REQUEST FOR INFORMATION ON APPRAISAL-RELATED POLICIES, PRACTICES, AND PROCESSES

DECEMBER 28, 2020

TABLE OF CONTENTS

Introduction

To understand the credit risks associated with the mortgages they acquire, Fannie Mae and Freddie Mac (the Enterprises) have developed appraisal policies, practices, and processes to ensure accurate valuation of the collateral on which mortgages are made. Property value is a key input to a mortgage's loan-to-value ratio, which captures the degree of homeowner equity and is a key determinant of borrower credit risk. In addition, the property data used to determine the value plays a vital role in supporting the accuracy of appraisals and automated valuation models. FHFA is seeking input on certain aspects of the appraisal policies, practices, and processes, especially as they relate to modernizing the appraisal process and balancing the mortgage industry's need for process efficiencies with the Enterprises' need for quality valuations that foster prudent risk management.

FHFA is also seeking input on how to ensure that the Enterprises' respective appraisal policies and deployment of valuation tools, such as appraisal waivers and automated valuation models, do not lead to competitive practices that erode and endanger Enterprise safety and soundness. As a corollary, FHFA is also seeking input on how the policies and tools can be enhanced to ensure that mortgage industry participants do not engage in activities that manipulate the assessments made by the Enterprises' automated underwriting systems and/or result in the adverse selection of the Enterprise with the more generous appraisal policies and practices in a particular situation.

Lastly, FHFA is seeking input on the extent of disparities in value determinations for racial and ethnic minority borrowers, as well as properties located in neighborhoods with a large proportion of racial and ethnic minority residents.

FHFA will consider the public input solicited in determining the appropriate modifications or changes to the Enterprises appraisal policies, practices, and processes that are needed to ensure the Enterprises operate in a safe and sound manner. In particular, the requested input will help FHFA determine whether the Enterprises should proceed with their efforts to modernize the appraisal process and what is the most effective way for the Enterprises to deploy their appraisal tools and offer appraisal waivers.

Background

During the 2008 financial crisis, appraisal quality and validity issues were the basis for many of the repurchase requests lenders received from the Enterprises. Specific appraisal quality issues found by the Enterprises at that time included poor data quality, unsupported adjustments and value conclusions, deficient market analysis, errors in property condition, inflated or fraudulent valuations, and a lack of appraiser independence from the lender originating the mortgage. In response, the Enterprises embarked on a multi-year effort to improve data quality, provide collateral valuation tools for the industry, and conduct industry outreach to better understand the problems appraisers and lenders were facing. In 2010, FHFA and the Enterprises prioritized the standardization of single-family mortgage data through the Uniform Mortgage Data Program (UMDP) to improve data accuracy, process efficiency, loan quality, and mortgage credit risk management. The data standards serve as the foundation for ongoing efforts to enhance Enterprise business models, lender-facing technology tools, and quality control practices, which in turn help lenders improve the quality of their loan manufacturing processes. In 2013, the Enterprises began using collateral tools for their own quality control purposes and then later made them available to lenders to use for their review of appraisals prior to closing on the mortgage.

FHFA 2017 Workshop

FHFA hosted an appraisal workshop in 2017 for industry stakeholders to discuss appraisal policy and process modernization efforts. The event was attended by appraisal and mortgage professionals including appraiser associations, lenders, data vendors, and government housing regulatory agencies. Discussions centered around issues identified by industry participants that included appraiser shortages in rural and high-volume areas, the impact of licensing requirements on new entrants, sources of meaningful training for trainees and new appraisers, and how to use technology to help trainees gain practical experience.

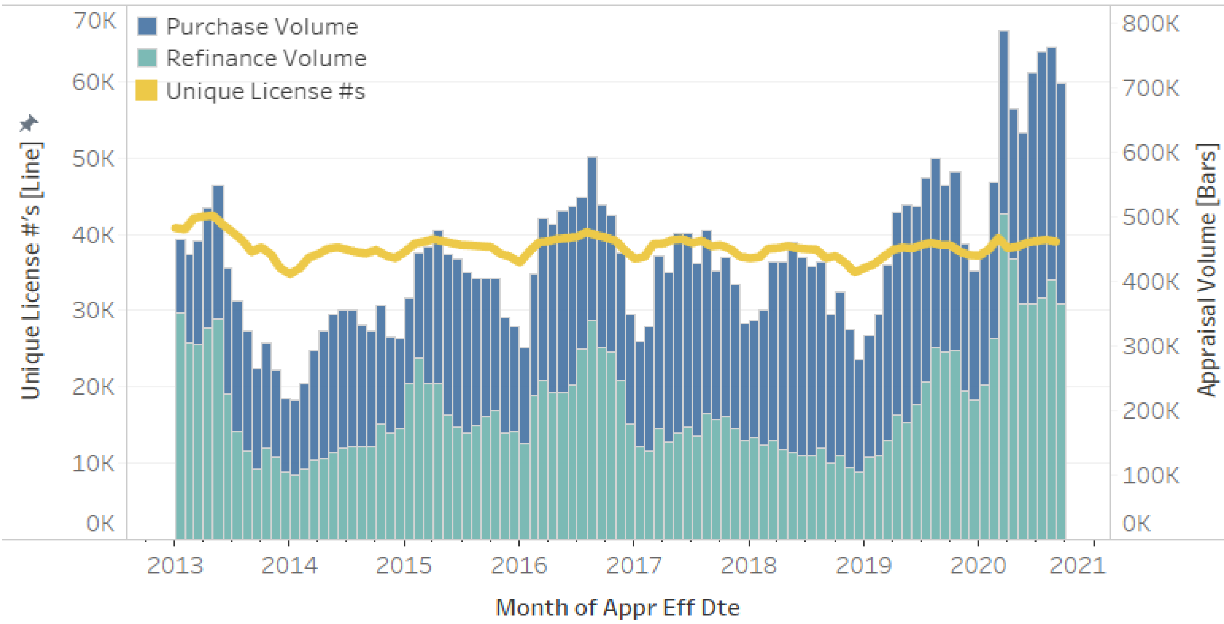
The 2017 workshop revealed that industry challenges in the procurement of appraisal services, particularly in times of high volume, require solutions in order to support mortgage market liquidity. Currently available and emerging technologies could be leveraged to improve process flows potentially providing relief on appraiser capacity and a reduction in delays due to appraisals.

