

December 2021

HOT TOPIC ALERT

BROKER PRICE OPINIONS



Different real estate valuation products are needed in different situations. REALTORS® are often asked to provide a comparative market analysis prior to listing a property, typically as a complimentary service to the client. Obtaining a mortgage to buy a property requires an appraisal, which is typically paid for by the home buyer. And then there are other situations in which an owner or a financial institution requires a professional estimate of property value but not a full appraisal. This is called a Broker Price Opinion, or BPO.

A BPO is a tool used by the real estate industry to determine a competitive listing price for a property. As noted, they are not appraisals, but can be used to sellers what other comparable homes have sold for and to assist the seller in determining a starting price. Institutional owners and lenders often request a BPO for such transactions as foreclosures, short sales, or home equity loans, or for their REO listings. BPOs are prepared for a fee, providing real estate brokers an additional source of revenue.

Definitions of Valuations

A. Broker Price Opinion (BPO)

[Federal law](#) defines BPOs as

an estimate prepared by a real estate broker, agent, or sales person that details the probable selling price of a particular piece of real estate property and provides a varying level of detail about the property's condition, market, and neighborhood, and information on comparable sales, but does not include an automated valuation model

12 U.S.C. § 3355. Most states have their own definitions of BPOs, but they largely follow the federal definition. In Mississippi, for example, the [statutory definition](#) is the same as the definition in federal law. Although states often use the same definition, they each have their own statutes and regulations that control the use of BPOs.

Broker price opinions have been regarded as a more direct and efficient alternative to a Comparative Market Analysis (CMA), which compares the property to other homes that are in the same area and are similar in size and features. [Ideally, a CMA uses recently sold homes from the same subdivision as the subject property.](#)

B. Appraisal

Appraisals are another opinion of a property's value but they must be performed by a licensed or certified appraiser. The standards used by professional appraisers are set forth in the *Uniform Standards of Professional Appraisal Practice* (USPAP), which was [adopted by Congress in 1989](#). Congress designed the USPAP to “promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers.” It includes standards for distinct types of appraisals beyond real estate, such as personal property, business, and mass appraisal. If the appraisal is for a federally related transaction, compliance with these standards is required

Appraisals aim to provide an objective opinion of real estate [market value](#). An appraisal typically includes: a description, highlighting key features; an evaluation of current and potential future uses; a summary of nearby market conditions and local procedures; and a listing of valuation approaches that support the appraisal's conclusions.

C. Automated Valuation Model

As technology advances, Automated Valuation Models (AVMs) are becoming more commonplace. Computer-generated valuations, they gather mammoth amounts of data (e.g., property records, property listings, local crime rates, etc.), run the data through high-end analytics ([regressions](#), algorithms, etc.) to predict a property's current value. Mobile applications such as Zillow and Trulia are examples.

As AVMs are generally available to the public, some statutory schemes, to maintain the distinction between BPOs and AVMs, provide specific definitions of AVMs. In this regard, [Minnesota law](#) defines an AVM as “a computerized model used by mortgage originators and secondary market issuers to determine the collateral worth of a mortgage secured, or to be secured, by a consumer's principal dwelling.”

Use of a BPO

A. Mechanics of a BPO

Before an agent conducts a BPO, they should check their state and local laws to determine whether a written agreement, such as a standard brokerage contract, is necessary. State regulations vary, but they generally require a written agreement between a broker and a consumer where a service is being provided and the consumer pays a fee. In [Pennsylvania](#), for example, performing a BPO is licensed activity, so there should be a written contract setting forth the services and fees. Fee amounts will naturally vary, but in general a BPO may run about \$50, whereas [an appraisal can run anywhere from \\$300 to \\$450 or more.](#)

Brokers use two primary means to perform a BPO: internal and external (or a “drive-by”). An internal BPO entails an inspection of the property's interior, assessing its condition, taking measurements, and capturing photographs. Although less detail is available with an external BPO, conclusions can be drawn from an inspection of the exterior of the house, its upkeep, and landscaping, rough measurements can still be taken and compared with publicly available data, and of course exterior photographs should be taken.

In addition to the foregoing physical inspections, many other factors that impact valuation are available to the broker and should be considered when arriving at the BPO. Most, if not all, of these facts, trends, and characteristics may be found on public websites and through an inspection of the local area and compared with the subject property, either through MLS or mobile apps (e.g., Zillow), recently sold properties that are in the general vicinity and bear similar characteristics; the general make-up of the community, i.e., urban, suburban, or rural; any particular zoning laws or restrictions that apply to the subject property or nearby area, including whether the property is a non-conforming use; comparable sizes of both the lot and residence must be considered; the age of the property; the number of particular rooms—bedrooms, bathrooms, other living spaces—must be factored into the valuation; and the general selling/buying trends in the nearby area.

