statutory construct, again, the way that I understand it, the fact that we are asking for, if you have experience as an appraiser that we are asking for an example of the work that you have completed and also recommendations from your peers, from just a pure burden standpoint, in my view I don't think that that is an extremely high bar for entry to be on the fee panel.

Mr. ARRINGTON. Okay. Ms. Bradley, could you help me with identifying those requirements that are unnecessary and may be a barrier to serving the veteran, rural or otherwise?

Ms. BRADLEY. As a VA appraiser for the past 20 years, I worked for FHA and I work in the conventional market, the VA is the gold standard, it does not need to be changed, in my personal opinion.

Mr. ARRINGTON. Why do so many appraisers say it is the least desirable, I mean significantly, exponentially greater than most of them on that list?

Ms. BRADLEY. The question asked I believe was which entity are you least likely to work for and if that appraiser didn't happen to be on the VA-approved panel they are going to answer no. And perhaps there are many appraisers that choose, as we had said, not to request appointment to the VA panel because of misinformation about over-regulation, I believe that is the reason it was chosen.

Moving forward, I believe for the VA's recruitment of appraisers, if they provided continual education and they do regional training, I believe if they bring in new appraisers who maybe have a misconception that there is too much regulation, that can help them.

Appraisers who have never done a VA appraisal before think I don't know what a minimum property requirement is, I am too concerned to do it for liability purposes. If there were training for new appraisers to join the panel in conjunction with the open enrollment, I think that would dissuade people from being concerned.

Again, it is highly rural markets that we are talking about, this is not the norm throughout the country. And I need to reiterate, please, the VA is the gold standard for appraisal independence.

Mr. ARRINGTON. So thank you.

I have exceeded my own time restriction and so I am going to ask my colleague Mr. O'Rourke if he has further questions or comments.

Mr. O'ROURKE. Thank you, Mr. Chairman.

Mr. ARRINGTON. And I yield the full five minutes.

Mr. O'ROURKE. Thank you. Again, I want to thank you for bringing everyone together and addressing an important issue that in the going on five years that I have been on the Committee we really have not addressed. I am grateful for that and I think something good is going to come of it.

I do want to stress, because there is very legitimate concern today about availability of timely VA loans and appraisals in rural areas, especially those that are experiencing an economic boon as the Chairman's district in Oregon is and as we are seeing in some parts of Texas. I want to make sure that we meet that need and address that concern in a way that is going to be effective without at all diminishing or undermining the extraordinary success that this VA loan program has had. Samantha on my team was just telling me that there was a 24-month period between 2014 and 2016 where these VA loans were the lowest average rate in the country.

So we are providing a tremendous earned benefit to the veterans who put their lives on the line and are getting that extra help, as they should, and we are also protecting the taxpayer, as we should, and we are also increasing the rate of home ownership significantly, as we should. So lower rates, lower foreclosures, more home ownership, all very good things. Let's meet the demand in some of these extraordinary, you know, unique cases. As the Chairman brought up and as we are seeing, we were talking about Odessa, Texas earlier today and I know there are other parts of the country that face this.

I wonder, and I am of course speaking just on my behalf, but whether or not this panel could come back to us with a unified approach to addressing this that may or may not require more legislation. If only 42 percent of appraisers in this country choose to work for the VA, how do we increase the rate of participation? If we are having these unique challenges in rural and under-served districts, how do we meet them? Do we need to change statute and law, is it an act of Congress literally?

Again from the benefit of, you know, four-plus years in this place, it is very hard to get something through this Committee, the House, the Senate, and onto the President's desk and signed into law. So if this is urgent and if this is a crisis, let's not wait for statute. If the five of you could agree on something and come back to us within a month and say here—and you offered a number of ideas, but they were each offered individually and separately—if these are consensus opinions or you could arrive at them and come back to us.

Perhaps the VA voluntarily says, you know what, here's some stuff that does not require a statute, we are going to do it because it is going to ensure more veterans get into more homes more quickly. Or you may need to make some tweaks to law, you know, that's on us, or here is a way to reach out to appraisers in some of these markets. Or as the Committee staff just suggested, is there some way to cross state lines where you have the capacity in California in the north of that state that can serve Oregon, you know, in the south of that state. I don't know, but you all know this stuff, you are going to have the solutions. I know just having worked with the Chairman now for a little over three months, he gets on this stuff and he is already probably working on, if I had to guess on legislation, which I would really like to see and I think could make it better. If we can do something in addition to that legislation or in place of that, all the better.

Forgive me, Mr. Chairman, I am not trying to predict what you are doing, just this is such an important issue I want to make sure that we don't wait on it. If you could come back to us within a month, the five of you together—

Mr. ARRINGTON. Absolutely.

Mr. O'ROURKE [continued]. —that would be great.

Mr. ARRINGTON. Would the gentleman yield?

Mr. O'ROURKE. So I yield back.

Mr. ARRINGTON. You took the words out of my mouth. And, you know, you have been here a few more years and so look how you just beat me to the punch and shamed me in front of my colleagues like that.

Mr. O'ROURKE. No, no, no.

Mr. ARRINGTON. I couldn't agree more. You guys are closest to the problem. I have heard good responses, but I think if we could frame them and maybe the Ranking Member and I can work on framing this with more than just one central question, maybe three to five questions, you guys work on it and come back and submit those for further discussion.

But this ought to be something we can solve, this ought to be the most easy-to-get-to bipartisan solution with stakeholder input of anything I have encountered yet. And so I know there is no problem that is easy, but relatively speaking, we ought to be able to tackle this.

So I appreciate your suggestion. Right on, I second that.

And may I just ask one more question of Mr. Johnson,

just would you all indulge me for just a minute?

Your product, how would your product apply to this problem-solving exercise and is it mature enough and nuanced to meet this particular problem? I would like to hear more from you about how we can bring technology to bear to provide greater access, especially in the rural areas.

Mr. JOHNSON. Absolutely. Thank you for the question and the opportunity.

I see this as primarily an efficiency utilization. How do we best utilize the resources that we have available to us? As has already been stated, the VA program is the gold standard and the VA has done a wonderful job servicing veterans, especially in light of this increase in demand; they have increased fees, they have increased their recruitment programs, they have on-boarded several more appraisers, so they have been doing an excellent job with what they have available to them.

