

FDIC's New Mortgage Appraisal Rule Ignores Lessons of Great Recession

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Washington, D.C. – After a vote today by the Federal Deposit Insurance Commission (FDIC) Board of Directors, banks making home mortgages will no longer need to obtain an appraisal for mortgages under \$400,000. With the increased threshold approved by the FDIC today, a total of 72% of home mortgage transactions will be exempt from the Dodd-Frank Act's rules protecting the integrity of appraisals. The vote, quietly supported by the Consumer Financial Protection Bureau (CFPB), raised the existing threshold for mandatory appraisals from \$250,000. Congress first required banks to get appraisals in 1989, after the savings and loan crisis, and gave banking regulators permission to exempt loans below a dollar-value threshold. But in 2010, after shoddy appraisal practices were found to play a major role in the Great Recession, Congress required the CFPB to first sign off on any plans to increase the threshold.

The CFPB's support for this plan is a reversal of the Bureau's 2017 objection to an identical plan. The Bureau, then led by Richard Cordray, shared concerns (see page 36) that the higher threshold posed a risk to consumers. That objection forced the regulators to drop the plan because the Dodd-Frank Act bars federal banking regulators from increasing the threshold unless the CFPB concurs that the new threshold provides reasonable protection for consumers.

The exemption expanded by the FDIC today will allow banks to use lightly regulated "evaluations" instead of federally regulated real estate appraisals. Inflation and falsification of real estate valuations contributed to the national foreclosure crisis that led to the Great Recession ten years ago. This change will mean that rules added by the Dodd-Frank Act to protect the integrity of appraisals will not apply to 72% of home mortgage transactions.

"Appraisals protect consumers and the economy," **said National Consumer Law Center Staff Attorney Andrew Pizor.** "Without them, consumers can be cheated by mortgage brokers, home sellers, real estate agents, and anyone else who gets paid based on the size of the loan. Shoddy property valuations helped cause one of the biggest financial crises in our nation's history. The FDIC's vote is a step backwards."

"This rushed rule change is both disappointing and dangerous," said **Jennifer S. Wagner co-director of Mountain State Justice** in West Virginia. According to Wagner, who is the **consumer representative on The Appraisal Foundation Board of Trustees**, "In 2017, regulators held multiple hearings and decided that raising the threshold was not a good idea and would likely be harmful to both consumers and the economy. There is no justifiable basis for this sudden change of direction."

Links

Joint letter to federal banking agencies opposing increase in appraisal exemption threshold, Feb. 5,

2019

Letter to CFPB opposing increase in appraisal exemption threshold, Feb. 5, 2019

Consumer comments to the OCC, Board, and FDIC regarding the proposed rule to amend the regulations requiring appraisals for certain real estate-related transactions, Feb. 5, 2019