Figure 1 below shows the number of unique appraiser licenses on appraisals sent to the Uniform Collateral Data Portal (UCDP)[1] since 2013, as compared to total appraisal volume over the same time period. While the unique appraiser population submissions have remained virtually flat since 2013, spikes in appraisal volume can be seen in 2016-17 and 2019-20 indicating that the

[1] UCDP collects appraisals submitted by lenders to the Enterprises. See page 11 for a more detailed description on UCDP.

demand for appraisal services during times of high volume can exceed existing appraisal fulfillment capacity.

Figure 1: - UCDP appraisal volume and unique appraiser populations



Source: Freddie Mac

In a discussion of appraisal process modernization opportunities and possible solutions at the 2017 workshop, various industry participants shared their views on industry needs. These needs included updating appraisal forms and/or supporting data elements, technology to train new appraisers to help them meet the licensing requirements, availability of data for appraisers, and solutions that address the gap between the use of automated valuation models (AVMs) and a traditional appraisal.

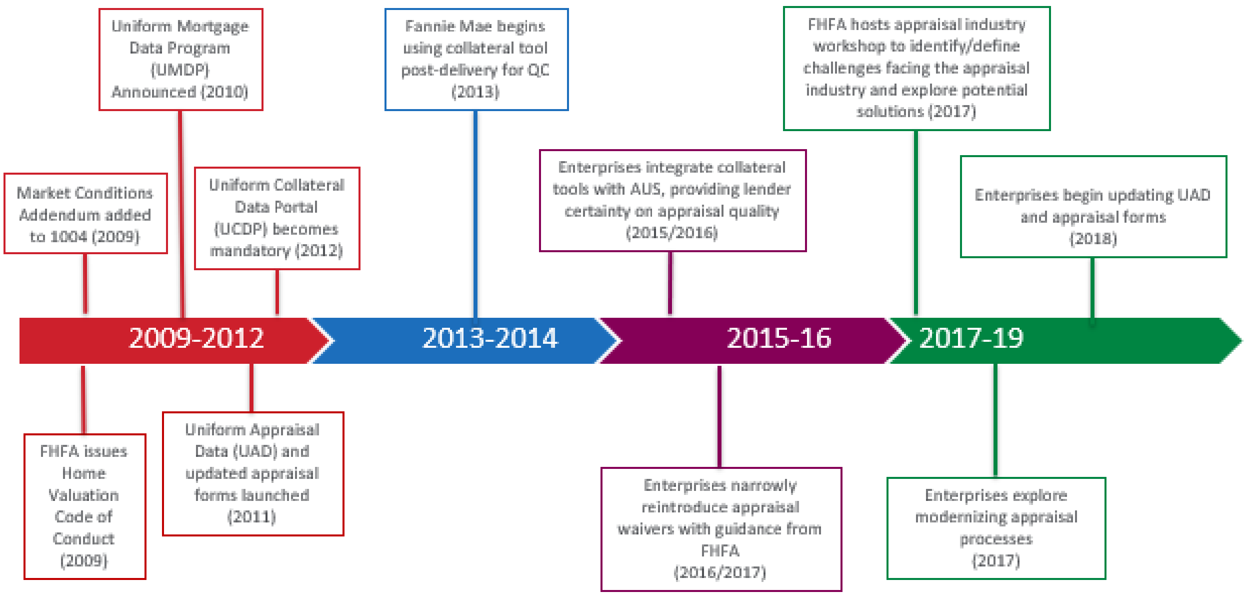
Enterprises' 2018 Outreach

Since 2018, the Enterprises have undertaken considerable outreach to industry stakeholders on challenges and opportunities for improving the appraisal process.[2] General themes from the Enterprises' most recent outreach to the appraisal industry are similar to previously identified

[2] Research included outreach at various events around the country involving lenders, fintech companies, rating agencies, trade associations, and appraisers.

challenges that have been under discussion for years, including appraisal fulfillment capacity concerns resulting in long turn-times and high cost for appraisal services, lack of opportunity for appraiser trainees to gain practical field experience, outdated property data collection methods, limited and inconsistent use of appropriate analysis to support appraisal conclusions, and limitations to the existing Uniform Appraisal Dataset (UAD) due to its outdated MISMO[3] version.[4] Mortgage industry media articles and conferences have described concerns similar to the Enterprises' outreach results.[5] Figure 2 highlights the Enterprises' collateral related efforts to date on addressing these concerns, including certain Conservatorship Scorecard items.

Figure 2: Multiyear effort to improve collateral valuations



Appraisal Modernization

In response to the feedback received during industry outreach, FHFA requested the Enterprises continue their respective efforts to develop options for modernizing the appraisal process in its 2018 Scorecard. FHFA recognizes that appraisal modernization may mean different things to different stakeholders depending on their role in the mortgage industry. For purposes of this

[3] https://www.mismo.org/x140197
[4] UAD outreach feedback will be addressed within that project and is not part of this RFI.
[5] https://www.housingwire.com/articles/surging-mortgage-volume-puts-pressure-on-appraisal-turn-times/
https://www.appraisalbuzz.com/what-is-appraisal-modernization-really/

Request for Input (RFI), appraisal modernization means exploring the respective risks and benefits of the entire range of property valuation alternatives. Components of that exploration include seeking opportunities to improve the tools available to appraisers, as well as the appraisal process itself. FHFA believes that appraisal modernization and related process improvements should seek to balance prudent risk management practices at the Enterprises with the mortgage industry's access to appraisal solutions that meet their needs and market conditions.

