

FHFA RFI Response

Appraisal Policy and Process Improvements

A1.1: Is there is a need to provide new valuation solutions that address industry identified issues of appraiser capacity, turn-times, training, and rural and high-volume market coverage? What are those potential solutions? What are the risks of these policies and the challenges in implementing them?

There is a great need to support the industry and improve a system that is negatively impacting stakeholders on both sides of the appraisal process. Continued growth of transactional needs and a shortage of available, high-quality appraisers has the market completely overwhelmed. Many consumers may even lose their ability to buy a home due to appraisers' timeline, and many in the industry are forced to utilize less-professional, less-qualified appraisers providing less reliable results. These issues are exacerbated in rural, underserved, and high-volume markets.

There are many ways to help solve this issue; although, the hybrid and digital appraisal solutions provide us with the most immediate, drastic impact. They allow for the highest qualified appraisers to engage in the highest number of transactions; thereby, keeping the appraiser engaged in the most important aspect of the appraisal process for most transactions.

It is imperative that FHFA understand the different approaches to the hybrid appraisal being tested, and that there are highly credible solutions that leverage emerging technologies to produce a true digital appraisal. It is critical that not all solutions to solve this problem be considered equal and that not all concerns or perceived risks are inherent in all solutions

Presently, conventional lending policy locks the appraisal industry into archaic processes and outdated technology significantly lacking standards, accountability, objectivity, transparency, and consistency. With available technological advances, we have a huge opportunity to not only solve the broken fulfillment system, but to also dramatically reduce systematic risk, offering downstream stakeholders more comprehensive, unbiased, objective, and transparent data about the property than what appraisers are able to provide today.

It is important that marginal solutions focused on driving down cost and reducing turn-times not be compared to more sophisticated solutions. Some solutions are dependent on training non-appraiser professionals on key aspects of property data collection (i.e. measuring and sketching the property). These are liable to be riddled with error and dependent on basic mobile apps to manually capture property insights. A general Q&A paired with still photography leaves appraisers and downstream stakeholders with only a partial understanding of the property and lack of confidence in the process.

To facilitate a viable and scalable appraisal process in which appraisers rely on third-party data, new policies must require exceptionally high standards including but not limited to; detailed floor plans with interior layout displaying the functional utility of the property, full visual record of the interior, exterior and externalities of the property, complete virtual tour of entire property (not a limited set of still images prime for omission and misrepresentation).

There are many providers in our space that have these technologies and ability to deploy a quality labor force to support it. Those who don't possess this capability are able to license it. These technologies are advancing rapidly and will continue to be more readily available for all providers.

A1.2: Are there opportunities for process improvements that allow non-traditional valuation services (inspection-only, desktop, exterior-only) to augment traditional appraisals? Please elaborate on the risks, challenges, and benefits. Separately, are there opportunities to improve traditional appraisals to mitigate problems and concerns that have been observed to date?

The appraisal industry has not advanced at the same rate as the rest of the mortgage market. The current practices provide us with insufficient data or insight of property characteristics delivered in an inconsistent and non-standardized fashion. We know from UCDP data on properties that have multiple appraisals that there is often substantial variance between reporting appraisers based on how they collect and report the data. This leaves the risk holders with little to use to truly understand inherent risks. Furthermore, we know that at times appraisers leave key aspects of a property unreported. This is either due to lack of competency, limitations of the technology being used, or in the worst-case fraud.

We have a tremendous opportunity—not only for process improvement, but to also advance and modernize our profession. The same technologies utilized to support the hybrid process also support higher standards, greater precision, and overall greater confidence for stakeholders. Leveraging computer-vision technologies, akin to the technology used to safely guide self-driving vehicles, and image capture mechanisms, we can now generate detailed, virtual renditions of the home and extract incredibly comprehensive, accurate, standardized and authenticated source-data of a property.

These technologies are readily available to the appraisal process providing machine generated:

- Highly detailed and accurate floor plans in a consistent and standard fashion
- 3D measurements and layouts displaying key factors related to quality of construction like ceiling height, volume of rooms, etc.
- Measurements of walls, flooring material, fenestration, and more
- Spatial context of contributing factors (positive or negative) that influence property value
- Year, make, and model of major appliances and mechanicals in the home
- Complete visual record of the collateral providing full transparency of the condition and other relevant factors
- Geo-coordinates and time stamps capture location and time of data collection

All of this is presented to the appraiser in the hybrid process enabling a robust virtual inspection of the property for a credible digital appraisal. Greater reliance on technology supports scalability and adoption by eliminating the risks and dependencies of training non-appraisers to measure or collect data. This will advance the appraisal process into a completely digital era providing authenticated source data in a highly consistent and standard fashion, offering complete transparency for all appraisers, downstream users, and stakeholders.

