



Highlights of [GAO-12-147](#), a report to congressional committees

## Why GAO Did This Study

Real estate appraisals have come under increased scrutiny in the wake of the recent mortgage crisis. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 created an oversight structure for appraisals and appraisers that involves state, federal, and private entities. This structure includes ASC, a federal agency responsible for monitoring these entities' Title XI-related activities. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) expanded ASC's Title XI role and required GAO to examine ASC's activities and exemptions to federal appraisal requirements. This report discusses (1) how ASC is carrying out its original Title XI responsibilities, (2) ASC's actions and plans to implement Dodd-Frank Act provisions, and (3) regulatory dollar thresholds for determining when an appraisal is required. To do this work, GAO reviewed ASC records and reports, surveyed state appraiser regulatory agencies, analyzed government mortgage data, and interviewed industry stakeholders.

## What GAO Recommends

To help ensure effective implementation of ASC's original Title XI and additional Dodd-Frank Act responsibilities, ASC should clarify and report the criteria it uses to assess states' overall compliance with Title XI and develop specific policies and procedures for its other monitoring functions. GAO provided a draft of this report to ASC and seven other agencies. ASC and two other agencies agreed with the report's recommendations. One agency did not comment on the recommendations, and the others did not provide written comments.

View [GAO-12-147](#). To view the e-supplement, click [GAO-12-198SP](#). For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

January 2012

## REAL ESTATE APPRAISALS

### Appraisal Subcommittee Needs to Improve Monitoring Procedures

#### What GAO Found

The Appraisal Subcommittee (ASC) has been performing its monitoring role under Title XI, but several weaknesses have potentially limited its effectiveness. For example, Title XI did not originally provide ASC rulemaking and enforcement tools that could be useful in promoting state compliance. In addition, ASC has not reported or clearly defined the criteria it uses to assess states' overall compliance levels. Title XI charges ASC with monitoring the appraisal requirements of the federal financial institutions regulators, but ASC has not defined the scope of this function—for example, by developing policies and procedures—and its monitoring activities have been limited. ASC also lacks specific policies for determining whether activities of the Appraisal Foundation (a private nonprofit organization that sets criteria for appraisals and appraisers) that are funded by ASC grants are Title XI-related. Not having appropriate policies and procedures is inconsistent with federal internal control standards designed to promote effectiveness and efficiency and limits the accountability and transparency of ASC's activities.

ASC faces potential resource and planning challenges in implementing some Dodd-Frank Act provisions. ASC has only 10 staff and is funded by appraiser registration fees that totaled \$2.8 million in fiscal year 2010. The Dodd-Frank Act expands ASC's responsibilities and authorities. For example, the act requires ASC to establish a national appraiser complaint hotline and provide grants to state appraiser regulatory agencies, and it gives ASC limited rulemaking and enhanced enforcement authorities to help address prior weaknesses. As of October 2011, ASC had completed several implementation tasks that required no rulemaking or creation of new programs and was in various stages of progress on the others. The potentially resource-intensive nature of some remaining tasks will require careful planning. For example, operating a complaint hotline may require investments in information technology and the creation of screening and follow-up procedures. Also, implementing a grant program will require ASC to set aside funds, develop funding criteria, and oversee grantees. ASC is in the process of developing a strategic plan to help carry out these efforts with available resources.

GAO found that more than 70 percent of residential mortgages made from 2006 through 2009 were \$250,000 or less—the regulatory threshold at or below which appraisals are not required for transactions involving federally regulated lenders. In recent years, however, the threshold has had a limited impact on the proportion of mortgages with appraisals because mortgage investors and insurers such as Fannie Mae, Freddie Mac, and the Federal Housing Administration have generally required appraisals for mortgages both above and below the threshold. While these entities currently dominate the mortgage market, federal plans to scale them back could lead to a more privatized market, and whether this market would impose similar requirements is not known. None of the appraisal industry stakeholders GAO spoke with argued for increasing the threshold. Some stakeholders said the threshold should be lowered or eliminated, citing potential benefits to risk management and consumer protection. Others noted potential downsides to lowering the threshold, such as requiring more borrowers to pay appraisal fees and requiring appraisals on more transactions for which cheaper and quicker valuation methods may be sufficient.