

February 26, 2021

Charlie Oppler
2021 President

Bob Goldberg
Chief Executive Officer

ADVOCACY GROUP

Shannon McGahn
Chief Advocacy Officer

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

RE: Request for Information on Appraisal-Related Policies, Practices, and Processes

Submitted Electronically Via: <https://www.fhfa.gov/>

Dear Director Calabria:

On behalf of the 1.4 million members of the National Association of REALTORS® (NAR), I submit this letter in response to the Federal Housing Financing Agency's (FHFA) Request for Information on Appraisal-Related Policies, Practices, and Processes (RFI).

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

Determining property value is at the heart of every real estate transaction. A well-developed, thoughtful, and accurate valuation of property protects homebuyers from over-paying for their house, likely the largest investment of their lifetime. Lenders benefit from knowing their mortgage loans are supported by adequate collateral. Of all the types of valuation products available today, appraisals provide the housing market with the most thorough and comprehensive way to determine an opinion of value, reducing risk to the borrower and to the real estate market as a whole.

For the past several years, appraisals have been a major focus area of regulators, legislators, industry stakeholders, and the media. There are concerns with appraiser availability and market knowledge in rural areas and small towns. There are complaints of long appraisal wait times holding up deals in high-growth markets. Appraisers engaged in discussions of burdensome training requirements, a lack of supervisors for trainee



appraisers, and consternation with the appraisal management company process. The increasing use of automated valuation methods brought up worries of safety and soundness. The recent media focus on allegations of appraiser discrimination has highlighted harmful incidences of discriminatory bias by individual appraisers and the greater inequalities in how majority non-White neighborhoods are valued as compared to majority White neighborhoods.

These concerns must be addressed and solutions given. It is interesting to note that according to NAR research, only four percent of homebuyers consider the appraisal the most difficult aspect of the home purchase process. Finding the right home, dealing with related paperwork, saving for a downpayment, understanding the steps in the purchase process, and getting a mortgage, were all areas that the majority of buyers found more concerning than the appraisal.¹ Rather than taking this to mean that the concerns and problems in real estate valuation today are unwarranted, it suggests that when appraisals are conducted correctly and used appropriately they work well as the determinate of value in the real estate transaction. While appraisal alternatives might be beneficial in certain specific circumstances, NAR generally finds that the appraisal continues to be the best method for determining an opinion of value in a real estate transaction. Current and future work must focus on ensuring all borrowers benefit from fair and sound appraisal practices and processes.

MOST DIFFICULT STEPS OF HOME BUYING PROCESS BY FIRST-TIME AND REPEAT BUYERS AND BUYERS OF NEW AND PREVIOUSLY OWNED HOMES

(Percentage Distribution)

	All Buyers	First-time Buyers	Repeat Buyers	BUYERS OF	
				New Homes	Previously Owned Homes
Finding the right property	53%	56%	52%	44%	55%
Paperwork	17	23	15	20	17
Understanding the process and steps	15	33	7	15	15
Saving for the down payment	11	25	5	10	12
Getting a mortgage	7	10	6	9	7
Appraisal of the property	4	5	4	3	5
Inability to move forward in process due to Covid-19	2	2	2	3	2
No difficult steps	20	9	25	26	19
Other	6	4	7	7	6

Source: National Association of REALTORS® 2020 Profile of Home Buyers and Sellers

NAR thanks FHFA for the opportunity to engage on how Fannie Mae and Freddie Mac (the Enterprises) appraisal policies, practices, processes and tools can be improved while balancing risk and efficiency, as well as addressing general appraisal industry concerns. FHFA asked commentators to provide feedback guided by the questions presented in the RFI. On behalf of NAR, please find below the written responses to selected questions.

General Questions on Appraisal Policy and Process Improvements Question

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?