I. Enterprise Proposal

The Enterprises' proposed approach to modernization involves the development of valuation alternatives that could address the gap between an appraisal waiver and a traditional appraisal. One possible alternative proposed by both Enterprises is appraisal bifurcation, also known as the hybrid appraisal, where one entity[6] inspects the subject property, collects key data points, and reports to the lender for submission to an Enterprise's automated underwriting system (AUS) and corresponding collateral tool (Freddie Mac's Loan Collateral Advisor and Fannie Mae's Collateral Underwriter). If the AUS determines that further collateral analysis is warranted, the data collected at inspection would be provided to a licensed or certified appraiser for a desktop appraisal, resulting in a hybrid appraisal.

II. Benefits

Hybrid appraisals could create several opportunities for appraisers and appraiser trainees, while addressing some of the pain points such as appraiser shortages in rural and high-volume areas and assisting training for new appraisers. These opportunities include increasing coverage for rural markets that could reduce time and costs for lenders and borrowers. They may also provide appraiser trainees the practical experience to obtain full licensure more quickly and give appraisers the ability to specialize in offering alternative valuation options. Potential also exists to reduce appraisal bias resulting from omission errors at inspection to simplify the valuation by separating the inspection process from the valuation process.

III. Risks

It is important to note that the use of third-party inspections performed by non-appraisers could add a level of complexity and risk because a uniform regulatory framework does not exist at both

[6] The entity could be an appraiser trainee, home inspector, or real estate agent.

the state and federal levels that holds non-appraisers accountable for their work on appraisals.[7] Furthermore, hybrid appraisals may expose the Enterprises to other risks, such as the appraiser receiving inaccurate data from a non-appraiser that results in a poor understanding of the property's condition and an incorrect value determination. Diffusing responsibility for components of property valuations may also negatively impact the quality of those valuations. There are also concerns that policies the Enterprises adopt or manipulation of data inputs into the Enterprise tools could result in a higher risk loan being selected for a hybrid appraisal when the Enterprises would be better served by a traditional appraisal.

FHFA is seeking public input on advisability of such an approach, as well as the types of technology that could be used to facilitate appraisal process efficiencies to reduce strain on the appraisal supply chain when needed. Also, FHFA is interested in understanding the types of qualified labor forces that could be employed in such an approach, including any impact their use may have on enforcement of appraisal standards and consumer protections. FHFA is also seeking input on the need to provide valuation solutions that bridge the gap between appraisal waivers and traditional appraisals and the associated policies and controls that could balance the benefits with the risks and promote Enterprise safety and soundness.

IV. COVID-19 Appraisal Flexibilities

The response to the COVID-19 national emergency demonstrates how a more flexible appraisal process can assist the flow of liquidity to the housing market. Although real estate appraisers were generally deemed as an essential workforce under COVID-19 restrictions, some borrowers and appraisers were unwilling to allow or perform full interior property inspections due to health reasons. On March 23, 2020, the Enterprises released guidance[8] on appraisal flexibilities that provided a process for appraisers and borrowers to interact and appraisals to be completed.

---

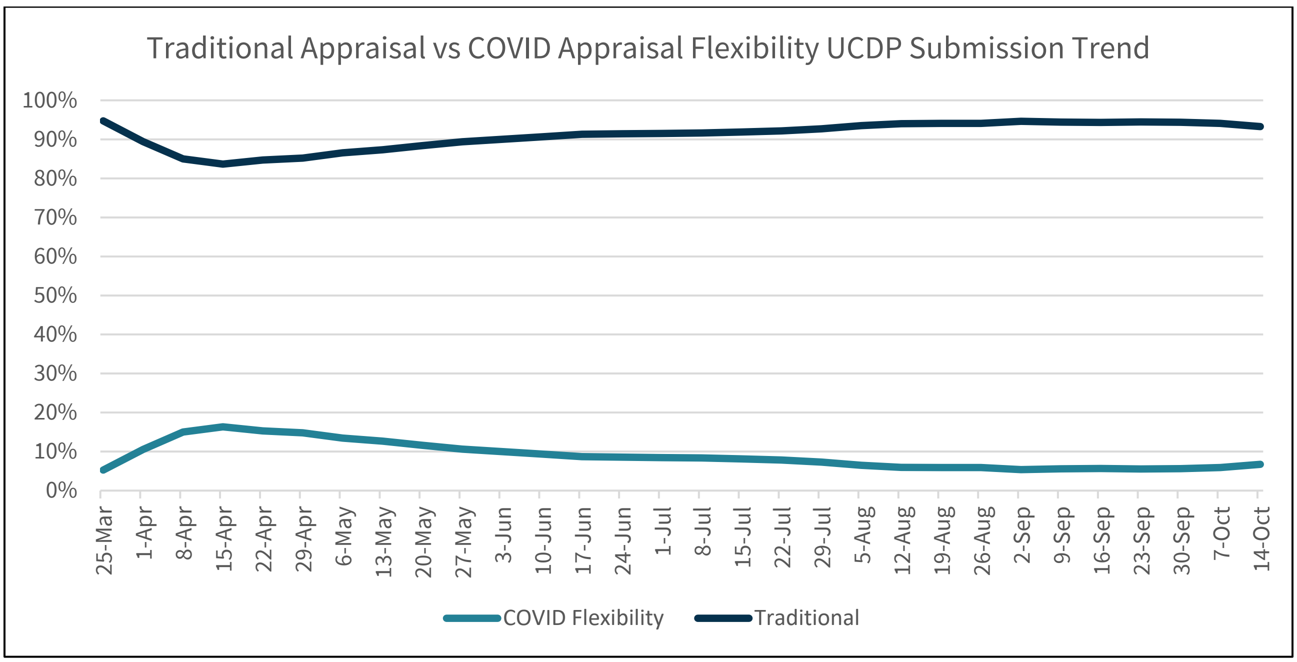
[7] The current appraisal regulatory framework was established in 1989 under FIRREA. Pub. L. 101-73, Title XI, codified at 12 U.S.C. § 3331 *et seq*. The framework focuses on "real estate appraisals utilized in connection with federally related transactions," requiring that such appraisals "are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision." 12 USC § 3331. Under this framework, States are responsible for licensing and certifying appraisers qualified to perform appraisals. 12 U.S.C. § 3346. The federal banking agencies have responsibility for prescribing, for their respective regulated institutions, appropriate standards for the performance of appraisals and qualifications of appraisers. 12 U.S.C. §§ 3339 and 3341; 12 CFR parts 34 (OCC), 208 (FRB), 323 (FDIC), and 722 (NCUA). The Enterprises rely on this regulatory framework and also on their seller servicer requirements to hold lenders accountable for complying with Enterprise appraisal requirements including, for example, requirements for appraiser independence. *See* Enterprise Appraiser Independence Requirements, https://singlefamily.fanniemae.com/media/4711/display (Fannie Mae); https://guide.freddiemac.com/app/guide/exhibit/35 (Freddie Mac)..

