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Letter sent to: Senator John Hoeven, November 7, 2017  
Sherrod Brown, Ranking Member, Committee on Banking, Housing and Urban Affairs  
Representative Kevin Cramer  
Mike Crapo, Chairman, Committee on Banking, Housing and Urban Affairs  
Senator Heidi Heitkamp

Dear Senator Hoeven,

The North Dakota Appraisers Association has definite concerns over the new appraisal waiver programs recently implemented by Freddie Mac and Fannie Mae ("Government Sponsored Enterprises"). We believe these programs will create unnecessary and unacceptable risks for taxpayers and homeowners and they come at a time when markets are at all-time highs when risk mitigation should be tantamount. We ask you to call on the Federal Housing Finance Agency (FHFA) to prevent the Enterprises from implementing the appraisal waiver programs until they can demonstrate the appraisal waiver program:

- 1) is consistent with safe and sound operation of the Enterprises;
- 2) does not bring harm to the consumer, especially the affordable housing and rural sector;
- 3) is properly monitored by FHFA and tested with independent appraisals; and
- 4) integrates proper safeguards to prevent fraud or abuse by anyone in the loan process.

We recognize that the Enterprises have, since 1994, been exempted from appraisal requirements established by Congress on the basis that their requirements exceeded those established by Congress and that they would continue to make responsible decisions. These new programs call this privilege into question.

We view these new programs as competition between Freddie Mac and Fannie Mae on who can increase the most market share, with a greater probability of poor lending practices. Competition between the Enterprises should not result in poor due diligence, especially while the agencies remain in conservatorship. It was this same elimination of risk focused underwriting that led to the Enterprises' brink of bankruptcy nine years ago. Unlike an earlier policy change by Fannie Mae, which addressed mostly refinances, previous appraisal information is likely available. Backing off these parameters or the addition of first purchase transactions by the Enterprises carry a greater risk from a property information standpoint. It is standard underwriting practice to obtain a complete interior inspection appraisal for first purchase transactions in order to better understand the potential risk associated with a property's condition, which is more likely to change between subsequent sales than between refinance transactions. That likelihood is why independent appraisal data, including an inspection, is so important to managing risk and protecting the public trust. The use of Automated Valuation Systems in rural areas, like North Dakota, is questionable due to the sparse population and available data. The reliability of such systems in rural areas is also questionable.

This is not the first time appraisal waivers have been advanced by the Enterprises. Similar actions were taken by the Enterprises in the early to mid-2000s. The resulting lessening of risk management by

mortgage lenders proved to be disastrous for the economy, thereby, damaging public trust. We, as a nation, cannot keep doing the same things over and over again and expect different results.

It has taken many years for the mortgage finance sector to recover from the financial disaster in 2008-2009, but progress has been made. This significant progress is due in large part to the employment of fundamental risk-management activities, such as the requirement for the completion of full appraisals to determine the true equity position of individual properties. Lessening appraisal requirements sends the wrong signal to mortgage loan sellers about the importance of fundamental risk-management practices and the need to continue to employ strong underwriting guidelines to avoid the costly mistakes of the recent past.

For these reasons, we ask you to call on the Federal Housing Finance Agency to prevent the Enterprises from implementing the appraisal waiver programs until it can demonstrate that they are consistent with safe and sound operation of the Enterprises. At a minimum, the Agency should request the estimates of loan purchases and refinance transactions that would be subject to the new programs and make those estimates public for comment by affected stakeholders and other experts. Further, as your Committee develops housing finance reform legislation, we ask that any legislation ensures that the Enterprises' appraisal requirements enhances their safe and sound operation so long as the Enterprises remain in conservatorship. Otherwise, present potential risks to taxpayers and homeowners will continue.

Thank you for your consideration of this matter. If you should have any questions or would like additional information or resources from our organizations, please contact any of the individuals listed below.

Sincerely,

North Dakota Appraisers Association

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