I think that the product that we are talking about today, the desktop appraisal, allows appraisers to focus on where they apply their knowledge and their skill set. As opposed to driving hundreds of miles every day to look at homes and take pictures and do measurements, other qualified professionals in the industry can perform those duties at different locations while the appraiser is looking at the data that is provided. Right now we can provide that information within moments, as opposed to decades ago when this process was created it took a lot of time.

So if somebody else can, you know, another industry professional can take the photos, drive out to the locations, maybe they live nearby anyway, then you supply the appraiser with the data they need to apply the skills that they have learned and the expertise that they have, and they don't have to spend their time doing those other tasks.

So it is more about the efficiency utilization of the resources in a couple of different areas, that is one example.

The other example is that there is a large portion of properties that do fit into a standard category to where they are not so complex. And if we can apply this technology into the non-complex properties, we free up time again for the appraiser to go visit out in the rural areas and be able to attack those problems.

So I think there's a couple of different ways that the product does help the situation, help the appraiser be more efficient and more effective, and help the veteran to be able to get into the homes that they want without having to wait with these unknown lead times and unknown costs.

Mr. ARRINGTON. All right, thank you for your comments.

Mr. O'Rourke, do you want to close this with any comments?

Mr. O'ROURKE. No, sir.

Mr. ARRINGTON. Are you okay?

Well, like the Ranking Member said and I agree wholeheartedly, let us frame this, and if you are willing, Mr. London, we'll just submit those to you to frame it up. And then I would like for you to work with the stakeholders present and come back with recommendations.

Don't let the current statute or law restrict your vision for a better construct to serve the customer, which is the veteran, as we steward, manage the risk and steward the taxpayer monies, but there has got to be a better way. There has got to be some creative solutions here and I think you guys are just the right team to give us some recommendations.

I really appreciate your time and your preparation and your thoughtful responses.

So I now ask unanimous consent that all Members have five legislative days in which to revise and extend their remarks, and include any extraneous material on today's hearing.

Without objection, so ordered.

Thank you all again for being here today. This hearing is now adjourned.

[Whereupon, at 3:59 p.m., the Subcommittee was adjourned.]

A P P E N D I X

Prepared Statement of Michelle Bradley

Introduction

Chairman Arrington, Ranking Member O'Rourke, and members of the Subcommittee, my name is Michelle Bradley. I am a third generation REALTOR® with 31 years' experience as a state-certified general real property appraiser and a licensed real estate broker in Pennsylvania. I am here representing the more than 1.2 million members of the NATIONAL ASSOCIATION OF REALTORS® (NAR) who work in all aspects of real estate. NAR represents a wide variety of real estate industry professionals, including approximately 25,000 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.

I am currently on the VA appraiser panel and the FHA appraiser roster. In addition to being a full-time appraiser-practitioner, I am also a principal with Bradley Consultants, a real estate appraisal school. In this capacity, I author and present education courses for both real estate licensees and appraisers in multiple states. I am one of only 500 instructors certified by The Appraisal Foundation to teach courses on the Uniform Standards of Professional Appraisal Practice (USPAP). I have served as chair of the Pennsylvania Association of REALTORS® Appraisers' Forum, as well as the 2016 Chair of the National Association of REALTORS® Real Property Valuation Committee. I currently serve as the chair of the Appraisal Standards Board Issues Committee with The Appraisal Foundation Advisory Council (TAFAC).

NAR believes a strong and independent appraisal industry is vital to the home buying process and to the housing industry as a whole. A credible valuation provided by a qualified professional (1) ensures the property value is sufficient to collateralize the mortgage, (2) protects the buyer, (3) allows secondary markets to have confidence in the mortgage products and mortgage-backed securities, and (4) builds trust in the real estate profession.

NAR commends the Committee for holding this hearing on an issue that is key to the safety and soundness of the Department of Veterans Affairs (VA) Veterans Home Loan Guaranty Program. NAR is a strong supporter of housing opportunities for veterans and active-service members.

The VA Home Loan Guaranty Program and the Role of the Appraisal

According to the U.S. Census, there were 19.3 million military veterans in the United States in 2014. The VA Home Loan Guaranty program serves a large veteran population and is doing it well. The homeownership rate for veterans was 76 percent in 2014 - well above the national average of 64 percent.

For over 70 years, the VA Home Loan Guaranty Program has been a vital tool that provides veterans and active-service members with a centralized, affordable, and accessible method of financing home purchases as a benefit for their service to our nation. This entitlement program encourages private lenders to offer favorable home loan terms to qualified veterans and active-service members. According to NAR's 2016 Veterans and Active Military Home Buyers and Sellers Profile, veterans make up 18 percent of all recent homebuyers, while active-service members make up 2.0 percent. Of these buyers, 74 percent of active-service members and 54 percent of veterans use a VA loan to finance their home purchase. [1]

VA's strong yet flexible underwriting standards allow veterans and active-service members the ability to purchase a home of their own without depleting their savings. More than 81 percent of veterans and active-service members utilize the zero-down payment option provided by VA. Yet, despite this, VA's foreclosure rate is very low:

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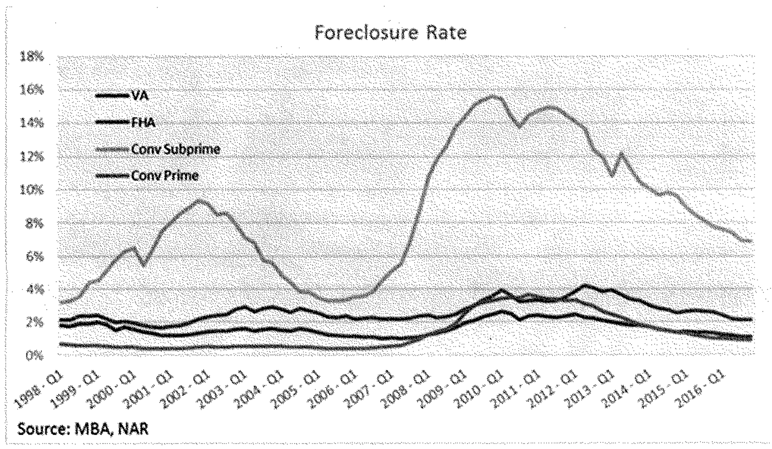
[1] National Association of REALTORS®, 2016 Veterans and Active Military Home Buyers and Sellers Profile.