[8] https://singlefamily.fanniemae.com/originating-underwriting: See Lender Letter 2020-04, Impact of COVID 19 on Appraisals, (updated July 9, 2020) provides temporary flexibilities to appraisal requirements.

The Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), and the Department of Agriculture (Rural Housing), along with the federal banking agencies released similar flexibilities to ensure liquidity in the market. Appraisal flexibilities include desktop appraisals and exterior-only appraisals for certain loan types. The Enterprises also updated appraisal certification forms to reflect a scope of work consistent with the appraisal forms used in the flexibilities.

While the majority of loans delivered to the Enterprises so far during the national emergency continue to be traditional appraisals, these flexibilities provide a way to protect the health and safety of industry participants, comply with local restrictions throughout the country, and continue to provide liquidity and stability to the market. Figure 2 shows the percentage of how often lenders have used the desktop appraisal or exterior only appraisal for all Enterprise loans. Peak usage of these flexibilities occurred in April 2020, and then generally declined in subsequent months.

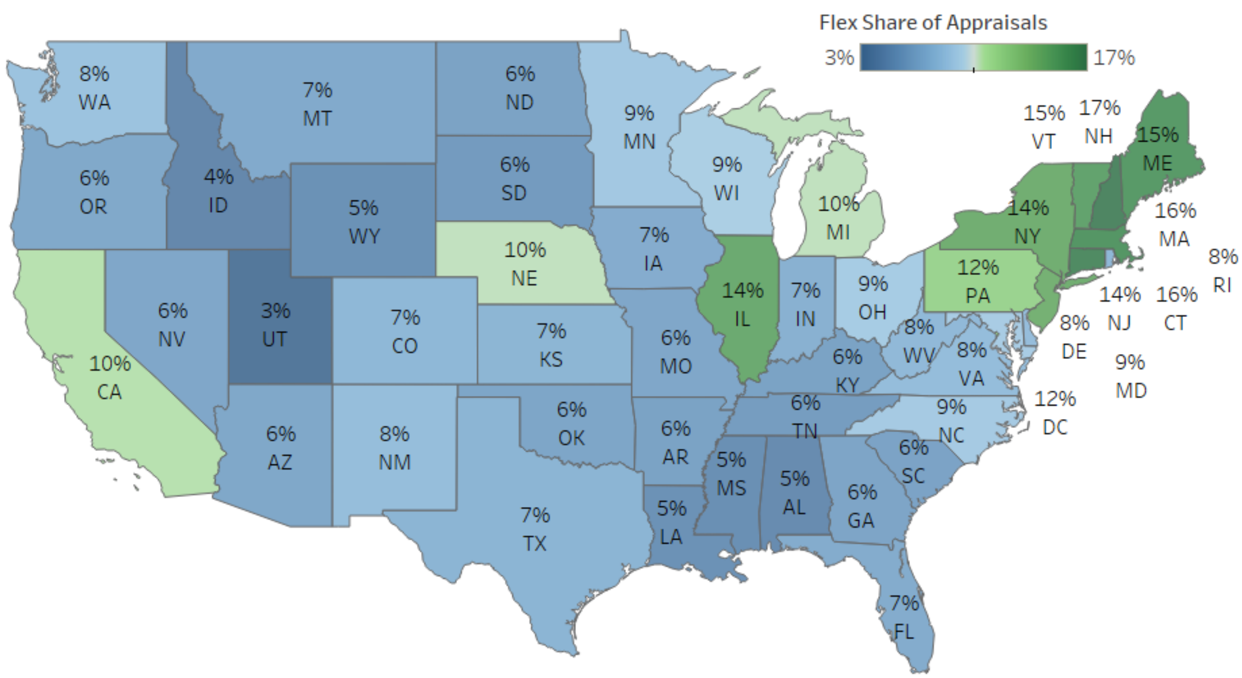
Figure 2: COVID Appraisal Flexibility Usage Trend as of October 15, 2020



Source: Fannie Mae

Figure 3 shows the frequency of applying the appraisal flexibilities by state throughout its use for Enterprise loans. The usage rates vary somewhat based on the extent of state social distancing orders, with the highest take-up in Northeast.

Figure 3: Appraisal Flexibilities Share by State – March 23 through November 14, 2020



Source: Freddie Mac

While it is too early to assess their long-term risks and impacts on the risk profiles of the Enterprises, FHFA and the Enterprises continue to monitor the performance of the COVID-19 appraisal flexibilities. This monitoring provides insight into the volume, locations, and quality of appraisals performed using the flexibilities. It may also inform the Enterprises' efforts in appraisal modernization and updating appraisal forms.

