Appraisal Institute®

Professionals Providing Real Estate Solutions

July 10, 2017

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
8th Floor
Washington, DC 20024

Re: Duty to Serve Underserved Markets Plans

Dear Director Watt:

On behalf of nearly 19,000 members of the largest professional association of real estate appraisers, thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") Final Rule implementing Fannie Mae and Freddie Mac's ("GSEs") proposed Underserved Markets Plans ("Plans").

The Appraisal Institute stands committed to working with FHFA to ensure that the GSEs reach the objectives outlined in the Plans, as we believe that using the services of well-trained and competent professionals helps both enterprises achieve their respective goals.

We note a general tone of concern regarding the cost of appraisals within the Plans. With respect, we offer a word of caution here, as some of the issues under consideration in the proposals are deservedly complex and require enhanced due diligence by appraisers. While we stand ready to assist with greater education, awareness and enhanced efficiency within the valuation process, emphasizing cost and turnaround times over quality will result in increased risk to the enterprises and, ultimately, to taxpayers. In this instance, we are reminded of the old adage, "penny wise and pound foolish."

That said, we stand ready to join in stakeholder participation initiatives involving any aspect of the proposed plans. Further, both plans discuss the development of enhanced education for appraisers in particular market areas. As the leader in real property appraiser education, the Appraisal Institute already offers an extensive curriculum of introductory and advanced courses, as well as a wide range of seminars on specialty topics. These programs are designed to address the needs of all real estate appraisers, ranging from those just entering the profession to seasoned practitioners who wish to keep abreast of the latest techniques and developments. Many of these programs also serve to help other industry professionals gain further insight and understanding of real estate valuation techniques and processes, and they surely would be beneficial to helping address valuation questions related to the valuation of green and energy-efficient features, manufactured housing and rural housing.

We also note that one of the enterprises has included the updating of common appraisal forms to the list of long term goals. This is a critically important exercise that must include input from industry stakeholders. We commit the resources of our organization to ensuring adequate representation from the appraisal profession is considered during this important industry endeavor.

We have summarized below our comments on both enterprises' plans for ease and simplification of response.

<u>Energy Efficiency</u>

We have long-stressed that appraising high performance properties requires enhanced competency and the services of highly-qualified appraisers. An appraiser should know how to identify green or energy-efficient components of homes and how to value them. With that, we are pleased that the Fannie Mae Seller/Servicer guidelines require appraisers to gain competency for the assignment ***<u>prior to</u>*** accepting the assignment. In contrast, USPAP maintains no upfront competency requirement, which often is misunderstood by those who hire appraisers. The Appraiser Certification included in every 1004 includes Item 11, which states " I have knowledge AND experience in appraising this property type." However, this message of competency often is misunderstood or not acknowledged by many lenders and appraisal management companies acquiring appraisal services. We urge FHFA to emphasize the importance of competency assessment in appraiser selection as it relates to these duty-to-serve responsibilities.

The Appraisal Institute is the recognized leader on the valuation of sustainable properties, having invested considerable resources to develop education, guidance and tools for the industry. We recently have expanded our Valuation of Sustainable Buildings Professional Development Program's online registries of residential and commercial appraisers. The registries, found on the Appraisal Institute's website, now list the names of AI Designated members, Candidates for Designation, Practicing Affiliates, Affiliates and non-AI professionals who have successfully completed the courses in the program. Placement on the registries shows potential clients and employers that these individuals have obtained knowledge on this specialized topic. With the existence of the registries, lenders may find a competent appraiser much more efficiently going forward, especially with the inclusion of non-AI professionals who have successfully completed the courses in the program. Simply advising their appraiser panel that they are in need of appraisers with proven education and experience in the appraisal of high-performance properties would be a huge step forward.

The definition of green building from the Environmental Protection Agency (EPA) is used on the *Residential Green and Energy Efficient Addendum 820.05*. It very closely mirrors Fannie Mae's definition of an energy-efficient building. This area of the Selling Guideline often is overlooked by underwriters and the secondary market in general.