NAR typically supports innovation in real estate and new valuation solutions should always be assessed for their potential benefits to the valuation industry. However, many of the concerns brought up by the Enterprises in this question will be more efficiently served by improving upon existing appraisal methods of valuation. For example, in rural areas there is a concern about appraisal wait times and appraiser capacity limits. The Enterprises require that each comparable sale selected must be assessed in-person with an outside observance and a comparable sale photo must also be taken. This requirement in rural areas often creates hours of extra diving time for the appraiser, not only hindering how quickly the appraiser can complete the assignment but also increasing the

¹ National Association of REALTORS® 2020 PROFILE OF HOME BUYERS AND SELLERS.

cost to the consumer. The Uniform Standards of Appraisal Practice (USPAP) do not require an in-person, from the street photo and assessment of comparable sales. Instead of deciding there must be a completely different way to assess value in a rural market, the Enterprises could simply align their requirements with USPAP and reduce the burden on the appraiser. With today's technology, including the many data programs available to appraisers such as the Realtors Property Resource® and even simple MLS data, the appraiser can find recent photos of comparable properties to properly use in determining an opinion of value. A thorough and deep assessment of current Enterprise requirements for appraisals will likely find many more opportunities to improve appraiser capacity and reduce wait times for rural and high-volume markets. NAR, as an active member of the Enterprises on-going form designs, urges FHFA to wait and see how the improvement of the forms and ideally the elimination of outdated requirements affects these concerns before turning to unproven and potentially risky new valuation solutions.

With respect to the training of new appraisers, NAR supports the Appraisal Foundation's work on developing the Practical Applications of Real Estate Appraisal (PAREA) program, which is exploring ways to educate trainee appraisers outside of the traditional supervisor and trainee model for obtaining experience hours. As a sponsoring organization of the Appraisal Foundation, NAR supports partnering with providers and educational institutions to develop online, module-based training courses that enable appraiser trainees to understand the ins and out of data collection for a subject property.

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?

Using a professional appraiser for the entire valuation process remains the best practice, however, technological advances and market demands have led to the use of hybrid and bifurcated appraisals in certain circumstances. With the COVID-19 crisis, REALTORS® accepted the legitimate fears of buyers and sellers, as well as agents and appraisers, who were not comfortable entering a seller's property as typical in a real estate transaction. REALTORS® understood FHFA's decision to allow for flexibility in the appraisal process, including the use of exterior-only and desktop appraisals, and some REALTORS® made use of these flexibilities. Having these different valuation options can be beneficial to the real estate market, but only if the proper risk management is put into place for each type of alternative.

For this comment, NAR considers a bifurcated appraisal to be one that uses a state-credentialed appraiser to view the property and provide the data to another state-credentialed appraiser to complete the assignment. NAR considers a hybrid appraisal to be one that uses a third-party to collect data for the subject property. The third-party is not a state-credentialed appraiser. This data is provided to a state-credentialed appraiser to complete the development, analysis, and reporting of the assignment. NAR recommends that when an entity allows use of a hybrid approach, of paramount importance is the selection of a third-party property data collector. Selection should be based on criteria and due diligence that will assure proper training, liability coverage, and access to necessary data. The third-party data collector must be able to provide unbiased information, and there should be enforcement to ensure proper performance. The appraiser should be able to communicate with the property data collector as necessary. The appraiser must be allowed to provide supplemental information in the report to address aspects of the assignment necessary to comply with USPAP. All data provided to the appraiser, including the report, must be available for retention in the appraiser's work file.

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?

By the Enterprises' own admission, certain borrowers and properties would not qualify for use of an appraisal waiver.² According to NAR research, in 2019, the median down-payment was 12 percent for all buyers, seven percent for first-time buyers, and 16 percent for repeat buyers.³ As one of the requirements to obtaining an appraisal waiver is to have less than 80 percent loan-to-value, the majority of home purchase transactions would not qualify. The typical recently purchased home was built in 1993, roughly 30 years ago. As homes age, they are more prone to developing property characteristics that could reduce value. NAR urges continued limits on the

² Fannie Mae Appraisal Waivers Frequently Asked Questions June 2020.

³ National Association of REALTORS® 2020 PROFILE OF HOME BUYERS AND SELLERS.

use of appraisal waivers as it relates to certain borrower and property characteristics, such as down-payment and age of the property.

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?

NAR supports the use of real estate professionals, such as real estate agents that prepare non-appraisal opinions, as third-party inspectors for alternative appraisal products. NAR has long supported the preparation of non-appraisal opinions, such as broker price opinions and comparative market analyses, by licensed real estate professionals, including brokers and agents. They are used for many real estate transactions, such as short sales, foreclosures, and loan modifications. These types of non-appraisal opinions normally 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. This type of previous work experience makes a qualified and well-trained real estate professional who is comfortable creating a non-appraisal value opinion a great candidate to be a third-party data collector.