Updating Uniform Appraisal Data Set and Redesigning Appraisal Forms

FHFA is taking the opportunity in this RFI to highlight that the Enterprises' work on updating the Uniform Appraisal Dataset (UAD) and redesigning the appraisal forms is a separate effort from modernizing the appraisal process. However, FHFA does recognize that the two initiatives may influence each other, especially in the context of the COVID-19 appraisal flexibilities. As a result, information is being included to provide respondents with a better understanding of the Enterprises' objectives for updating the UAD and redesigning the appraisal forms.

V. Background

The UAD was initially implemented in 2011 within UMDP and introduced the Enterprises' first standardized and aligned data requirements, along with updated appraisal forms[9] (i.e., the 1004/70) and a new appraisal data collection tool, the Uniform Collateral Data Portal (UCDP ®). The UCDP is a jointly developed Enterprise technology portal that receives lender submitted appraisal data files for conventional mortgages and returns risk scores, flags, and findings providing appraisal quality feedback. Data standardization and digitization of appraisals facilitated the development of Enterprise collateral tools, namely Fannie Mae's Collateral Underwriter (CU) and Freddie Mac's Loan Collateral Advisor (LCA). These tools draw on standardized data, historical appraisals, and advanced analytics/models to provide risk feedback to Enterprise approved lenders on the quality of an appraisal. Lenders use this feedback as a critical input into their quality control processes.

VI. UAD Forms and Redesign Objectives

The Enterprises announced a multi-year initiative in 2018 to redesign and update UAD and the residential appraisal forms.[10] The primary aim was to align the UAD with the industry-standard Mortgage Industry Standards Maintenance Organization (MISMO) Reference Model Version 3.X since the current Version 2.6 is no longer supported. Secondly, the initiative has sought to assess whether new data are needed to strengthen risk management, and if current data should be retired or revised. A third aim is to ensure all property types are included in the expanded dataset while also updating the appraisal forms to have a similar look and feel to the redesigned Uniform Residential Loan Application, the Loan Estimate, and the Closing Disclosure. Overall, the redesign seeks to create a consolidated, dynamic Uniform Residential Appraisal Report (URAR) and associated dataset with the flexibility to support emerging technologies, future data updates, and appraisal process modernization.

VII. Benefits and Impacts

Updating the UAD could provide for new ways of streamlining review processes and reduce the overall process cycle time which is often extended by the need for lenders or AMCs to seek clarifying revisions from appraisers. Redesigning the appraisal reports will move key information from commentary and text sections to discrete data points and offer opportunities for increased innovation with data mining, flags to help mitigate risk, machine-readable data, and automated workflow processes that assign appraisal or quality control reviews based on

[9] The appraisal forms were initially developed in the 1960s and the first joint Enterprises forms introduced in the 1980s. While the basic appraisal forms have not been updated since 2005, the introduction of UAD in 2011 did repurpose some of the fields on the forms. However, only 4 of the 9 appraisal forms were included in the UAD.
[10] https://singlefamily.fanniemae.com/media/8566/display

complexity or type.

Updating the MISMO Reference model and incorporating all property types within UAD will require education and a learning curve for both software users and the reviewers of the redesigned appraisal report. Additionally, it is likely business processes such as appraisal ordering/fulfilment, collateral underwriting, and appraisal review may also need to make changes based on various data element updates. There will be technical impacts requiring system updates and testing, and possible further development work for organizations that utilize the UAD in their downstream systems or processes.

VIII. Status of UAD Forms and Redesign

In 2018, the Enterprises conducted 40 organizational interviews with lenders, vendors, appraisers, appraisal management companies (AMCs), trade groups and associations and government housing agencies to understand key obstacles and this feedback was used to craft initial updated data requirements.[11] During 2019, the Enterprises executed a broader industry survey to verify ongoing challenges and consulted with the UAD advisory group and participated in conferences to expand on the survey questions and socialize redesigned report sections for detailed feedback. Efforts continue in 2020 and beyond with the Enterprises iteratively refining data and report requirements based on feedback from industry reviews of sample reports for all appraisal types and working to update the MISMO Reference Model. Additionally, the Enterprises have met with both lenders and vendors to better understand impacts to their systems and processes and solicit an initial level of effort to implement changes. To date, with additional refinements still in process to reflect the remaining industry sample report reviews, a high-level comparison of current appraisal reports versus updated Single-family reports shows a similar number of total pages. This effort includes moving a significant amount of information out of the text addenda into standardized data elements that will be displayed in relevant sections.

FHFA encourages those who are interested in engaging further with this parallel UAD and forms redesign effort to contact either UAD@freddiemac.com or UAD_Info@fanniemae.com.

IX. Issues/Challenges for this RFI

As discussed above, the COVID-19 national emergency prompted the Enterprises to provide appraisal flexibilities that helped ensure continued housing market liquidity. In permitting desktop and exterior-only appraisals for certain loan types, the Enterprises also had to quickly devise workarounds to accommodate using existing appraisal forms but with modified scope of work, statement of assumptions, and certifications. Additionally, the Enterprises had to ensure that downstream systems could appropriately identify when a desktop appraisal was performed.

---

[11] https://sf.freddiemac.com/content/_assets/resources/pdf/other/uadexecutivesummary_fre_20181217.pdf

FHFA is seeking public input on any additional updates or ideas from the industry on how the future data and output report(s) could help provide the flexibility and ease of use needed to support all property types and scope of work (including COVID-19 appraisal flexibilities) and ensure that the industry does not need to mix and match data and forms to support temporary policies or unique scenarios.

