



Highlights of [GAO-05-14](#), a report to congressional addressees

Why GAO Did This Study

Incomplete or inaccurate appraisals resulting in property overvaluations may expose the Department of Housing and Urban Development's (HUD) Single-Family Mortgage Insurance programs—which insured about 3.7 million single-family mortgage loans with a total value of about \$425 billion in fiscal years 2001 through 2003—to greater financial risks. In 1999, GAO reported on the need for improvements in HUD's oversight of appraisers, which has historically been a challenge for the department. Also, in the past, GAO reported that, due in part to poor oversight of appraisers, HUD's Single-Family Mortgage Insurance programs remained a high-risk area. GAO conducted this review as a follow up to the 1999 report. This report examines (1) how HUD ensures that appraisers it approves are qualified to perform FHA appraisals, (2) the extent to which HUD employs a risk-based monitoring approach, and (3) HUD's efforts to take enforcement action against noncompliant appraisers.

What GAO Recommends

GAO is making four recommendations aimed at enhancing HUD's appraiser oversight processes. In responding to a draft of this report, HUD agreed with three of these recommendations, but disagreed with the presentation of its accomplishments as well as some of the findings.

www.gao.gov/cgi-bin/getrpt?GAO-05-14.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-6878 or woodd@gao.gov.

SINGLE-FAMILY HOUSING

HUD's Risk-Based Oversight of Appraisers Could Be Enhanced

What GAO Found

Through new guidance and regulation, HUD has strengthened its criteria for placing appraisers on its appraiser roster—which establishes their eligibility to participate in HUD programs. Before 1999, HUD relied largely on the states' licensing processes to ensure that appraisers were qualified, but the states' minimum licensing standards did not specifically include proficiency in HUD's appraisal requirements. HUD's 1999 guidance requires appraisers to, among other things, pass an examination on HUD appraisal methods and reporting. Further, a 2003 regulation provides for, among other things, removing from the roster appraisers whose licenses have been suspended or revoked. However, HUD has limited quality control over the approval process, limiting the department's assurance that its criteria are being effectively implemented.

HUD has adopted an oversight approach that focuses on appraisers it believes pose risks to FHA's mortgage insurance fund, but certain weaknesses exist in its implementation. HUD's guidance calls for its homeownership centers (HOCs)—which are largely responsible for appraiser oversight—to develop quarterly targeting lists of appraisers for review based on certain criteria, or risk factors. The primary factor is the rate of defaults in certain loans associated with the appraiser; others include large numbers of appraisals as well as appraisals for loans made under one of HUD's programs known to be at higher risk of fraud and abuse. However, the HOCs do not maintain a permanent record of the data used to identify the targeted appraisers—even though HUD's automated system would enable them to—which limits HUD's ability to verify that those targeted were those that met the criteria and to determine the effectiveness of its targeting criteria in reducing risk to the mortgage insurance fund. GAO found that during fiscal year 2003 and the first half of fiscal year 2004 the HOCs generally reviewed the appraisers they identified as high risk and targeted for review. However, they reviewed fewer appraisals for each targeted appraiser than HUD's guidance prescribes: on average, about 5.6 appraisals instead of the 10 called for. GAO also found that HOC staff did not routinely visit appraised properties to verify the work of contractors who conduct field reviews of selected appraisers.

To facilitate enforcement actions against appraisers, HUD expanded the HOCs' authority to sanction appraisers and developed a new appraisal scoring system. According to HUD, the number of actions taken to remove appraisers from its roster has increased from 25 at a cost of over \$10 million in 1998 to 132 at a cost of under \$300,000 in 2003. HUD also developed a tool that scores each appraiser on several appraisals, weighting the scores to capture violations that pose the greatest risk to FHA's mortgage insurance fund. According to HUD, this tool allows the department to sanction appraisers more consistently.