December 10, 2024

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

Dear Director Thompson:

On behalf of the 1.4 million members of the National Association of REALTORS® (NAR), we thank you for your efforts to advance liquidity in the housing finance system over the last four years. However, we respectfully request you halt the planned expansion of Fannie Mae's and Freddie Mac's (the GSEs) appraisal waiver programs to entire purchase market in lieu of further analysis and public input. This program poses serious consequences for consumers and the housing finance system and deserves analysis of the quality of valuations, the impact to the market, consumer protections, impact to the housing finance system, and adverse incentives for Fannie Mae and Freddie Mac and what this means for safety and soundness.

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.

Homeownership is a central part of the American dream, and accurate and credible valuations are critical to attaining mortgage financing. The growing use of appraisal waivers presents potential benefits and risks. REALTORS® believe that the best approach is always to use a licensed appraiser. While the benefits are known, the risks to consumers and the market are serious and deserve greater scrutiny.

Unprecedented Expansion

On October 10th, 2024, the FHFA announced that beginning January 1st of 2025, Fannie Mae and Freddie Mac (the GSEs) would offer waivers to appraisals on all properties where the borrower put down 10 percent or more and on properties where the borrower put down as little as 3 percent if that property was reviewed by a property data collector (PDC). In both cases, the property would be evaluated by the GSEs using their internal valuation process and in the latter case the GSEs' PDC program would be used to update and verify data from the property. PDCs are a new initiative where unlicensed individuals collect data on the interior and exterior of the property and provide it to the GSEs for analysis.

REALTORS® support independent valuations of real property performed by state credentialed appraisers. 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 valuations in certain circumstances. Likewise, REALTORs® believe that PDCs should be selected based on criteria and due diligence that will assure proper training, liability coverage, and access to necessary data. The individual must be able to provide unbiased information, and there should be enforcement to ensure proper performance. Furthermore, there must be transparent disclosure to consumers regarding the use of waivers or PDCs.

While the GSEs have published requirements for lenders and their appointees on the use of PDCs, the GSEs have not published analysis of the quality of data collected by PDCs or what professional backgrounds provide the most robust results. There has been no public analysis of the ability of these third parties to enforce data privacy and consumer protections as well. Likewise, neither the FHFA nor GSEs have published analysis of how waivers affect loss severities for their counterparties in the credit risk transfer and private mortgage insurance markets. A change in severities due to waivers should be accounted for in the private mortgage insurance eligibility requirements (PMIERs) and could result in higher rates for consumers, particularly those with smaller down payments.

Lost Consumer Protection

Consumers rely on the appraisal as a benchmark for the appropriateness of their purchase offer and to estimate their ability to recoup their expenses when they sell. A waiver may alleviate the valuation risk to the originator, but it does not do so for the consumer. The waiver program creates a perverse incentive for consumers to waive an appraisal for short-term gain.

As NAR has previously commented, the equal credit opportunity act (ECOA) requires creditors to provide consumers with any a copy of an appraisal or valuation connected to the application for a loan based on a residential property. ECOA states that the term valuation includes, "any estimate of the value of a dwelling developed in connection with a creditor's decision to provide credit, including those values developed pursuant to a policy of a government sponsored enterprise or by an automated valuation model, a broker price opinion, or other methodology or mechanism."[1] Because the GSEs are providing waivers to this important consumer protection as recognized in ECOA, the GSEs should be obligated to provide any valuation they base a waiver on to the consumer since it is used in the credit decision by the originator via the originator's choice to utilize the waiver.

[1] http://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title15-chapter41-subchapter4&edition=prelim

Problematic Process

More generally speaking, the lack of transparency and accountability in the roll out of expanded appraisal waivers raises a significant question about the ability of the market and regulator to see through the GSEs's activities. Considering recent discussion to end their conservatorship, REALTORS® question whether there have been sufficient reforms to for the GSEs to operate in a transparent manner that would support robust and competitive markets for private credit risk takers or markets for private portfolio or securitization.

The FHFA has empowered PMIs and CRT investors with data to investigate the potential impacts of waivers on their business through the publication of transaction level data in the Uniform Appraisal Dataset. However, that information could be enhanced by publishing information on whether the property included a PDC or if it was managed by an appraisal management company, lender or appraisal company and the name of that company.

Furthermore, there was no public input process for this change. Unlike the process for implementing and updating PMIERs, there was no public input process for implementing this significant change to the housing finance process. There were also no public hearings for the potential changes similar to thosehosted by the FHFA for the Appraisal Subcommittee's review of the Appraisal Foundation. While the GSEs have previously granted waivers on refinance appraisals where they own the risk and have larger equity buffers, they have never granted waivers on purchase mortgages to new borrowers with small down payments affecting the GSEs credit guarantee counterparties.

Under the final rule for Prior Approval of Enterprise Products, "If FHFA determines that a new activity is a new product, the final rule requires FHFA to publish a public notice soliciting comments on the new product for a 30-day period. After the comment period has ended, FHFA has 30 calendar days to approve or not approve the new product. Similar to the treatment of a new activity, the final rule provides FHFA with the authority to place conditions on the new product." NAR believes this program qualifies as a new product.

In addition, given the strong books of business in recent years and unusually stable prices due to historic supply shortages, data culled over this period is not an accurate estimate of performance through a normal housing cycle let alone a period of stress. PMI and CRT investors as well as the market at a large would be better served by transparent, orderly, and regular process for public input on a change to the GSEs' processes of this magnitude.

Potential for Systemic Abuse

Though the GSEs are not explicitly federally backed, the reforms taken while they are in conservatorship are intended to improve safety and soundness of the housing finance system and taxpayers' interests. The GSEs finance more than half of all purchase originations and that share may grow as depository lenders retrench in the face of rising mortgage rates and weaker portfolio values. Allowing the GSEs to waive appraisals means that they are taking on the risk of correctly valuing properties. The internalization of valuation risk by the GSEs poses a systemic threat to the housing finance ecosystem that could undermine investor confidence if ever questioned. Likewise, their programs to grant waivers could be abused to gain market share, just as the two entities gamed their pricing relative to capital to gain market share in the runup to the great financial crisis. This concern is especially salient if they exit conservatorship without an explicit federal backstop. Consequently, appropriate oversight of the Enterprises' AVMs and waiver programs is critical to ensuring they support both their charter duties and liquidity.

Working Together

REALTORS® greatly appreciate your work as Director to enhance the liquidity of the conventional housing finance system for all consumers. The housing finance system is more stable and equitable today than ever before. However, the latest program to expand appraisal waivers into the market for low downpayment home buyers presents risks that should be studied and evaluated by the regulator and the public. Finally, prior the ending the GSEs conservatorship, more effort should be spent to ensure that the transparency and accountability needed to collaborate with protect taxpayers and private markets exists today and survives an exit of conservatorship. If you have questions, please contact Ken Fears, Director of Conventional Finance and Valuation (kfears@nar.realtor), or Keisha Wilkinson, Senior Policy Representative for Valuation (Kwilkinson@nar.realtor).

Sincerely,

Kevin M Sears

Kevin Sears
2024 President
National Association of REALTORS ®