



September 5, 2014

To: Members of the Appraiser Prosperity Coalition
From: The Appraiser Prosperity Coalition and Federal Advocates, Inc.
Subject: August Monthly Report

IMPORTANT NOTE: Each year, Congress recesses for the month of August. During this time, they spend time with family and meet with constituents in their home states and districts. Also, given that this an election year, campaigning will be a priority during the recess. This year the recess extends until September 8. While this means that we were NOT able to do conduct “business as usual” by lobbying legislators on Capitol Hill this month, we WERE able to continue pursuing other means of achieving our long-term goals, as noted below.

Declaration of Appraisal Independence

As lenders and AMCs continue to consolidate, immense power over appraisers has been consolidated. We believe the only way that appraisers can be truly independent, and able to freely report unbiased opinions of value, is to be free from many of the pressures that exist in the current business scenario. To this end, and as part of our grass roots efforts to garner multi-industry support for our game-changing efforts, we have drafted a Declaration of Appraiser Independence that can potentially gain the attention of hundreds of thousands of professionals (appraisers, loan officers, realtors, etc.) who could benefit from its inception.

Garnering a great number of signatures will be a strong show of support, and will demonstrate appraisers’ dedication to the strengthening of the profession. We plan to release this document within the next week, but we would like the Coalition’s members to be the first to read it.

PLEASE NOTE THAT AT THE CURRENT TIME, THIS TEXT IS CONFIDENTIAL FOR APC MEMBERS ONLY!

Once we begin distributing it to secure signatures, we will send out an email notifying you as such (and we hope that you are the first to sign!).

Lastly, as the below text is in final review, we welcome your thoughts and would like to hear any of your comments. You can quickly contact us via email at contact@appraiserprosperity.com

Final Draft Text of the Declaration of Appraisal Independence:

This declaration of the appraisal workers of the United States of America and those who stand together with the appraisal industry is made subject to the understanding that commercial and financial events guide growth and development of society, and that financial products and services are integral to the necessary and successful health of our citizens. It is further understood and recognized that the fair and independent valuation of underlying assets backing financial products are critical to investors, borrowers and all others who rely upon the safety and soundness of these financial products.

United we hold truths and beliefs, that all men and woman in their pursuit of life, liberty and happiness, must preserve their unalienable rights to buy a home, borrow money, invest in financial instruments, and plan for retirement without fear that their life savings are being exposed to unnecessary and preventable risk.

To secure these rights, it is necessary to ensure the fruits of our labor are not eroded or confiscated through actions of others. When it becomes apparent over the course of history that there are those who create financial products for merely their own self interest and have no regard for the harm they are bringing to mankind, and are furthermore allowed to continue to grow larger without the necessary checks and balances that are required in a functioning democratic society - the time has come to act.

Mortgages provide a significant portion of the balance sheet assets of many of the world's largest financial institutions, including banks, insurance companies and pension funds. Mortgages are used to secure derivative products that are sold by Wall Street to the workers of the world through their company or public retirement funds.

Families and individuals must be able to depend upon credible, fair and nonbiased valuations of the underlying real estate assets that secure their retirement and savings. Congress recognized the importance of real estate appraisals to a successfully functioning financial economy in the last two major market corrections. The Financial Reform, Recovery and Enforcement Act of 1989 established licensing laws for appraisers in mortgage transactions and provided a state regulated framework for supervision. The Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 outlined strict appraiser independence rules.

While a regulatory framework exists for an independent appraisal industry, complete separation between those that create and sell financial products and those that value said transactions - does not exist. Lenders are exempted from many of the rules established by Dodd-Frank and continue to be allowed to own and control the production of appraisals.

Recently proposed rules promulgated by the federal banking regulators are attempting to further erode appraisal independence by allowing entities, including correspondent lenders, to bring the appraisal function in-house and avoid many of the laws passed by Congress to protect the independent valuation of real estate assets.

An inherent conflict exists when those that originate or securitize mortgages are allowed to own or control the selection of the appraiser. Division of responsibilities within an organization cannot mitigate this conflict. It is common knowledge in the industry that mortgage banking organizations continue to select appraisers based on the preferences of commissioned loan officers. While this practice is illegal, the industry has to this point only made unsuccessful attempts to cure the root ailment. This scenario cannot be allowed to continue if the appraisal profession, which is so vital to a healthy economy, is to remain credible and viable.