In fact, during the height of the foreclosure crisis, VA's foreclosure rate was lower than that of conventional mortgages. For the second half of 2016, VA's foreclosure rate of 1.1 percent was comparable to that of conventional loans, which had a 0.9 percent foreclosure rate. Since 2009, more than half a million veterans, active-service members, and survivors kept their homes, at a savings to the U.S. Government of over $16.3 billion.

The success of the VA Home Loan Program is the result of the strong underwriting standards expected of VA lenders. VA requires participating lenders to ensure that the loan payments are appropriate for the veteran or active-service member's present and anticipated income and expenses and solidly underwrite the loans using debt-to-income ratios and credit history. Additionally, in contrast to conventional lending and even FHA, VA also uses a residual income test. Residual income calculates how much income a borrower will have left for other monthly expenses after home payments. This calculation considers the borrower's complete financial picture, and ensures money is available for emergencies or other contingencies. VA also requires the use of manual underwriting for those veterans and active-service members who marginally qualify. For these borrowers, lenders must look at non-traditional factors and give veterans and active-service members the benefit of the doubt when making a decision.

A major element of the strong underwriting provided by VA lenders is the well-developed appraisal system and high quality of VA appraisers that the VA employs to estimate the value of a given property. The VA appraisal is important because it assures the lender the property provides adequate collateral for the loan and protects the veteran or active-service member from overpaying for a property. The typical VA appraisal report will include the necessary data and analysis to estimate the market value for loan underwriting and determining the home meets the VA's requirements. The VA allows for two levels of appraisal scrutiny (1) the lender reviews the appraisal, and (2) the VA Regional Loan Centers then reviews the appraisal for any errors or concerns. This double oversight procedure creates a safety net for the veteran or active-service member that assures their home meets the VA's minimum property requirements and contains enough value to act as collateral against the loan.

The VA recognizes the value of qualified appraisers that create sound valuations, which protect VA buyers and lenders. Only appraisers that meet a high level of work quality and experience are able to become members of the VA appraiser panel. Every VA appraiser must be a state licensed or certified appraiser with a minimum of five years' experience in appraising residential properties. The VA also requires letters of recommendation attesting to the applicant's character and experience as a residential appraiser. As a result, VA appraisers are serious about their profession, their duty to the veterans and active-service members they are serving, and thus strive to produce well-documented, credible appraisal reports in a timely manner.

The VA maintains a closed panel of appraisers that receive VA appraisal assignments on a rotating basis. This ensures strict appraiser independence by removing the possibility of collusion between the lender and the appraiser. An independent and impartial analysis of real property is a critical component of the mortgage transaction, which is consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act that implemented rules and regulations to protect the independence of the appraiser.

The Perceived Appraiser Shortage

NAR has been closely following the growing concern over a perceived shortage of appraisers reported by real estate professionals from various geographic areas, including markets with quickly increasing home values such as Portland, OR and Denver, CO, as well as rural areas in Kansas and Texas. NAR members report long waits to schedule an appraisal, increasing turn-around times for appraisals, and the need to pay rush or expedited fees to obtain an appraisal in a timely manner. NAR is also aware of difficulty in recruiting new appraisers into the field and the growing frustrations of current appraisers with the state of the appraisal industry.

All this suggests a drop in the number of appraisers in the U.S. Yet, the data provided by David Bunton, President of The Appraisal Foundation, shows less than a 1,000 person reduction in appraisers from 2004 to 2015. Digging deeper into the data, the number of licensed appraisers decreased by several thousand while certified appraisers increased by roughly 20 percent.[2] So why are many markets facing situations that suggest a much greater shortage of appraisers? To gain a richer understanding of these matters, NAR conducted a survey of REALTOR® appraisers in early 2017.[3]

NAR found that appraisers are generally dissatisfied with most elements of their job. Over 50 percent felt dissatisfied with their level of compensation and overburdened by the level of regulation in the appraisal industry. Those appraisers intending to leave the profession in the next five years cited excessive regulation and insufficient compensation as the two main reasons for their departure.

2017 Appraiser Trends Study

One element of this issue is that appraisers, like individuals in any free-market based profession, have the ability to choose the assignments based on their skills, limitations, financial needs and interests. Many qualified appraisers indicated a reluctance to take on certain assignments.

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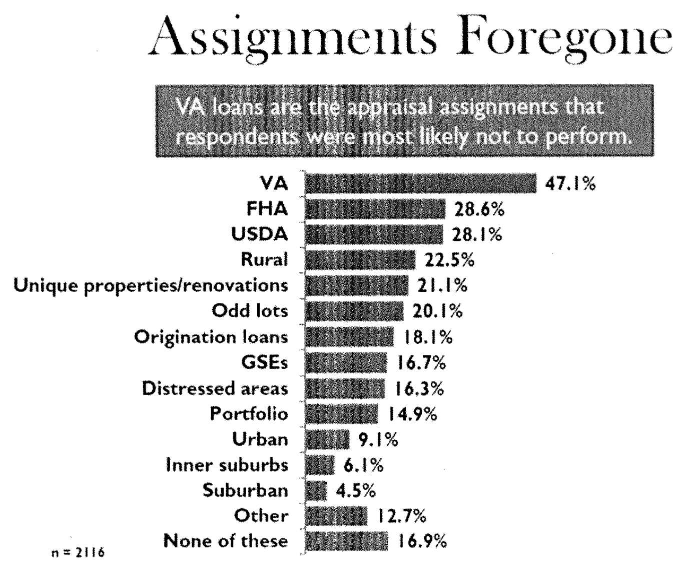
[2] https://www.appraisalbuzz.com/a-shortage-of-appraisers/

[3] National Association of REALTORS®, 2017 Appraisal Trends Survey.



2017 Appraiser Trends Study

NAR found that 47.1 percent of the survey respondents chose not to perform VA appraisals. Of course, some of the appraisers surveyed are likely not qualified to be a member of the VA appraisal board. However, it is also likely that some appraisers who are well qualified to join a VA appraisal panel may be unwilling to accept VA assignments. Given the current low-interest rate environment, growth in the economy, and the resurgence of a demand for housing[4], the opportunity for appraisers to be selective in choosing assignments has likely increased. The VA should consider whether the current VA Appraisal Fee Schedules provide adequate and reasonable compensation in light of the work and competence necessary to perform a VA appraisal. While the VA allows for the appraiser and the lender to negotiate a mutually acceptable fee for complex assignments, that can be a time-consuming, cumbersome, and thus costly endeavor. There is also no guarantee that the parties will reach an agreement or that VA will even consider or agree to a fee that is inconsistent with those set forth in the VA schedules.