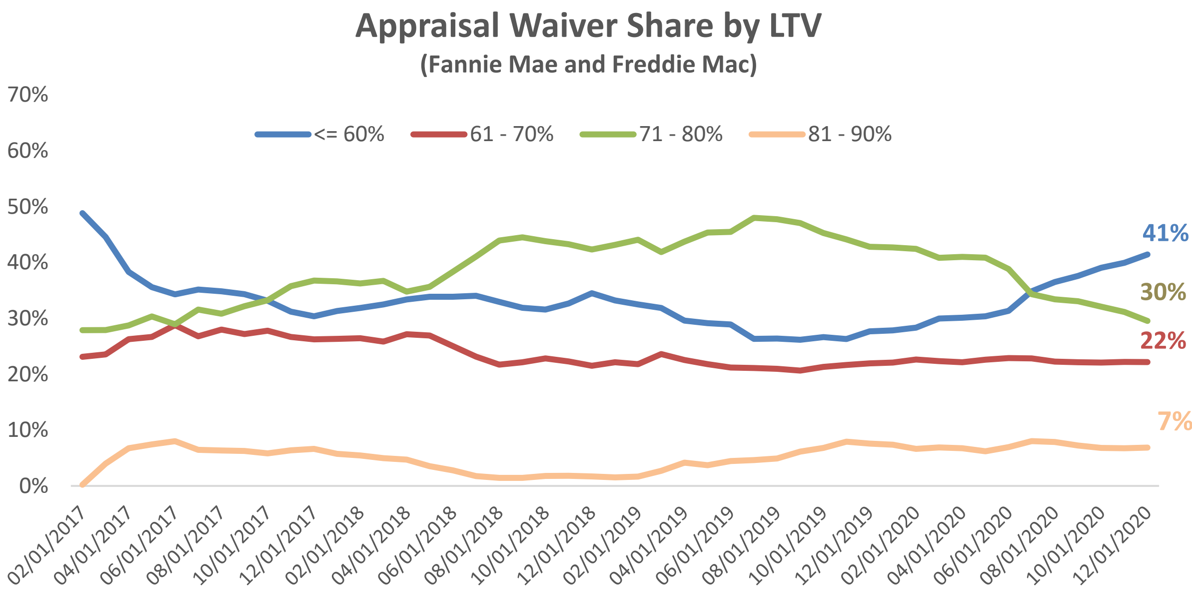
Automated Valuation Models (AVMs) and Appraisal Waivers

AVM valuations have been available to consumers and the mortgage industry for many years and from multiple sources, including vendors and real estate websites. The Enterprises use proprietary AVMs and other collateral models to perform a variety of functions including loan quality control reviews, valuation desk reviews, loss mitigation, non-performing loan and property liquidations, and to assist with offering appraisal waivers on eligible loans. The Enterprises monitor and test their AVMs for model risk.

Since the late 1990s and continuing through the 2008 financial crisis to the present, the Enterprises have offered appraisal waivers on eligible refinance transactions. In 2017, the Enterprises expanded appraisal waiver offerings to eligible purchase transactions. The Enterprises make an appraisal waiver offer when the Enterprises determine they have enough information on the current value of the property and do not require an appraisal from a licensed or certified appraiser. Each Enterprise approaches the waiver decision differently depending on individual risk tolerance, collateral tools, and aggregated data. The Enterprises offer an appraisal waiver through their automated underwriting systems; however, the lender and the borrower, based on their individual risk tolerances, make the final decisions on whether to accept the waiver offer. For example, a borrower or a lender may obtain an appraisal in lieu of accepting the appraisal waiver offer. Once an appraisal is submitted through UCDP, no appraisal waiver is offered.

Figure 4 below shows the percentage of Enterprise appraisal waiver acquisitions by LTV range since January 2017. As of December 2020, 93 percent of appraisal waiver loan acquisitions were on mortgages with LTV ratios of less than 80 percent, with 41% of the total below 60% LTV.

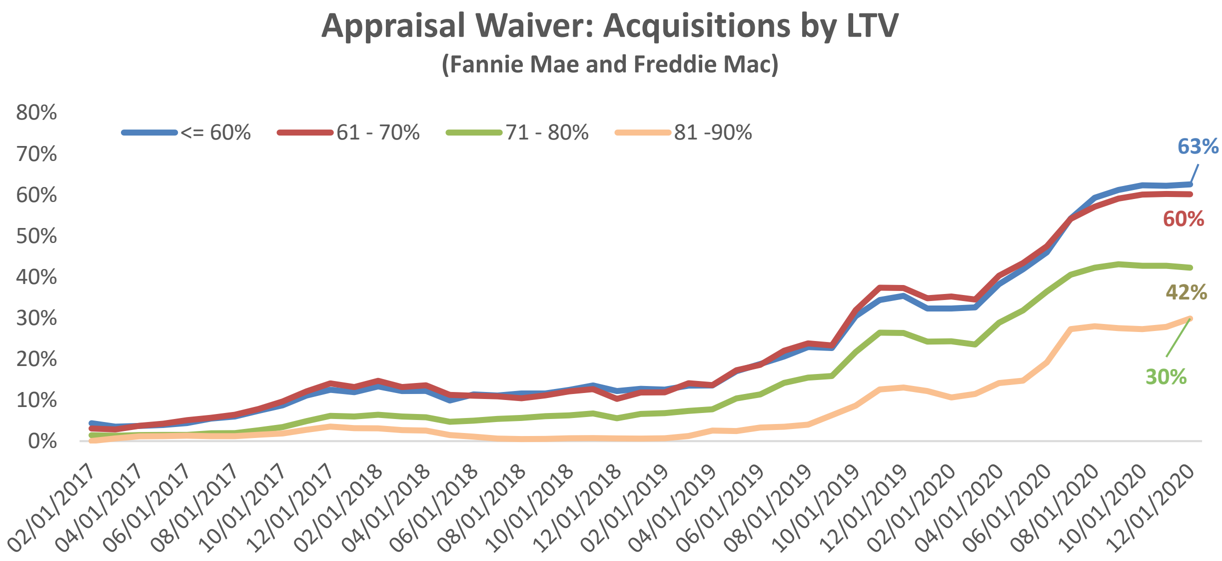
Figure 4: LTVs on loans with appraisal waivers 2017-2020



Source: RiskSpan

Figure 5 below shows the percentage of Enterprise appraisal waivers of total loan acquisitions by LTV range since January 2017. As of December 2020, 63 percent of loans with less than 60% LTV were delivered to the Enterprises with an appraisal waiver.