Beyond these conflicts of interest, many lenders are using their ever-growing size and strength as a weapon to intimidate appraisers with enormous requirement creep, unnecessary blacklisting, exclusive panels, downward fee pressure, and value pressure. Lenders relentlessly work towards further consolidating their power, and by doing so increase their leveraging strength over appraisers. Correcting this serious market structure problem as it relates to the appraisal function is also requisite to the long-term health of appraisers and the valuations that citizens depend on them to provide.

To solve these problems, we declare that any organization originating loans that might be sold into the secondary market must be strictly prohibited from having any form of ownership or other conflict of interest in the appraisal function. Origination of these loans must be supported by at least one truly *independent* appraisal that is subject to review by borrowers and investors. Since lenders should not be allowed to own or control an appraiser, the loan officer should be tasked with routing the appraisal order to an approved and vetted third party to manage the appraisal process, instead of being forced to route the appraisal order to the lender's internal appraisal pipeline where various abuses are currently taking place. The third party must be totally independent and able to demonstrate absolutely zero conflict of interest. Using loan officers to select among approved, vetted, independent and now heavily regulated third parties, gives power back to the people in the communities where the service is performed and will force these third parties to compete for appraisal orders by way of best practices, thereby benefiting all parties involved. Furthermore, once valuations are truly independent, they should be easily portable between lenders, no longer forcing borrowers to incur unneeded, redundant and expensive second valuations.

The time has come for the total separation of valuation from loan production. The importance of a healthy profession capable of delivering truly independent, accurate and fair valuations of assets is too critical. Accordingly, I hereby sign below acknowledging my support of this Declaration of Appraisal independence.

Stakeholder Relationship Building

We have begun introducing the Coalition to, and building strong relationships with, GSE's, state appraisal boards, appraisal groups, and consumer and small business advocacy organizations. We have contacted the following groups and will be scheduling meetings with them this month: the National Association of Consumer Advocates, Consumer Federation of America, Consumer Action, National Consumers League, National Small Business Association, National Federation of Independent Business, and the United States Association for Small Business and Entrepreneurship.

Why are consumer advocacy groups important stakeholders?

Because as consumers, soon-to-be homeowners deserve to know how much of their hard-earned money is going to their real estate appraiser, and how much is going to the AMC -- in plain sight on the HUD. The support of consumers allow us to tap into a huge number of resources beyond the appraisal profession. And, for political reasons, consumer interests are of high importance to Democrats.

Why are small business advocacy groups important stakeholders?

Because appraisal firms are small businesses – known as “the backbone of America” – and, for political reasons, small business interests are of high importance to Republicans.

A brief summary of key appraisal and advocacy partner groups is as follows:

- National Association of Consumer Advocates (NACA)
 - NACA is a non-profit association of attorneys and consumer advocates committed to representing consumers' interests. NACA's mission is to promote justice for all consumers by maintaining a forum for communication, networking, and information sharing among consumer advocates across the country, particularly regarding legal issues, and by serving as a voice for its members and consumers in the ongoing struggle to curb unfair or abusive business practices that affect consumers.
- Consumer Federation of America (CFA)
 - The CFA is an association of non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.
- Consumer Action
 - Through multilingual financial education materials, community outreach, and issue-focused advocacy, Consumer Action empowers underrepresented consumers nationwide to assert their rights in the marketplace and financially

prosper.

- National Consumers League
 - The National Consumers League is a private, nonprofit advocacy group representing consumers on marketplace and workplace issues. It is the nation's oldest consumer organization.
- Consumer Financial Protection Bureau (CFPB)
 - Congress established the CFPB within the Dodd-Frank Act in order to protect consumers by writing rules, supervising companies and enforcing federal consumer protection laws; restricting unfair, deceptive, or abusive acts or practices; taking consumer complaints; promoting financial education; researching consumer behavior; monitoring financial markets for new risks to consumers; and enforcing laws that outlaw discrimination and other unfair treatment in consumer finance. As the interpreter and enforcer of the fee disclosure rule within Dodd-Frank, the CFPB is no doubt an important player with which to form a strong relationship. Thankfully due to their work on CFPB issues for other clients, Federal Advocates, Inc. already has great working relationships with a number of key individuals inside the Bureau, on which the Coalition can capitalize. However, often other appraisal advocacy organizations put too much of a focus on the CFPB while forgetting that Congress is even more important, for they created the Bureau, and can amend the rules that Bureau was created to enforce.
- National Small Business Association (NSBA)
 - Celebrating its 75th Anniversary in 2012, NSBA advocates on behalf of America's entrepreneurs. A nonpartisan organization, NSBA's 65,000 members represent every state and every industry in the U.S.
- National Federation of Independent Business (NFIB)
 - NFIB is a leading small business association, promoting and protecting the right of Americans to own, operate and grow their businesses.
- United States Association for Small Business and Entrepreneurship (USASBE)
 - The USASBE is the largest independent, professional, academic organization in the world dedicated to advancing the discipline of entrepreneurship and the development of outreach and public policy.
- Appraisal Subcommittee (ASC)
 - The ASC of the Federal Financial Institutions Examination Council (FFIEC) was created on August 9, 1989, pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI). Title XI's purpose is to "provide that Federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been

