

# Responsible Valuation Policy

(February 2012)

## **Purpose of Valuation Policy**

This document serves as the National Association of REALTORS<sup>®</sup> statement of federal policy on valuing real property. It serves as a guide for members and staff in advocacy efforts for federal legislation and regulatory policy. This statement of policy, aside from the National Association of REALTORS<sup>®</sup> Code of Ethics, is not in any way an attempt to impose new or additional standards of practice or behavior on members of the National Association of REALTORS<sup>®</sup>.

## **Why do REALTORS<sup>®</sup> Support Independent Valuations of Real Property?**

REALTORS<sup>®</sup> support and encourage credible<sup>1</sup>, independent valuations of Real Property because:

- Credible independent valuations of real property are critical to the health of the overall real estate industry. A trustworthy valuation of real property 1) ensures the real property value is sufficient to collateralize the mortgage, 2) protects the mortgagor, 3) allows secondary markets to have confidence in the mortgage products and mortgage backed securities, and 4) builds public trust in the real estate profession.
- Professionally developed valuations provide an independent, objective analysis of real property.
- Valuations that are not credible or not independent harm communities and result in unintended consequences. The purchase of real property is the largest investment most people make. A valuation that does not properly reflect the owner's equity may require the owner to pay increased fees or inject unneeded additional liquidity into a collateralized loan to meet higher lending requirements. Valuations of real property that are too high give a false sense of security to mortgagors seeking access to the equity in their real property and to lenders making a determination as to the security of their loan. Valuations that are too low may create a downward cycle of economic deterioration for neighborhoods and communities and cause increased cash requirements on lenders.

### **2012 National Association of REALTORS<sup>®</sup> Code of Ethics**

#### **Article 11**

#### **Standards 11-1 and 11-2**

The National Association of REALTORS<sup>®</sup> established a Code of Ethics for its members that may be higher than those mandated by law. Members must adhere to the Code of Ethics<sup>2</sup>, including Article 11, Sections 1 and 2, which address valuations.

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<sup>1</sup> For the purposes of this document, "credible" is defined, per the Uniform Standards of Professional Appraisal Practice (USPAP), as worthy of belief. Additionally, credible "results require support, by relevant evidence and logic, to the degree necessary for intended use." USPAP 2012-2013 Edition, U-3.

<sup>2</sup> "[I]n any instance where the Code of Ethics and the law conflict, the obligations of the law must take precedence. 2012 Code of Ethics, National Association of REALTORS<sup>®</sup>

## Article 11

The services which REALTORS® provide to their clients and customers shall conform to the standards of practice and competence which are reasonably expected in the specific real estate disciplines in which they engage; specifically, residential real estate brokerage, real property management, commercial and industrial real estate brokerage, land brokerage, real estate appraisal, real estate counseling, real estate syndication, real estate auction, and international real estate.

REALTORS® shall not undertake to provide specialized professional services concerning a type of property or service that is outside their field of competence unless they engage the assistance of one who is competent on such types of property or service, or unless the facts are fully disclosed to the client. Any persons engaged to provide such assistance shall be so identified to the client and their contribution to the assignment should be set forth. (Amended 1/10)

### Standard of Practice 11-1

When REALTORS® prepare opinions of real property value or price, other than in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer, such opinions shall include the following unless the party requesting the opinion requires a specific type of report or different data set:

1. identification of the subject property
2. date prepared
3. defined value or price
4. limiting conditions, including statements of purpose(s) and intended user(s)
5. any present or contemplated interest, including the possibility of representing the seller/landlord or buyers/tenants
6. basis for the opinion, including applicable market data
7. if the opinion is not an appraisal, a statement to that effect (Amended 1/10)

### Standard of Practice 11-2

The obligations of the Code of Ethics in respect of real estate disciplines other than appraisal shall be interpreted and applied in accordance with the standards of competence and practice which clients and the public reasonably require to protect their rights and interests considering the complexity of the transaction, the availability of expert assistance, and, where the REALTOR® is an agent or subagent, the obligations of a fiduciary. (Adopted 1/95)

## **RESPONSIBLE VALUATION POLICY**

### Appraisals

- Persons who perform appraisals of real property shall be licensed or certified by their respective state regulatory agency and the appraisal shall be conducted in accordance with standards established in the Uniform Standards of Professional Appraisal Practice (USPAP).
- No person with an interest in the mortgage transaction shall compensate, coerce, extort, collude, instruct, induce, bribe, or intimidate a person, appraisal management company, or firm for the purpose of causing the appraised value to be based on anything other than the independent analysis of the appraiser.

## Non-Appraisal Opinions

- Non-appraisal opinions, such as Broker Price Opinions (BPO) and comparative market analyses performed by REALTORS® shall contain, at a minimum, the information specified in Standard of Practice 11-1 of the National Association of REALTORS® Code of Ethics except where the party requesting the opinion requests a specific type of report or different data set, or where the opinion is developed in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer.

Among other uses, these non-appraisal services can help determine listing prices and are used to estimate potential selling prices of a property. Except where exempted or prohibited by the National Association of REALTORS® Code of Ethics, state, local or federal law, they should include the disclosure of a review of the subject property, subject neighborhood review and analysis, local and regional market information and trends, and a description of comparable properties that are similar to the subject property. Any non-appraisal opinion that does not provide the aforementioned components shall be disclosed by the provider of the service. Non-appraisal opinions must make it clear to the intended user that it is not an appraisal.

- Non-appraisal opinions shall be prepared by a real estate licensee or registered, licensed or certified appraiser. A licensee completing these services for a client is not necessarily assured of receiving the listing of the property.
- Generally, in conjunction with the purchase of a consumer's principal dwelling, BPOs may not be used as the primary basis to determine the value of real property for the purpose of a loan origination of a residential mortgage loan secured by such property.
- When not restricted by law, non-appraisal opinions may be appropriate for many real estate transactions, such as short sales, foreclosures, and loan modifications.
- In adhering to Article 11 of the REALTORS® Code of Ethics, consideration must be given to the intended use and intended user when developing any valuation.
- A comparative market analysis (CMA) is generally used to provide information to sellers or buyers in determining listing price or offering price.

## Automated Valuation Models

- NAR's policy with respect to automated valuation models (AVM) is in consideration of individuals, organizations, or corporations that develop AVM software and related algorithms. The end user, whether a consumer or REALTOR®, should not be held liable for the product or results provided by any AVM owned or developed by a third party.
- An AVM is a technology that uses mathematical algorithms to calculate the value of real property at a specific point in time. The AVM generates a report using public records and other data to provide a logical calculated estimate of a value of a residential property. The data is weighed,

analyzed and reported as a final estimate of value based on a specified date. AVMs are typically, though not exclusively, used by the secondary mortgage markets for portfolio asset management purposes.

- AVMs may be used by originators or secondary market investors to determine the collateral worth of a mortgage secured by a consumer's principal dwelling.
- Individuals or companies that create AVMs should ensure that AVMs:
  - Protect against the manipulation of data, including disassembly and redistribution without explicit authorization
  - Employ appropriate quality control measures, including disclosure of a confidence score calculated using a statistical methodology, such as forecast standard deviation
  - Utilize only data which has been explicitly licensed and authorized
  - Avoid conflicts of interest
  - Require random sample testing and reviews
  - Not be used as the principle method of valuation in mortgage origination