Overly Burdensome Trainee Appraiser Requirements

It is more difficult than ever to become an appraiser. Individuals interested in becoming appraisers must meet education requirements, experience requirements, and pass state administered national examinations. To become a state-certified appraiser, individuals are required to take 200 hours of education coursework and complete 2,500 hours of experience in a minimum of 24-month period.[5]

These are minimum standards as established by The Appraisal Foundation's Appraisal Qualifications Board (AQB). States may require additional training. The experience requirement, which is effectively an apprentice program, is extremely difficult to meet. This is compounded by the fact that some appraisers do not take on trainees. For example, less than one in five appraisers surveyed by NAR currently take on trainees. Of the appraisers that currently do not take on trainees, over half previously did so. The lack of compensation for teaching and the refusal of lenders

[4] https://www.nar.realtor/news-releases/2016/11/nar-2017-forecast-existing-home-sales-up-a-turning-point-for-first-time-buyers

[5] Real Property Appraiser Qualification Criteria. 2015.

to accept work product done by trainees are the main reasons cited for refusing to take on new trainees.[6] Simply stated, the apprentice system is in need of reform.

The AQB is in the process of revising the qualification requirements as a way to help bring new appraisers into the industry. Recent proposed changes include introducing alternative way to comply with the current Bachelor's degree requirement and the practical experience components. NAR has engaged with the AQB on these matters for over a year and is hopeful that non-class based alternatives to the education requirement and reconsideration of the structure of the experience requirements will be developed in a way that creates highly skilled and competent new appraisers.

How VA Appraisals Function in Rural Areas

Rural real estate transactions have always presented their own unique appraisal challenges. Many of the properties in rural areas are "unique" and do not easily fit into a well-defined metric for determining the value. In some cases, an appraiser is dealing with a farmhouse or ranch on several hundred acres of land with the closest neighbors miles away. It is common for an appraiser serving a rural area to drive over an hour just to view a comparable home sale. Rural appraisers have to factor in time and gas costs that exceed those of suburban or urban appraisers. According to NAR's Appraiser Trends Survey, appraisals for unique or odd lots, which many rural properties are, take nearly 50% longer than a standard appraisal.

It is important to note that Uniform Standards of Professional Appraisal Practice (USPAP) does NOT limit the distance an appraiser may travel to an assignment. While a distance traveled limit sounds like a simple solution it is far from effective. This is because markets vary widely - an appropriate distance limit in an urban market may not be appropriate in a nearby rural area. What is important is that clients retain services from appraisers with a level of geographic competence sufficient to complete the assignment with credibility. Geographic competency entails more than a deep analysis of the sales and demographic data. Appraisers must take the time to learn the characteristics and qualities of the specific market, including the current housing supply and demand for that area.

REALTORS® from rural Michigan document the challenges faced. For example, a REALTOR® working with veteran clients in rural Michigan is aware of only two VA appraisers that take on assignments in their area. One of these appraisers comes from one hour away. The other works in a town a three-hour drive away. Unfortunately, the experience of REALTORS® in Michigan is that the appraisals in VA transactions have recently been coming in well below the agreed upon selling price, in one situation $60,000 lower. REALTORS® across the country, including Texas and Oklahoma, have shared similar anecdotes.

Recently, many home purchase transactions across the country have come undone due to a difference in the sales price and the appraised value of a home. Unlike with other forms of financing, in a VA loan transaction, when an appraiser realizes that the appraised value of a property is coming in below the sales price, they are to stop work and notify the lender's point of contact. This process is called the Reconsideration of Value, often referred to as the "Tidewater Initiative". After notification by the appraiser, the lender's point of contact has two days to provide support for the sales price, which can include additional comparable home sales. The appraiser reviews any information provided and then completes the appraisal report. In some cases, it may result in a revised appraised value for the property. In the Michigan example cited, it did not; the appraised value remained below the listing value and the deal fell apart.

NAR's members understand the reality is that sometimes real estate deals will fall apart over a difference in appraisal value versus the agreed upon selling price. Nevertheless, there are best practices to address these situations and ideally reach a satisfactory conclusion. An effective solution to these conflicts with the appraisal and the buyer's expectation is to improve the understanding between the parties. Contact between appraisers and real estate agents and their clients is not prohibited and should, in fact, be encouraged by the VA. Appraisers should feel comfortable with offering their competency to stakeholders. Real estate agents and their clients should ask questions to get a better understanding of the appraiser's qualifications, education, experience, and professional designations. While understanding should be encouraged, NAR also believes that coercion and other attempts to influence value are, and should continue to be, prohibited. If all parties feel that contact and information was received properly, the ability to understand the difficult out-

[6] National Association of REALTORS®, 2017 Appraiser Trends Survey.

come of failing to purchase a particular house is much easier for the veteran or active-service member to handle.

Conclusion

The NATIONAL ASSOCIATION OF REALTORS® strongly supports housing opportunities for our nation's veterans and active-service military professionals. The VA Home Loan Guaranty Program appraisal system is an imperfect but necessary element to ensure our veterans and active-service members are protected when using a VA home loan. NAR is willing to work with the VA and the members of this Committee to address many of needs of the current system, including the reevaluation of requirements for trainee appraisers, ensuring good understanding between the appraiser and the veteran or active-service homebuyer, and recognizing the realities of the market in terms of appraiser choice in assignment. NAR firmly believes that the VA Home Loan Guaranty Program will continue to provide a vital benefit to the men and women who bravely fought for our country, so they may find a home that serves them and their needs.

Prepared Statement of Stephen S. Wagner

Chairman Arrington, Ranking Member O'Rourke and Members of the Subcommittee on Economic Opportunity, thank you for the opportunity to testify on improving the VA Appraiser Fee Panel on behalf of the 19,000 members of the Appraisal Institute, the largest professional association of real estate appraisers in the United States.