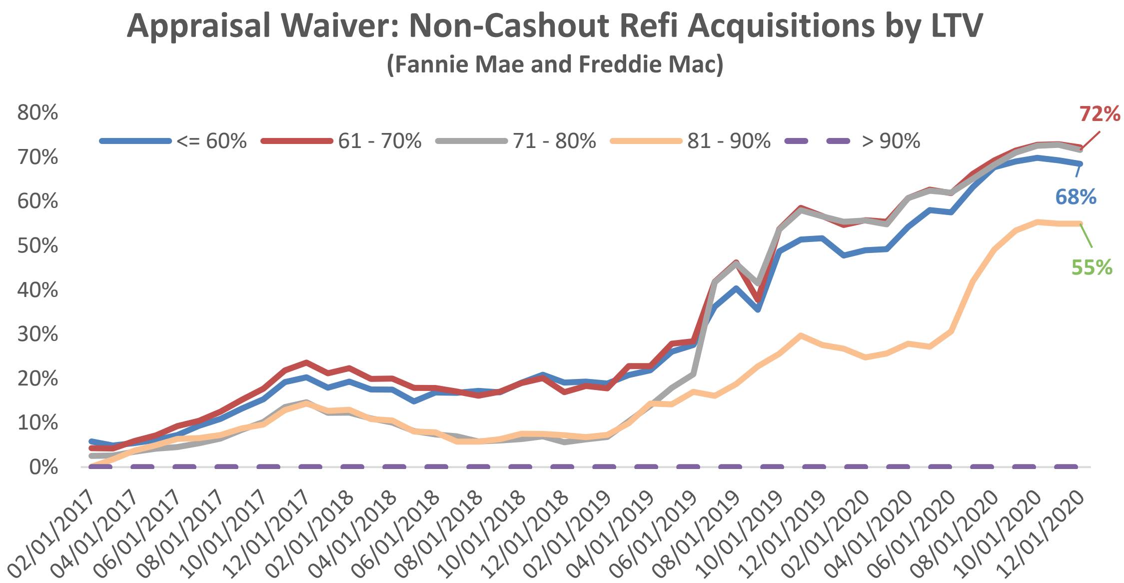
Figure 5: LTVs ranges with appraisal waivers as a percentage of loan acquisitions 2017-2020



Source: RiskSpan

Figure 6 below shows the percentage of Enterprise appraisal waiver of total loan acquisitions by LTV for rate and term refinances (no cash out) since January 2017. Rate and term refinances are the primary driver of appraisal waiver volume to the Enterprises as a result of the material delivery volume driven by low interest rates. As of December 2020, nearly 70 percent of rate and term refinances with LTVs below 70% used an appraisal waiver.

Figure 6: Percentage of appraisal waivers on rate term refinance loan acquisitions 2017-2020



Source: RiskSpan

X. Benefits

Benefits of appraisal waivers for both the lending industry and borrowers have been described in studies and reports. For example, the Urban Institute recently published an article on the Enterprises appraisal waiver volume and associated impact on the industry and the borrower.[12] The Urban Institute concluded that waiving appraisals in the COVID-19 environment removed an obstacle to refinancing, and enabled refinance transactions to lower the monthly costs for more borrowers, while representing a low risk to the Enterprises.

Removing an appraisal on a lower risk loan origination may save the lender several days of loan manufacturing time. It saves the borrower the associated cost of an appraisal and allows the borrower to close a loan more quickly. From the Enterprises' perspective, because most appraisal waivers are offered on rate and term refinance loans, the lower borrower payment reduces credit risk on loans already owned by the Enterprises. Given the record volume of appraisals, despite COVID-19 appraisal flexibilities, in 2020 as shown in Figure 1, it is unknown how loan processing times and borrower costs in 2020 would have been further impacted if all loans receiving appraisal waivers had instead needed a traditional appraisal, which could have created delays in loan closings.

---

[12] https://www.urban.org/urban-wire/appraisal-waivers-have-helped-homeowners-find-payment-flexibility-amid-pandemic-induced-economic-struggles

XI. Risks

There are risks to the rapid growth and usage of appraisal waivers. These risks could include higher than expected prepayment speeds on mortgage securities, loss of ability to assess recent property condition, decline in accuracy of input data, increased model error, erosion of loan quality caused by escalating competing appraisal waiver offers, and potential gaming by lenders.

Mortgage backed security (MBS) prepayment speeds are currently elevated due to the low mortgage interest rates driving very high refinance volume. There appears to be a correlation between the rise in prepayment speed and the increase in appraisal waivers. A possible driver is the exceptionally low interest rate environment incenting financially sophisticated borrowers with significant home equity to refinance, resulting in a high appraisal waiver offer rates to this population of borrowers who may be more likely to refinance subsequently. If RFI respondents believe that appraisal waivers impact prepayment speeds, FHFA encourages respondents to provide an explanation for that belief in their response.

Other risks exist when using AVMs and appraisal waivers. As previously noted, property condition risk exists with AVM and appraisal waiver usage even on low loan-to-value loans. A mortgage loan originated with an appraisal waiver on a property in poor condition could increase Enterprises loss severity for real estate owned dispositions.

The risk of industry participant manipulation involves inappropriately gaming the appraisal waiver process for the benefit of a loan approval, reducing lender processing costs, reducing closing times, and avoiding mortgage insurance. Given the differences in modeling approaches and risk tolerances, it is possible that one Enterprise may offer a waiver while the other requires a traditional appraisal. Lenders submitting a loan to both Enterprises and selling the loan to the one that offers an appraisal waiver, assuming the other does not, increases collateral risk through adverse selection to the Enterprises. While the Enterprises have controls to limit data manipulation and can monitor for pattern usage by lenders, they cannot prevent all the risks of submission manipulation.

Appraisal waiver volume may also impact the amount of appraisal data that flows to Enterprise tools through the UCDP. Model performance may decrease for certain segments of the market if the availability of data is reduced.