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

NAR supports the objectives of the UAD update and forms redesign and deeply appreciates the opportunity to engage with the Enterprises during this process. NAR intends to continue to provide input through the working groups, requests for information, and other methods of engagement the Enterprises have extended to NAR as it relates specifically to the UAD update and form redesign.

Questions on 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?

NAR appraiser members have suggested that the Enterprises provide access to a raw UAD database that would contain property and market data free from opinions or analysis. While there might be concerns with information input errors or possible subjective facts in the database, similar concerns exist with the usage of many sources of data used by appraisers such as the local multiple listing services many appraisers rely on for property information. The Enterprises would be trusted to ensure those errors are kept at a minimum and provide the appraisers ways to flag potential issues. The appraiser would retain the same ownership and liability of the final opinion of value as in any other transaction and would be responsible for accuracy in their findings.

Operational Questions on Appraisal Process Improvement

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?

Mid- and late-career appraisers are less afraid of technology adoption than is assumed in valuation industry circles. Many of NAR's mid- and late-career appraisers have been moving out of the traditional real estate appraisal space into various valuation-related specialties over the past several years. The reasons given for making the career transition focused more on concerns with appraisal management companies and feeling limited by the Enterprises' appraisal review systems. Technology adoption challenges were less likely to be cited as a reason for leaving. Many of these appraisers went into fields that required using unfamiliar computer programs and databases, which they learned and mastered. If new technologies can support appraisers in the creation of sound opinions of value rather than pushing them into creating faster and poorer quality end products, many of NAR's mid- to late-career appraisers would be willing to consider the appraisal alternative options.

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?

While the Fair Housing Act, relevant state laws, and industry regulations like USPAP make discrimination in the real estate transaction illegal, including during the appraisal process, harmful discriminatory actions still occur. Unfortunately, there is a lack of data and research assessing the full extent of discrimination in the property valuation process. It is hard to truly understand the impact of this discrimination without a thorough review of appraisals and other types of valuations. The entities that have access to actual appraisal and other valuation data, such as the Enterprises and the Federal Deposit Insurance Commission, should provide new research in this critical space. In the absence of solid information on appraisal and valuation discrimination, the media is filling the void and enabling consumers to reach conclusions about the validity of the entire appraisal system based solely on news stories.

Home sellers do not always report allegations of discrimination to the relevant authorities. In many cases, this is because sellers are unaware they are being treated differently because of their race or another prohibited characteristic. Recent NAR research found that three percent of White home sellers reported allegations of discrimination to a government agency, but no other racial group surveyed stated they reported discrimination. A cursory examination of the online methods to file a discrimination complaint against an appraiser show a confusing and messy system. For example, the complaint portal of the Appraisal Subcommittee does not even mention how to address allegations of discrimination. The Subcommittee and other entities, including the Appraisal Foundation, the Enterprises, and trade groups like NAR, need to ensure that consumers are able to file a complaint of discrimination without undue burden or confusion. This will give us better data to understand and address systemic discrimination in the valuation process.

Discriminatory bias could be a factor with whomever is conducting the inspection of a home, whether it is an appraiser or a third-party inspector. There is evidence that algorithm-based decision-making tools can be designed in ways that create discriminatory outcomes.⁴ Likewise, switching out one form of valuation for another sidesteps the necessary work of actively dismantling biased and discriminatory behavior. NAR urges FHFA to work with partner organizations, such as NAR and the Appraisal Foundation, to develop education and materials on bias, discrimination, and other fair housing related issues that speaks directly to the experience of the appraiser to truly address the issue with discrimination in the appraisal process.

Ensuring accurate and responsible valuations is essential to a healthy real estate market. Borrowers and lenders need to know they are relying on sound and safe value opinions when financing a home. Adoption of new valuation methods and policies should always be considered to move the industry forward, but not if it means adding unnecessary risk into the market and onto homebuyers. NAR appreciates the opportunity to provide input and looks forward to continuing to work with FHFA and the Enterprises on these important issues. If you have any questions, please contact me or NAR Director, Sehar Siddiqi, at 202-383-1176 or SSiddiqi@NAR.REALTOR.

Sincerely,



Charlie Oppler
2021 President, National Association of REALTORS®

⁴ The Brookings Institution, Nicol Turner Lee, Paul Resnick, and Genie Barton, *Algorithmic bias detection and mitigation: Best practices and policies to reduce consumer harms*. May 22, 2019.