demonstrated and whose professional conduct will be subject to effective supervision.” The statutory amendments in Dodd-Frank expanded the ASC's general responsibilities, including the registration and supervision of the operations and activities of appraisal management companies.

- The Appraisal Foundation
 - The Appraisal Foundation is dedicated to promoting professionalism and ensuring public trust in the valuation profession. This is accomplished through the promulgation of standards, appraiser qualifications, and guidance regarding valuation methods and techniques.
- GSE’s (Fannie/Freddie), FHA and the VA
- All state appraisal boards

Long-Term Planning

With the Coalition being officially launched in July, we have been busy “hitting the ground running.” Most of our work right now will be going towards preparing for the new Congress in January. Toward that end, we are in the process of drafting a “white paper” for distribution to all key players that includes background information on the Coalition, identification and explanation of the issues, the legislative “asks” with underlying justification, etc; continue interaction with key Members, staff and stakeholders; identify and explore possible legislative opportunities for the rest of this year/Congress; assess the results of the November elections; target potential congressional champions in the new Congress (ideally a member from each political party in both Houses); and, continue to grow the Coalition as an effective and viable grassroots entity committed to preserving small business and consumer appraiser interests.

RECAP: Issues and Solutions

Un-Bundling Fees

The first goal and focus of the Coalition is to fight for the “un-bundling” of fees. We believe that AMCs must be required to profit by successfully competing against one another, not by squeezing down appraisal firms’ fees. The appraisal firms’ fees and the AMC’s fees must be clearly billed as separate items for all purposes, including on the HUD statement, and they must no longer be permitted to “bundle” their services with the services of the appraisal firm. All parties to the residential lending transaction must be made fully aware of the exact amount being paid to the appraisal firm, and the exact amount being paid to the AMC. We believe that having a federal requirement on this separation is consistent with the requirements enacted by a number of states as part of their Dodd-Frank mandated AMC registration and oversight laws. This policy update alone will bring more transparency and accountability to the process. Consumers, advocates, legislators, and regulators alike will be able to see with their own eyes how much of a “cut” an AMC takes from appraisers, and this will raise the question to all parties of what is fair

– or “customary and reasonable.” Because of the “snowball” effect that we anticipate from achieving this change, this is our primary goal, and each action that we take in the near future will be focused towards achieving it.

Breaking Up Power / Appraiser Independence

As lenders and AMCs continue to consolidate, immense power over appraisers has been consolidated. Without sweeping legislative changes, the powerful will only continue to build their power as the days go by. This ongoing power grab provides those with it the ability to "bully" appraisers in many different ways. Many of them are currently using their power to drive down appraiser fees in order to rake a maximum amount of profit off of the backs of appraisers. Many are using their power to influence appraisal values (as the ultimate goal of most appraisal clients is to originate a loan), and of course loans can only be originated if appraisal values fall in line. We believe the only way that appraisers can be truly independent, and able to freely report unbiased opinions of value, is to be free from many of the pressures that exist in the current business scenario. The bottom line is that by removing lenders from the appraisal process, and placing the appraisal ordering decision freely at the local level, the bullies will immediately lose their power to abuse appraisers. By allowing local people to choose a licensed and regulated 3rd party that must convince them with each and every order that they are providing the best practices; and by giving appraisers the ability to communicate to local people about how they are being treated by those whom have been hired; we can go a long way to prevent appraiser bullying. By fighting to make these big changes, we can do a world of good to restore lasting prosperity to our beloved profession.

Improving Accountability

Additionally, improving oversight, transparency and accountability is a key goal of the Coalition. This includes licensing all AMCs without discrimination against small ones; mitigating lender ban lists; correcting lender/AMC requirement creep; requiring AMC principals and appraisers to be vetted via reasonable background checks; and removing AVMs and BPOs as the basis for residential lending.