Industry participants potentially impacted by these risks include:

> *Mortgage Insurance Companies*: As noted previously, appraisal waivers may occur on rate and term refinances above 80 percent LTV, exposing mortgage insurance companies to potentially higher claims if the collateral is overvalued versus a traditional appraisal.

> *Borrowers*: Inaccurate data may lead to an appraisal waiver on an overvalued property

leading a borrower to have higher LTVs than anticipated and with less equity in the property.

MBS Investors: MBS securities with appraisal waivers demonstrate higher prepayment speeds.

Enterprises: A system that provides for appraisal waivers may expose the Enterprises to adverse selection, overvaluation, and property condition issues leading to inaccurate underwriting decisions, loan level pricing adjustments, and higher loss severity on real estate owned dispositions.

FHFA is seeking input on the need for the Enterprises to offer appraisal waivers and how to ensure safety and soundness should waivers be offered. FHFA is also seeking input on policies and controls to minimize the occurrence of gaming and data manipulation through multiple AUS and collateral tool submissions.

Valuation Differences by Borrower and Neighborhood Race

Recent articles indicate concerns with undervaluation of residential property in minority communities.[13,14] An article in the New York Times detailed experiences of several minority borrowers where traditional appraisals valued their homes well below neighborhood comparable properties. The article further commented that when minority borrowers removed ethnically identifiable items from the household, it resulted in higher appraised values. A 2018 Brookings Institute study found systematically lower median listing prices in majority black zip codes.

Studies also show that there may remain significant disparities in valuations for properties in minority neighborhoods, despite substantial efforts by the appraisal community to improve appraisal and valuation methodologies. According to one study, neighborhood racial composition had a stronger relationship to appraised values in 2015 than in 1980 and the researchers found increasingly disproportionately lower appreciation in value for homes in majority-Black and majority-Latino neighborhoods compared to White neighborhoods.[15] Sociological studies examining the role of collateral valuation in the homebuying process linked inconsistent appraisal methodologies, specifically identification of comparable properties, to potential

---

[13] https://www.nytimes.com/2020/08/25/realestate/blacks-minorities-appraisals-discrimination.html

[14] https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf

[15] Junia Howell and Elizabeth Korver-Glenn, *The Increasing Effect of Neighborhood Racial Composition on Housing Values, 1980-2015*, SOCIAL PROBLEMS (2020).

disparities.[16] Appraiser interviews showed that some take racial and ethnic composition of the neighborhood into consideration when selecting comparable homes, even when there are comparable homes located closer to the subject property.[17] The availability of different methodologies for selecting comparable properties, in other words, means that appraisers have discretion to select comparable properties "on the basis of neighborhood racial demographics."[18]

The Uniform Standards of Professional Appraisal Practice (USPAP) provide that an appraiser "must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value." Appraisal Advisory Opinion 16 acknowledges that while the USPAP rule only prohibits unsupported conclusions, even supported conclusions can violate the law. It also provides additional advice on fair housing and appraisals including counseling caution in unsupported conclusions regarding crime or subsidized housing properties in a neighborhood.

To better understand the potential for differences in appraised values based on ethnicity or race, FHFA is seeking input on the extent of disparities in value determinations for minority borrowers and for minority neighborhoods.

Questions and Public Input Instructions

The following sections present several questions that FHFA considers important to inform its understanding of the implications of modifications and changes to appraisal policy and process and its impact to Enterprise safety and soundness. FHFA encourages stakeholders to provide meaningful and detailed responses to the RFI and to make those responses public whenever possible to inform broader public discourse on these issues. FHFA will consider all information that is provided in response to the RFI, along with supporting data, analysis, and outreach.

FHFA invites interested parties to provide written input on the questions listed below within 60 days of the publication of this document, no later than February 26, 2021. Please submit electronically using the response form at FHFA.gov. Please submit all other responses to AppraisalRFI@fhfa.gov, or by mail to Federal Housing Finance Agency, Office of Housing and Regulatory Policy, 400 7th Street SW, 9th floor, Washington, D.C., 20219. Generally, all input received will be made public and posted without changes to FHFA's website. However, if you wish for FHFA to consider any portion of your response exempt from disclosure, please put that

---

[16] *See, e.g.*, Junia Howell and Elizabeth Korver-Glenn, *Neighborhoods, Race, and the Twenty-first-century Housing Appraisal Industry*, 4 SOCIOLOGY OF RACE AND ETHNICITY 473 (2018).
[17] *Id.* at 482-83.
[18] *Id.* at 483.

portion in a separate attachment and clearly mark it "confidential commercial information." The procedures for identifying "confidential commercial information" can be found in FHFA regulations at 12 CFR 1202.8, available on FHFA's website[i].

II. Appraisal Policy and Process Improvements

FHFA is requesting information on options for modernizing the Enterprises' appraisal requirements including appraisal process improvements. FHFA welcomes public input on these questions as well as any of the issues discussed in this RFI.

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?
Question 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?
Question 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?
Question 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?
Question 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.
Question 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?

III. Risk Management

	Questions on Risk Management
Question 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?
Question B2.2:	How can the Enterprises improve their collateral tools currently available to lenders?
Question 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.
Question B2.4:	How can lenders manipulate automated underwriting systems when seeking an appraisal wavier? 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?
Question B2.5:	What are the challenges associated with quality of service, enforcement and consumer protections related to non-appraiser entities providing property inspection data?
Question B2.6:	Is there any data or evidence you could share regarding the performance of alternative appraisal solutions versus traditional appraisals?
Question 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?

IV. Industry Considerations

Operational Questions on Appraisal Process Improvement	
Question 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?
Question 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?
Question 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?
Question 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?
Question 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.
Question C1.6:	Do you have any additional feedback on issues and questions raised by this RFI?

[i] https://www.govinfo.gov/content/pkg/CFR-2020-title12-vol10/pdf/CFR-2020-title12-vol10-sec1202-8.pdf