B. Standards for a BPO

As opposed to appraisals, which are governed by USPAP noted above, BPOs face less regulation and oversight, but, again, states will vary. Using [Pennsylvania](#) as an example, to perform a BPO, the broker must hold a license for at least three years; complete an initial course in BPO preparation; continue to meet educational requirements during the licensing period; and BPOs must be signed by the preparing licensee and a broker.

The National Association of Broker Price Opinion Professionals Brokers ([NABPOP](#)) has established Broker Price Opinion Standards and Guidelines ([BPOSG](#)) relating to the formulation of BPOs. The standards, which must be followed, cover such topics as ethics, competency, and record retention. The guidelines, which take the nature of best practices, cover largely the manner in actually developing the BPO (discussed above in the “Mechanics of a BPO”).

C. When is a BPO used?

A variety of situations exist where a BPO is useful and sufficient, whereas an appraisal is simply unnecessary, adds to the cost, and takes longer to perform.

This is why BPOs are used especially when dealing with financially distressed properties, such as a foreclosure, short sale (when the sale price is below the mortgage amount), or a deed in lieu of foreclosure (the homeowner gives the borrower the deed in exchange for avoiding a foreclosure, which would show up on a credit report). BPOs are also used for a [Real Estate-Owned Property](#) (REOs). An REO is a lender-owned property by which the lender typically gained ownership because of a foreclosure. If the lender is having difficulty selling the property, a BPO may be useful to help establish a fair price.

When a homeowner is in distress, every dollar counts, which is why it may make sense to cancel the private mortgage insurance (PMI). Some banks will offer some options on how to do this, one of which involves obtaining a [BPO](#) to help determine the amount of equity the homeowner has in a property.

D. When may a BPO not be used?

Some situations, however, preclude use of a BPO. Borrowers are usually required to obtain an appraisal of a property before receiving approval for a home loan. A BPO will not be sufficient. As is the case with other mortgage loans, lenders will say that a BPO is not adequate for a [home equity loan](#), line of credit, or refinancing. The lender typically wants the more detailed information that a full appraisal will provide.

It may not only be the lender that wants a full appraisal. A prospective buyer may also consider a BPO inadequate as an estimate of the true value of a property.

E. Advantages/Disadvantages

The foregoing discussion has already referred to several advantages of a BPO compared to other forms of property valuations.

- A BPO gives a reasonable price range based on market conditions. Although it may not be an exact figure, it is based on a real estate expert's knowledge of the current market and can be useful while setting the initial sale price.
- A BPO is quicker than an appraisal. Particularly when the real estate market is active, as it currently is, scheduling an appraisal, especially by an appraiser of your choosing, can be difficult.
- A BPO costs less. BPOs can [cost a fraction](#), perhaps as much as one-eighth, of the price of an appraisal.
- A BPO, under the right circumstances, can substitute for an appraisal, fully satisfying the particular purpose. A BPO can, as noted, sometimes be used in a foreclosure or short sale, or for a borrower's request to cancel PMI.

Disadvantages of BPOs, however, also exist.

- A BPO is not always as accurate as an appraisal. Performed by a licensed or certified appraiser, a full appraisal is likely to get closer to the mark of an accurate valuation.
- Although there are opportunities to take advantage of a BPO, it cannot always be used as a substitute, as noted. Certain mortgage transactions simply require an official appraisal, especially when the outright purchase of real estate is involved.
- Because a BPO is often done by an agent whose commission is based on the sales price, as opposed by a third-party expert, BPOs can be seen as more subjective in their valuations.
- Some state and federal laws may restrict the use of BPOs.

Who may perform a BPO?

A. State licensing law

In most states, licensed real estate brokers may perform BPOs, but the exact circumstances of their performance do differ among the states. Some states allow a licensed broker to perform BPOs for any purpose, others allow BPOs but only as part of the listing process, and yet others may prohibit the broker from receiving any compensation for giving a price opinion. It is a fluid situation.

In 2019, the Appraisal Institute published "[State Laws Affecting the Performance of Appraisals/BPOs/CMAs/BOVs.](#)" This paper is an excellent resource to determine a given state's law on the subject, but as noted, it was published in 2019 and no similar, more recent publications have been found. There are several points made in the paper that have changed. For example, in Nevada [foreclosure mediations](#), effective January, 2021, the parties may submit either an appraisal or BPO. In [Minnesota](#), the legislature modified the definition of BPO, effective August 2021. In [Idaho](#), the legislature modified who may provide BPOs, effective July 2020.