EXECUTIVE SUMMARY

- The U.S. Department of Veterans Affairs (VA) Appraiser Fee Panel purposefully is unique, given the charge of supporting our nation's veterans. The VA loan program is an important veteran benefit that performs better than other government loan programs, in part, because it has strong appraisal independence mechanisms.
- The VA appraisal staff are some of the most accessible and responsive within the federal government relative to real estate appraisal issues. They often help resolve payment and underwriting issues between VA appraisers and VA lenders.
- The Appraisal Institute opposes changing the VA Fee Panel to one that mirrors what is found in the Federal Housing Administration or the private sector. We do not believe that this would reduce turnaround times for appraisals, nor would it be in the best interest of veterans.
- Measures may be taken to improve the consistency of the program and to maintain its competitiveness with the private sector, as discussed in greater detail in Part 3:
- Maintain an independent Fee Panel of VA appraisers;
- Develop a "stand-by" list of approved VA appraisers;
- Enhance appraiser recruitment efforts;
- Encourage lenders to provide better information at the time of the appraisal assignment; and
- Address appraiser concerns about unpaid appraisal fees.

Part 1. Background and Private Sector Issues

VA Fee Panel

The Veterans Administration (VA) maintains a Fee Panel of approved real estate appraisers who work on behalf of the agency in providing collateral risk assessment in support of the VA Home Loan program. The Fee Panel is directly managed by the VA and consists of a pool of several thousand appraisers who accept VA appraisal assignments on a rotating basis.

The Federal Housing Administration once maintained a panel similar to the VA Fee Panel, but in the 1990s that program was changed to what is known as "Lender Select." This allowed FHA Direct Endorsement lenders to manage the appraisal process and to engage appraisers directly. The FHA Lender Select program operates similarly to the conventional mortgage market.

By comparison, the VA Fee Panel is a much stronger proponent of appraisal independence and presents a much more positive environment for real estate appraisers than what is found in other government programs or the private sector. Outside of the VA, appraisers often face a litany of challenges ranging from marginally qualified appraisal review processes to stifling fee compression. This, along with a complicated national regulatory structure that is in need of modernization[1], has produced an overall unattractive environment for real estate appraisers, particularly residential appraisers.

Appraiser Population Trends

The Appraisal Institute has been tracking appraiser population trends for many years. The trend has been downward for several years, with the ranks of residential appraisal accounting for nearly the entire decline. Real fees for residential mortgage appraisers have been in decline for many years, while the costs of doing business (I.e., licensing fees, continuing education, books, supplies, vendor fees, etc.) have gone up. When one adds in fee-splitting with appraisal management companies, many residential appraisers actually are making much less than they were some 20–30 years ago (see attached chart - U.S. Appraiser Population Estimates

Licensed/Certified Residential).

We anticipate a continued decline in the number of practicing appraisers, between 20–25 percent, over the next 5–10 years.

AI data does not indicate a national shortage of appraisers at this time, but there are indications of temporary shortages in some markets. We anticipate, however, that longer-term shortages will appear going forward should the projected decline materialize.

The VA Fee Panel is somewhat insulated from these national trends in that it is a hand-picked list of approved appraisers. While the national pool of appraisers has narrowed in recent years, there still is an ample number of appraisers to support the VA Home Loan program. Moreover, the national figures better represent the status of private sector residential appraisal issues and problems than issues transpiring within the VA Home Loan program.

Interim Final Rule & Customary and Reasonable Fees

The Dodd-Frank Act requires creditors and their agents to pay "customary and reasonable" fees to appraisers to reflect what an appraiser typically would earn for an assignment absent the involvement of an appraisal management company. Under the Act, evidence for such fees may be established by objective third-party information, such as government agency fee schedules, academic studies and independent private sector surveys.

Rules that have been promulgated by the Federal Reserve (Interim Final Rule) and the Consumer Financial Protection Bureau (Final Rule) are not consistent with the plain language and intent of the Dodd-Frank Act[2]. Two presumptions of compliance are provided by the Federal Reserve and accepted by the CFPB that are internally inconsistent. One presumption requires independent studies or fee schedules that align with retail appraisal fees direct from the appraiser, while the other accepts internally-generated results that include what amounts to wholesale fees involving third parties.

The CFPB adopted a final rule earlier this year, leaving these presumptions unchanged. We continue to have concerns with the internal inconsistencies found in the two presumptions for compliance.

The problem of customary and reasonable fees paid to appraisers is masked by consumer disclosure rules that allow the co-mingling of the fee paid to the appraiser and separate appraisal management company fees on the Appraisal line of the Consumer Disclosure form issued by the CFPB. This co-mingling confuses consumers into believing that they are paying appraisers more for services today, when, in fact, compensation levels may have declined significantly because appraisal management companies are taking a sizable portion of the total cost paid by the consumer.

The Dodd Frank Act authorized the CFPB to require the disclosure of AMC fees separate from fees paid to appraisers. In developing the final TRID (TILA–RESPA Integrated Disclosure) rule, the CFPB conducted consumer testing of sample Closing Disclosure forms. This testing concluded that consumers were indifferent to the disclosure of AMC fees separate from appraisal fees. Consumers were not confused by a disclosed appraisal management company fee. Despite this, the CFPB opted to allow disclosure simply on a voluntary basis, but not to mandate it. Today, while

[1] On November 16, 2016, The House Financial Services Committee Subcommittee on Housing and Insurance held a hearing on, "Modernizing Appraisals - A Regulatory Review and the Future of the Industry." Available at http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=401174

[2] The Appraisal Institute's comment letter on the issue of customary and reasonable fees is available at http://www.appraisalinstitute.org/file.aspx?Document=AI–ASFMRA–ASA–NAIFA—on—IFR–Final.pdf

some lenders break out the fees paid to AMCs separate from appraisal fees, most do not do so.

As discussed below, the VA Fee Schedule essentially is the only government agency fee schedule that exists, and it is a strong measure of our concern and the inconsistencies between retail appraisal fees and those paid by some appraisal management companies. Changing the VA Fee Panel to the model employed by the private sector would result in stiff fee compression for VA appraisers and come at the expense of the strong appraisal independence components and expertise found in the current VA Fee Panel.

Loan Program Performance and Taxpayer Protection

The VA Appraiser Fee Panel enjoys support from other objective observers. Recently, the American Enterprise Institute reviewed the VA appraisal program in comparison with the FHA operations and concluded that the VA processes and procedures provide more taxpayer protection and helped to produce lower defaults and loss severity. VA appraiser engagement helps to create a more positive environment for risk management and loan performance, among other things, the report concluded [3].

Part 2. VA Appraisal Issues

VA Fee Schedules

Generally speaking, the VA fee schedules are much more indicative of customary and reasonable than what is found in the private sector today. This largely is because the schedule is developed by surveying local market participants. As such, the schedule has become an important measure for customary and reasonable fees in the marketplace. In recent years, several states have recognized the VA Fee Schedule in assessing customary and reasonable fees.