<u>Residential Green and Energy-Efficient Addendum</u>

The Appraisal Institute suggests that FHFA encourage use of the *Residential Green and Energy Efficient Addendum 820.05* as an accompaniment to the *Uniform Residential Appraisal Report* utilized by both enterprises. The addendum allows appraisers to identify and describe a home's green features ranging from solar panels to energy-saving appliances. Further, with the latest release earlier this year, the Addendum has been mapped to industry data standards, including MISMO 3.5, to facilitate review by mortgage loan sellers. FHFA should encourage the enterprises to utilize existing tools and resources rather than attempt to stand up entirely new data programs of its own.

<u>Seller/Servicer Guidelines</u>

We continue to encourage both enterprises to update and make needed adjustments to their Seller/Servicer guidelines related to the use of <u>all applicable approaches</u> to value when analyzing and reporting market reactions to green and energy-efficient features. Our members continue to report resistance to the use of well-supported adjustments utilizing the income, cost and other residual techniques where there is an absence of comparable sale information. We believe that this is due, in part, to a lack of understanding by underwriters and reviewers of the appraisal process. However, we also believe that the Seller/Servicer guidelines could be made clearer as to the acceptability of well-supported adjustments employing residual valuation techniques. While the "no sale – no value" method never has been a recognized method to valuing any feature, it is one that some mortgage loan sellers use to second guess analysis by appraisers.

<u>Manufactured Housing</u>

Generally, our comments are reserved for situations where manufactured homes are secured ***with land***, as that's the most common situation where a real estate appraiser is involved in lender due diligence. Situations where the manufactured home is secured ***without land*** generally are treated as personal property appraisals. Loans involving manufactured housing with land often are more complex than conventional, "stick-built" transactions, requiring increased research and due diligence. However, this does not mean that they cannot be performed by competent real estate appraisers. Outside of some research and due diligence considerations, there actually are more similarities to conventional appraisals than people realize.

There are a number of complicating factors with new manufactured housing that would beg for enhanced due diligence. For one, the price of a manufactured home may not necessarily reflect the value of the property, as price often does not equal value because of supply and demand issues. In addition, our members have reported significant valuation impacts based on the quality of installation and construction of the manufactured housing, which would be analyzed by an appraiser. Manufactured housing is another area where the Appraisal Institute's registry of appraisers would be beneficial to use. In this case, lenders may find appraisers with demonstrated competency in appraising manufactured homes in their area.

Several years ago, the Appraisal Institute developed a successful seminar related to this type of appraisal assignment to assist with the development of a deep pool of appraisers available with the skills to do this type of work. This seminar was presented more than 150 times and saw an enrollment of more than 5,500 professionals.

<u>Rural Housing</u>

We recognize that appraising rural properties offer a different set of difficulties for appraisers than typical residential properties do. But here again, this does not mean that rural appraisals cannot be performed or that there is not an adequate number of competent appraisers to answer these questions. Further, appraisal service markets may see imbalances as to the payment of customary and reasonable fees, where fees offered to appraisers may not be in balance with the cost of doing business and the scope of work of the assignment. In the end, we believe that FHFA should focus more on the importance of sound collateral risk management, as well as on the importance of quality appraisals and appraisal review processes.

Lastly, the Appraisal Institute recently released "Rural Property Valuation," a comprehensive text devoted to the topic of rural property appraisals. The book provides up-to-date information on the many forces that affect properties in the United States, and offers specific data and analytical tools appraisers may use in their daily work. Moreover, the Appraisal Institute would be pleased to work with FHFA and the GSEs on developing rural property-specific education.

<u>Closing</u>

The Appraisal Institute is pleased with FHFA's work on the enterprises' respective plans, and we stand ready to continue working with you on this and other important endeavors.

Thank you for your consideration and we would be happy to discuss this with you further. Please contact Bill Garber, Director of Government Relations, at 202-292-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Government Relations, at (202) 298-5597 or brodgers@appraisalinstitute.org, should you have any questions.

Sincerely,

Appraisal Institute