B. Qualifications

Most states allow all licensed real estate brokers and agents to perform BPOs. It can help, however, to add certainty to a broker's credibility, as well as to the purchaser's peace of mind, to select a broker who has additional education and training in the areas of property valuation. NAR provides members with the information on what additional coursework, designation, and certifications are available. See below for further information.

NABPOP also provides training to become [certified in performing BPOs](#).

Recent legislation/developments

A. Illinois and Pennsylvania legislation

Some states have made legislative changes to the performance of BPOs that have or will take effect after those listed in Appraisal Institute's 2019 publication. For example, in Illinois, the legislature has amended the [real estate broker statutes](#) in several ways, and refined the set of circumstances BPOs may be used, effective in July 2019. The amendment also will provide that anyone who holds a valid real estate broker's license may perform BPOs, effective January 1, 2022.

In 2020, with the support of the Pennsylvania Association of REALTORS®, Pennsylvania amended "The Real Estate Licensing and Registration Act" ([RELRA](#)) to permit the performing of BPOs. The State Real Estate Commission published its [regulations](#) establishing the necessary educational requirements in March 2020.

NAR activity

A. Training and Certification for BPOs

NAR provides designations for Certified Residential Specialists, Counselors of Real Estate, [General Accredited Appraiser](#), Residential Accredited Appraiser, and now has created a certification for BPOs, called [BPO Resource](#).

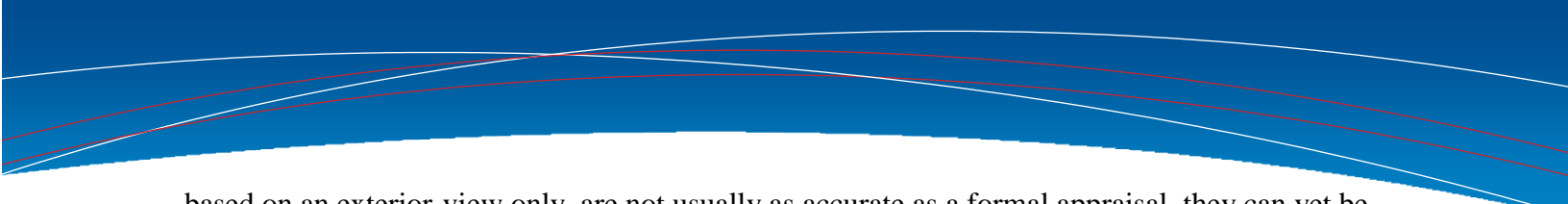
B. Partnership with Realtors Property Resource for referrals

The NAR's REALTORS® Property Resource (RPR) is the nation's largest property database, exclusively for REALTORS®. RPR puts data, tools, and reports at your fingertips so you can respond to questions and requests instantly and position yourself as an essential part of every transaction.

Conclusion

Banks, lenders, and some real estate investors, particularly those involving mortgage notes, often need help in valuing a property from time to time. Rather than pay for a more costly and time-consuming formal independent appraisal, a BPO is a valid option.

A BPO is a real estate professional's opinion of a property's value and, like a CMA, uses comparable properties among other factors. Although BPOs are only opinions and, especially if



based on an exterior-view only, are not usually as accurate as a formal appraisal, they can yet be the best option for investors under the right circumstances.

Hot Topic Alerts are prepared for NAR by Legal Research Center, Inc.

To review NAR's other Hot Topic Alerts, text **HOT TOPIC** to **30644** to sign up for REALTOR® Party Mobile Alerts and a link will be sent directly to your mobile device. All Hot Topic Alerts can also be found on the [REALTOR® Party webpage](#).

Questions or concerns contact Melissa Horn
Email: MHorn@nar.realtor
Phone: 202-383-1026

ADDITIONAL STATE & LOCAL RESOURCES

White Papers: Comprehensive reports prepared for NAR on issues directly impacting the real estate industry. Examples include: Rental Restrictions, Land Banks, Sales Tax on Services, State & Local Taxation, Building Codes, Hydraulic Fracturing, Foreclosure Property Maintenance, Climate Change, Private Transfer Fees.

Growth Management Fact Book: Analysis of issues related to land use and modern growth management topics include density — rate of growth, public facilities and infrastructure, protection of natural resources, preservation of community character, and affordable housing.

All available on [REALTOR® Party webpage](#) under the *State & Local Issues* tab.