Below is the current Fee Schedule from the Phoenix VA Regional Loan Center for Arizona, California, New Mexico and Nevada, effective December 1, 2016:

Fees and Timeliness

Effective for all VA appraisals, repair inspections and compliance inspections, please see the following table:

Fannie Mae Forms	1004 1004C 1073 Single Family*	2055 1075 Exterior	1025 Multi-Family*	Appraisal Updates All	1004d Repair Inspection	Appraiser Timeliness
Arizona, California, New Mexico, Nevada	$600.00	$450.00	$750.00	$200.00	$100	7 Business Days

*If the appraisal is completed for liquidation appraisal purposes, appraisers are authorized to charge an additional $50.

In contrast, we contacted an AI professional in the California market and asked what was being offered by several national appraisal management companies that bundle the fee paid to the appraiser and the appraisal management company fees, as opposed to a "cost-plus" model that would charge the management fee on top of the appraiser service fee:

National Appraisal Management Company A:

- $350 for 1004 (Fannie Mae form) Single Family

National Appraisal Management Company B:

- $255 for 1004 (Fannie Mae form) Single Family

National Appraisal Management Company C:

- $255 for 1004 (Fannie Mae form) Single Family

This professional indicated several banks that engage appraisers directly (as opposed to using appraisal management companies as third parties) in this particular market are paying appraisers $450, on average, for the same service request.

[3] Pinto, E. (2013). Alignment of Incentives - VA Best Practices. American Enterprise Institute. Available at http://www.aei.org/wp-content/uploads/2013/08/-pinto-alignment-of-incentives-va-best-practices-082613—110818557056.pdf

Timeliness

The VA also maintains timeliness requirements of seven (7) business days for the VA Fee Panel, as you can see in the VA fee schedule cited above. We are aware of complaints about appraisal timeliness in some markets. This was particularly acute last year where loan volumes were strong in many markets. We do not believe this was a national problem, but it was experienced in many markets around the country, particularly in rural areas. Here, turnaround times for appraisals may have exceeded more than 30 days in some areas.

We understand that many of these markets have normalized since December when interest rates increased. As such, appraisal volumes have declined and we expect that turnaround times have declined in these markets, as well. Further, we do not believe that the experiences in some markets last year were unique to the VA Fee Panel, as similar concerns were expressed in the conventional market in many of these areas.

Underwriting and Review

VA lenders are using an automated appraisal review program that attempts to warn them of items to check in the report narrative. However, lenders often take it as a cue to call the appraiser and ask for more of the same language in a different place in a revised report. Further, lenders frequently confuse the VA requirements with those of FHA or Fannie Mae/Freddie Mac. This is particularly bad whenever a new VA lender comes online.

As one VA Panel Appraiser/AI Member stated recently:

On the positive, it is good that VA says the appraiser can use their three best comps (we are often lucky to have one good one in rural areas, while the other two are the best of a sorry lot), and that if a lender wants more, they have to pay extra. VA does a pretty good job of backing up the appraiser to the lender, and, as you know, the assignments are on rotation. As one who is very well qualified, I dislike working at the same fee as a newbie, but at least the assignments are fair.

Personally speaking, as one who has been a VA Panel appraiser in the not-too-distant past, I believe in the VA appraisal program and truly believe it to be of great benefit to Veterans. The personnel I have encountered at the VA, during my time on the panel, were extraordinarily dedicated to Veterans. I either personally witnessed or heard stories of Veterans being treated with respect and assistance in times of challenge that have protected and benefited them. In that vein, the VA appraiser panel is integral to protecting Veterans, the VA and the public interest. Maintaining a roster of objective, qualified and professional appraisers is the way that effective real estate collateral risk mitigation is accomplished.

Dismantling or significantly changing the VA Roster platform that provides for a critical level of independence would be a mistake. Furthermore, seeking alternative valuation products, such as desktop appraisals, also would be a mistake in terms of collateral risk mitigation. I will acknowledge that from time-to-time we experience high volume demand for appraisals and delivery times are elevated to less-than-optimum levels. Nevertheless, although these intervals can be somewhat protracted, they are temporary. Dismantling a working system is not the answer. The Appraisal Institute would like to offer some suggestions to enhance an already-workable and successful system.

Lender Payment Concerns

Our members report that some lenders fail to pay for services rendered or push payment off for months - even years. Some appraisers write off a certain number of fees every month, knowing that lenders will fail to pay. What is even more frustrating for VA Fee Appraisers is being forced to complete assignments for the same lender that is in arrears with the appraiser. This serves as a major disincentive for some appraisers who otherwise would be interested in applying to be on the VA Fee Panel.

"Tidewater Initiative"

The VA maintains a process that requires the appraiser to contact the agent or seller when the appraisal does not support the sales price. This provides the agency/seller with the opportunity to provide more information to the appraiser for consideration.

We had our doubts about the Tidewater Initiative when it first was released, but according to our members who participate in the program, it has worked relatively well. Many appraisers proactively request information from the agent and seller on the front end to avoid complication after the appraisal is complete. We now are supportive of the program and believe that it could be replicated by other agencies and the private sector.

In our opinion, the whole system would be improved if we could adopt the VA appraisal model of a limited panel of appraisers who routinely are reviewed by someone without an agenda, and which uses fair rotation and establishes some sort of fee range to reward experience and qualification.

VA Fee Panel Recruitment

The VA recruits appraisers on an ongoing basis to the Fee Panel, and the AI even has assisted the agency in marketing the opportunity to the appraisal community. But some of our members report an uneven response from the VA regarding their applications. While those appraisers who currently are on the VA Fee Panel generally give it high marks, those who are not on the Fee Panel and are interested in doing so have expressed some frustration about the length of approval time or their outright rejection.

VA officials report that it actively recruits existing licensed and certified appraisers to the Fee Panel, which currently stands at roughly 5,700 appraisers nationally. The agency has apparently undertaken efforts to proactively contact licensed and certified appraisers encouraging application to the Fee Panel. However, if appraisers are choosing not to apply or deferring work in favor of the conventional appraisal assignments, that would indicate the agency must do more to remain attractive to appraisers in the marketplace, such as increasing fees or reducing administrative burdens. We understand that the recent fee increases in states such as Oregon have produced positive results, and we would encourage similar actions elsewhere.