A1.3: Do appraisal waivers have a place in Enterprise appraisal policy and process, and if so, for what segment of loans? What are the current risks to Enterprise safety and soundness in how appraisal waivers are offered? Would caps or other limits on their usage be appropriate?

Xxxx – I think we would want to suggest moving away from appraisal waivers and/or using them only for properties with very low risk possibility. With an easy, efficient, accurate solution, we should properly appraise every property that we can as that is the best way to ensure value/mitigate risk.

A1.4: Would utilizing alternative inspection workforces, such as insurance adjusters, real estate agents, and appraisal trainees assist with addressing appraiser capacity concerns? Are there risks of using third-party non-appraisers? If yes, How?

It is highly critical we immediately expand capacity and drive the majority of appraisal business to the most qualified appraiser professionals. Providing an increase in capacity will allow the best appraisers to thrive while also alleviating the poor performers.

Some believe the noted credentials are an indication of qualification to perform inspections to support the appraisal process out of the box. This is not exactly accurate. They are educated to significantly different qualifications which are at times in conflict to the appraisal process itself. There are also some misperceptions as to the training and certifications utilized in some of the industries. In fact, none of these credentials are gained from training that includes specifics about how to capture property data and measure a property for a third-party user.

No matter who is being utilized, we just need to incorporate the correct technology to support this process credibly. While many of the abovementioned professionals may make great candidates individually, none should be considered without technology to support the process. If the proper tech is utilized, there is no need to limit the process to these credentialed categories alone.

The most important consideration, like many other day-to-day consumer needs, is anyone who enters the home should be appropriately background checked and vetted for consumer safety. We know credentials alone are not an avenue to ensure consumer safety. Even appraisers are not free from historic issues, and why companies like Clearbox and others have built businesses to appropriately vet appraisers and real estate agents. Even though this is known, some procurers of appraisal services today still do not background check their networks.

A1.5: Is there a need for additional policies and controls to balance potential risks with efficiency benefit from appraisal modernization? If yes, please provide your recommendations.

Yes, there needs to be guidelines and policies in place to ensure that an absolutely comprehensive data set is provided to appraisers to confidentially assess the value virtually. The data provided must not only be comprehensive, but it must be detailed and transparent with no possibility of omissions or alterations. These concerns have been noted by appraisers surveyed on the quality of data they're accustomed to receiving when completing current desktop, exterior, and hybrid products.

- Lack of photos or poor photo quality: 56%
- Missing sketches from third party data collectors: 44%
 - Inaccurate sketches: 38%
- Missing data from third party-collectors: 44%
 - Inaccurate data: 50%

A1.6: Do the objectives as outlined for the UAD update and forms redesign meet the current and future needs of the mortgage industry? Are there opportunities for refinements or additions?

Xxxx – not sure how to get this one started...

Risk Management

B2.1: How could the Enterprises make additional data available to appraisers while promoting appraiser independence without crowding out other data providers? What additional challenges arise if the enterprises provide data to appraisers?

- Both GSEs have the ability to share rules and alerts from Collateral Underwriter and Loan Collateral Advisor without providing actual peer data. Giving an “all access” pass would result in data confirmation and possibly skew appraiser independence.
- Appraiser self-discrepancy data alerts could prove valuable in data consistency.
- Compiled public record and MLS data is also valuable.

B2.2: How can the Enterprises improve their collateral tools currently available to lenders?

We can make a case to have limited access for AMCs to tools like Collateral Underwriter and Loan Collateral Advisor. This would potentially reduce the number of revisions and appraisal submissions, improve transparency, and reduce cycle times.

B2.3: How do Enterprise appraisal waiver offers differ between Freddie Mac and Fannie Mae? Are both Enterprises equally likely to offer a waiver on a given property? Please elaborate.

No comment? Directed toward the lender community?

B2.4: How can lenders manipulate automated underwriting systems when seeking an appraisal waiver? For example, lenders changing the loan amount, submitting data changes multiple times, or submitting to both Enterprises and delivering to the one who offers the waiver? How do the Enterprises minimize this manipulation?

I am unfamiliar with the controls in place for Freddie; however, to be eligible for a Fannie Mae appraisal waiver there cannot be an appraisal submitted to UCDP within 120 days prior to the DU submission date. This solves for the presence of an appraisal with a value that doesn't support the loan purpose but doesn't solve for the GSE loan delivery selection.

As long as the two enterprises are competitors in the marketplace, the lender will have the ability to choose delivering to one over the other based on waiver eligibility or loan pricing. The potential for adverse selection may also arise from this.

Propose additional controls and alignment to be placed on waiver eligibility, including loan amount or data changes. For example, to be eligible for a waiver from either entity the lender would have one shot on the DU and LP submission. Any subsequent submissions would render the waiver null and void.

B2.5: What are the challenges associated with quality of service, enforcement and consumer protections related to non-appraiser entities providing property inspection data?