Part 3. Recommendations

As Congress reviews appraisal issues, we would like to suggest several reforms to help improve the VA Home Loan program and the VA Appraiser Fee Panel, as follows:

1.Avoid the pitfalls found in the private sector and other government agencies by maintaining an independent Fee Panel of VA appraisers. By comparison, we do not believe that a move to a lender select program, such as those found in the conventional or FHA mortgage markets, would improve timeliness, nor would it be in the best interests of veterans.

2.Develop a “stand-by” list of approved VA appraisers to serve as a “buffer” against surges in loan demand. This would help avoid what may have been observed in some markets last year.

3.Enhance appraiser recruitment efforts by targeting appraisers who have completed peer review and/or demonstration appraisal requirements for professional appraisal designations from nationally recognized professional appraisal organizations. The VA Fee Panel would benefit from greater involvement by highly-qualified appraisers.

4.The VA should make several improvements to VA lender processes, including:

a.Improve timeliness by encouraging lenders to provide appraisers with better information, such as the legal description, on the front end of the appraisal assignment. We often see the form VA 26–1805–1 form incompletely filled out. In areas where there are ingress-egress easements, this can eat up a tremendous amount of time trying to obtain property-access details, which is a critical mortgage security and collateral value component.

b.Improve the attractiveness of the VA Fee Panel by addressing prompt payment concerns. Authorize VA Appraisers to reject appraisal assignments when lenders are in arrears more than 60 days.

Thank you for the opportunity to testify on this important issue. I would be happy to answers any questions.

Prepared Statement of Russell Johnson

Chairman Arrington, Ranking Member O’Rourke, and members of this Subcommittee: on behalf of Clear Capital, I am pleased to appear today to talk about how new ideas of efficient appraisals can help veterans realize homeownership by utilizing the Home Loan program from the United States Department of Veterans Affairs.

I am a veteran of the US military, having served more than 4 years in the United States Navy as a Deep Sea Diver. My duty stations include: SIMA Dive Locker Guantanamo Bay Cuba, USS Acadia (AD–42) Dive Team, Mobile Diving and Salvage Unit Det. 1, Explosive Ordnance Disposal Group Coronado.

I have purchased homes but have not used my Department of Veterans Affairs housing benefit. In my experience, I have personally dealt with real estate brokers and lenders who portray the VA program as too complex, expensive, and time consuming.

Thus, I realize that I was steered away from using my benefit and toward conventional mortgages. I also know that such actions are not practiced by most real estate brokers or lenders and are certainly not the policy espoused by state, local or national associations such as the National Association of Realtors (NAR) or the various lending associations. Nonetheless, this was my personal experience in the lending process. I believe that veterans should enjoy using the VA's mortgage guaranty benefit provided to them for their service. They have truly earned this benefit, and our country is better served when veterans are appreciated and when they become homeowners.

The VA home loan benefit should be perceived by veterans, and the broader market, as an efficient, expeditious, and positive experience. I am here today in a capacity where I believe I can help my fellow veterans have an improved home buying experience and increase usage of this benefit and the program. The VA Home Loan benefit is an extraordinary benefit that, not only assists with the financial aspects of purchasing a home, but also provides a service to help veterans with one of the biggest financial decisions of their lives. This is particularly important because, similar to many Americans, most veterans have very little experience with purchasing a home and working with the mortgage lending community.

I work for an organization called Clear Capital. Clear Capital's focus is applying new technologies to solve real estate valuation problems with the highest degree of integrity, quality, and customer service to the mortgage lending, investing, and housing industry. My experience with Clear Capital has allowed me to observe a way veterans could be served in a more efficient manner, and improve the experience of using the Veterans Home Loan Guaranty Benefit. I would like to explore these methods of using technology and new approaches to solve real problems affecting our veterans today.

Over the past few years and across all home purchase products - VA and non-VA loans - appraisal wait times and costs have risen significantly in some pockets of the country. In large part, this is a result of a shortage of appraisers in some markets. The shortage of appraisers is slightly exaggerated with the VA program because, as I understand it, the appraisal is more specialized, using separately-approved appraisers, to ensure greater protection of the veteran homebuyer. Unfortunately, during some peak lending periods, the result in some areas of the country has been that veterans must wait weeks for an appraisal that can cost hundreds of dollars more to obtain. Since the mortgage applicant pays directly for an appraisal the extra cost is borne by the veteran mortgage applicants. (Although the cost of an appraisal in the non-VA market is also borne by the borrower, such costs are somewhat less.)

In addition, the perception of lengthy cycle times for appraisals can result in a veteran being steered away from this valuable earned benefit in favor of a quicker process through a conventional or FHA program. While the VA has lead an effort with other stakeholders to make the VA home mortgage more accepted by market participants, including real estate agents and lenders, some steering likely occurs due to the different and sometimes lengthier appraisal times.

In fact, in a recent survey by the National Association of Realtors, VA loans were identified as the appraisal assignments that responding appraisers were most likely not to perform.

I have been asked to provide Congress with information on alternative appraisal options in addition to the traditional appraisal process used today. In doing so, I'd like to pose two key questions to evaluate any such new ideas:

First, do any new potential appraisal approaches save a veteran money, and speed the process of obtaining for the veteran this valuable mortgage guaranty benefit?

Second, do these approaches provide the necessary Quality Control over time to protect both the veteran and the soundness of the VA Mortgage Guaranty program?

If yes to the first two questions, what would a proper timeframe and implementation process look like?

The appraisal remains an integral component of the mortgage finance industry. In the 1980's the United States experienced a major financial crisis in the Savings and Loan industry that was fueled in part by faulty and fraudulent appraisals. Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of

1989 (FIRREA) to address the crisis and implement industry reforms. Title XI of FIRREA created the appraiser regulatory system we have in place today. Subsequently the standards for independence of the appraiser were enhanced by the Home Valuation Code of Conduct (HVCC). And finally, after the 2008 housing crisis, the appraisal independence system was codified in Dodd-Frank. The latter two developments were to ensure and to increase the independence of appraisers from interested parties in a real estate transaction.

The appraiser regulatory structure implemented by the passage of the Dodd-Frank Act in 2010 greatly expanded the federal government's role in appraisal oversight with new requirements for appraisals, appraisers, and appraisal management companies. Regulatory authority was transferred to the newly formed Consumer Financial Protection Bureau to further support protections to borrowers designed to eliminate predatory lending practices.