The most important aspect is to not rely solely on the training of these non-appraiser entities. Technology must be utilized to ensure the information is captured in a reliable and comprehensive fashion. The authenticated source data must be provided to the appraiser through secure channels that foster trust and that empower them to make appropriate determinations on their own using a digital environment—not dependent on a less-qualified party to make determinations. Technology can and must be utilized so the appraiser can still perform their analysis.

B2.6: Is there any data or evidence you could share regarding the performance of alternative appraisal solutions versus traditional appraisals?

Yes, examples of authenticated source data can be shared. There is also data available to show the improvement in data collection using these advanced methodologies in comparison to standard appraisal processes as evidence by previous appraisals performed. Furthermore, as we are able to provide more of these services removing the appraiser from interaction with all parties interested in the transaction, we can further bolster appraiser protection and independence by reducing any potential forms of bias.

B2.7: Should Enterprise type COVID-19 appraisal flexibilities be part of an updated appraisal process to address disasters and other events to lessen market impacts?

Flexibilities should be in place to account for all potential issues that would limit an appraiser's ability (or apprentice, trainee, other third party, etc.) to view the interior of the home or visit the home altogether. Aside from COVID-19, considerations should include natural disasters (like hurricanes, floods, earthquakes, or otherwise), health crises, and/or other borrower/occupant limitations.

Industry Considerations

C1.1: What do you envision the impact of appraisal process improvements as described in this RFI to be on the appraisal industry? What impact, if any, has increasing use by the Enterprises of alternative appraisal solutions had on the availability and/or quality of traditional appraisals?

Deploying the hybrid process will drastically impact the industries capacity issues. They will expand the working lives of appraisers and allow the highest quality appraisers to manage a greater share of the volume. It will bolster appraiser independence by completely eliminating the appraiser from contacting any parties to the transaction. This will protect both the appraiser and the consumer from potential biases or false accusations.

Hybrid processes deployed with advanced technologies will forever improve trust and credibility, by providing more consistency, quality, and comprehension of property data. However, if done inappropriately, we risk injecting significant systematic risks. We must use technology and not allow marginal solutions that only focus on driving down cost and reducing cycle-times. We must require certain standards be utilized to deliver credible results.

C1.2: What would be the impact of appraisal policy and process improvements to the mid or late career appraiser? Do you believe late career appraisers would delay retirement if they could focus on specific valuation services like desktop appraisals? Or alternatively, would late career appraisers cease operations due to technology adoption challenges?

Hybrid and digital appraisals have the opportunity to dramatically impact the mid to late career appraisers in a positive way. Many appraisers around the country live in difficult climates that become more difficult to navigate with age. Providing the appraiser, the ability to extend their working years by no longer having to drive far distances or navigate the climate, will make a huge impact.

That said, it is imperative appraisers are provided enough data and information to provide credible results and feel comfortable trusting of this process. This is where the use of technology is so important. Many of these technologies have focused on integrating easily with the software

appraisers use daily, minimizing the need to learn new tools or procedures.

C1.3: Do you believe appraisal policy and process improvements would have a positive impact on access to credit, including for rural and underserved markets by providing additional valuation services that serve the needs of these markets?

Many underserved and rural markets are currently most dramatically impacted by appraiser capacity. Often times these lower-median-income markets are paying fees two- to four-times higher than what is charged in much higher-median-income regions. They are then forced to wait two- to four-times longer to receive service. There is no question the use of a credible, hybrid process would have a positive impact to both the appraisal services and access to credit in these areas.

C1.4: Is there discrimination in current collateral valuation practices? If you believe there is discrimination, describe the impact. Please provide any relevant data or analyses to support your position. Conversely, are there concerns that alternative or automated solutions could have a discriminatory impact?

It is clear this is a topic of concern and there has been recent anecdotal evidence to this fact. There is still much more discussion and investigation to be done in this arena. No matter where you stand on these issues, there is no question the hybrid process can help mitigate the potential of discrimination. Eliminating the appraiser from engagement to parties to the transaction and collecting authenticated source data about a property, allows for pure unbiased property data to be utilized in the process and reduces the potential for direct or implicit racial bias at the transactional level.

C1.5: What are the fair housing impacts of current FHFA and Enterprise policies and procedures on appraisals and valuations, and how can these policies change to further fair housing? Please provide any relevant data or analyses.

By removing any contact between the appraiser and those interested in the transaction, a hybrid process can reduce the potential of explicit and implicit bias impacting the value. By removing this interaction, not only would we be able to protect the consumers from bias, but we are also able to protect the appraiser from false allegations of bias. It's important to note that these types of issues are impacted by many pieces of the process, and an innovative appraisal solution will not alone solve the problem, however we believe it could be an important piece to helping us take a step forward in reducing unfair bias of any kind in our industry.

C1.6: Do you have any additional feedback on issues and questions raised by this RFI?