The real estate valuation industry is evolving in a number of ways that we believe can aid the efficiency of appraisers in the important role they play in the mortgage lending process. New data and analytics are being developed to assist the appraiser in their consideration of a property, its local market and ultimately its value. Efforts are underway to attract more participants into the appraisal profession, and to reinvigorate the use of trainees in support of an efficient and reliable appraisal process.

With the advent of new products, services and analytics, Clear Capital suggests that the VA consider the use of a desktop appraisal, based on the physical inspection of a subject property by an industry professional, where appropriate as an option by the Department of Veterans Affairs. The product is a hybrid of traditional appraisal process and methods and leverages a qualified, arms-length, real estate professional, such as a real estate broker or agent, performing a visual inspection of the subject property and providing other market insight and analytics.

The inspection and other market data are provided to a geographically-competent, licensed appraiser for analysis, along with supporting data such as real-time MLS information, public records, and local market data and analytics. The appraiser analyzes all the information and data and concludes the final value of the property.

Desktop appraisals continue to evolve in conformity with both the Uniform Standards of Professional Appraisal Practice (USPAP) as well as the evaluation requirements in the Interagency Appraisal and Evaluation Guidelines.

It is important to note that the desktop appraisal is not new to the marketplace. It is currently used in the home equity space, the servicing space, and within financial markets with great success. Applying these methods and techniques that are currently already used by many market participants will allow our valued veterans to improve their experience with the VA program.

Now let's return to our key questions. First, how does this help the veteran?

The desktop appraisal process allows a single appraiser to complete several more appraisals per day than is possible with the traditional approach. In some parts of the country, an appraiser spends 30% of his or her time driving to and from a property. This is not a productive use of time for these skilled and knowledgeable professionals. Neither should an appraiser necessarily need to spend valuable time taking room measurements. Rather, wherever possible the appraiser should be applying their expertise and knowledge by performing the analysis of data and information about a property, in order to arrive at a solid property valuation. He or she should not need to be an Uber-driver, or handle a tape measure, or be a photographer, for hours on end for every valuation assignment. This only drives up the cost of an appraisal-to the veteran, remember-and slows the decision-making process.

Today's technology makes it possible for detailed property measurements, characteristics, market comparables and other detailed information to be delivered to the appraisers within minutes of collection. This wasn't possible 40 years ago when the current model was created. Today we can very quickly provide the appraisers with the information they need to perform accurate and timely appraisals of the highest quality.

Second, does this option provide the necessary Quality Control to protect both the veteran and the integrity and soundness of the VA program? Yes.

We believe that high quality desktop valuation reports can be generated in a broad range of scenarios by leveraging increased access to data and analytics in the real estate industry and focusing an appraiser's professional expertise on efficiently evaluating the credible information provided for analysis. Appraisers completing these reports would remain subject to the same licensing and certification requirements, as well as the standards provided under USPAP. Likewise, the process could be rolled out in agreed upon use cases for completion by appraisers on the VA panel, and subject to appropriate quality assurance reviews.

In many situations, value thresholds and other complexity factors will require a traditional appraisal; in addition, in some parts of the country, veterans do not experience price squeezes or extended wait times. However, where lead times are long, costs are high, and resources are increasingly scarce we must create a more efficient model. Providing a solution that allows an appraiser to apply their expertise in an environment of highest quality and reduced time to complete each appraisal will reduce costs to the veteran, will reduce the time to close, and greatly improve the veteran's experience when using this benefit, thus increasing veteran adoption of this good program and increasing veteran home ownership.

To conclude, the VA home guarantee program is a gem. It has rewarded our veterans and active-duty personnel with an incredible, and unique, earned benefit. It has allowed them to improve their economic opportunity by accruing home ownership equity. This earned benefit program, thanks to the VA staff and lenders, performed exceptionally well during the last downturn, avoiding the problems other mortgage programs had with faulty underwriting and inadequate servicing processes. It's a program of which we should all be proud. At the same time, we must work together to ensure that going forward, this program continues to serve the veterans and active-duty servicemembers efficiently, cost-effectively, and carefully. I want to thank the Economic Opportunity Subcommittee for having me in today, and thank the VA staff for their dedication.

Statements For The Record

HONORABLE GREG WALDEN

December 15, 2016

Ms. Melanie Renaye Murphy
Director
U.S. Department of Veterans Affairs
Denver Regional Office
155 Van Gordon Street
Lakewood , CO 80228

I write to express my concern about the difficulty veterans in my d istrict are having in getting an appraiser assigned to thei r VA-guaranteed home loan.

Over the past several weeks, Ihave heard from more than a dozen different veterans throughout my district who have experienced significant delays in receiv ing their VA- guaranteed home loan due to the backlog in appraisals for these loans. I have also heard from several realtors and loan officers who find that in their efforts to secure homes for veterans and their families, receiving a VA-approved appraisal is the most challenging and time- consuming requirement. Some of these veterans and their advocates have waited up to nine weeks to even have an appraiser assigned to their case, making them far less competitive as prospective buyers in the housing market.

These lengthy delays present a hardship both financially and logistically by creating unce11ainty of housing for veterans. One veteran in Deschutes County, Oregon, for example, recently asked me for help when he realized that he and his family would soon be homeless if their current home was sold and they had not secured a new place to live because they were waiting for an appraisal. Another veteran in Gilliam County, Oregon, tried to refinance his home through the VA, but waited over seven weeks to have his case assigned to an appraiser and received no response or status update from the VA despite repeated attempts to contact them. Another veteran waited so long for his appraisal that his interest rate lock expired and he lost the home due to interest rate increases.

These cases speak to the larger issue that is plaguing veteran s in both rural and more urban areas in my district. My office has been in contact with staff members of the Regional Loan Center in Denver, CO, and I understand that everyone is aware of the larger trends leading to a decreasing appraiser population across the country. With those impending challenges in mind, l ask that you please report on what strategies, if any, the VA is utilizing to account for this overall shortage in the appraiser market and reduce the average wait times for veterans seeking an appraisal for a VA-backed home loan. I also fear that this shortage of appraisers wilJ soon have an effect on other government agencies and on the market at large, so please include any discussions you have had with state or national realtors associations, appraiser certification and licensing boards,and relevant federal regulators such as the Appraisal Subcommittee {ASC), or the three independent appraisal boards that ASC oversees. Thank you for your attention to this matter.

Best regards,

Greg Walden
U.S. Representative
Oregon's Second District

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