**Response**

**To**

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

First, I commend the FHFA for raising questions about the appraisal process. All too often in the past, when problems regarding appraisals attract attention, the knee-jerk reaction is to change the form, regulate licensing, require more training – but there has been no focus on the root of the problem: the process itself. Despite the changes that have occurred in real estate markets, lending practices, accessibility to data and valuation technology, the process by which traditional value estimates are developed has seen little change since the industry’s inception.

Some personal background will be helpful for those reviewing this RFI.

I began appraising real estate in 1968. I have owned and operated private appraisal offices, and worked for independent valuation firms. In addition, I have presided as president of two banks, served on the Board of Directors of four banks, developed the nation’s first comprehensive bank software (at one time used in 30% of all banking institutions), developed the first commercially marketed AVM (1981), appraiser assisted AVM and Evaluation , and one of the country’s first Computer Assisted Mass Appraisal (CAMA) systems. I helped develop some of the first data standards for assessment offices, and served on the initial data standards taskforce at the invitation of Boyd Steward, former Director of IT at Freddie Mac. My valuation technology has been used by NCR Corporation as part of their software offering for county governments, IBM, Merrill Lynch (and their wholly owned subsidiary, Lenders Service, Inc), as well as numerous appraisers and tax assessors from coast to coast. I have spent the past 40 plus years designing and developing real estate valuation technology. I have authored many articles that have been published in industry publications. I believe my years of experience in the fields of banking, appraising and software design and development qualify me to address the issues raised in the RFI.

 I will address only those questions for which I have suggestions based on personal experience. I will not respond to those for which I do not have defensible recommendations.

Sincerely,

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**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?

A: *Yes. There is a need to provide new valuation solutions that leverage data and address changes to traditional methodology. Without change, turn-times will not improve, cost of production will not improve, and quality of product will not improve. An appropriate solution must place data and technology in the hands of the appraiser. The process must be understandable, defensible and transparent. Implemented properly, there is no downside to this type of substantive change.*

*Any potential solution must be based in traditional appraisal methodology in order to be executed and understood by the appraisal community. Past attempts to equip appraisers with regression tools have proven to be inappropriate. A solution must not require an appraiser to be a statistician, but rather someone with an understanding of his/her local market, and familiarity with traditional appraisal methodology.*

*The “new solution” I suggest is not new at all – it has just not received the type of support necessary to make it feasible. I am speaking of evaluations – a solution with which I am intimately familiar.*

*My office first began producing Evaluations in the 1980s, with a great deal of success. Using trained third party inspectors and non-appraisers (trainees) using our proprietary valuation technology under the supervision of a licensed appraiser, we provided lenders with Evaluations for those situations where they deemed traditional appraisals unnecessary. The addition of this option was not only welcomed by our clients, but allowed us to be more time and cost efficient. It met the criteria lenders were asking for: faster, cheaper, better.*

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?

A: *Yes.*

*In the September 17, 2011 edition of “The Economist”, a writer speaking to an altogether different topic made the following observation:*

*“Misdiagnosis is not, in itself, malpractice. Everyone, be they doctors or central bankers or politicians, makes mistakes. But when the misdiagnosis involves ignoring some symptoms and persisting in treatments that aren’t working, it is not so easily excused.”*

*Despite open criticism, there have been no significant changes to the appraisal process in decades – the symptoms are being ignored and the same old treatments are being applied. The term malpractice might not be too harsh.*

*In the late 1980s and early 1990s, my appraisal office provided evaluations to lenders in the front-range of Colorado. Among our menu of products/services were computer assisted evaluations performed using local market data (assessor & MLS) supplemented with inspection information gathered by trained inspectors (non-appraisers), analyzed on desktop computers by appraiser trainees, with oversight by a licensed appraiser. The technology used was entitled “The Appraiser”, and was the first computer assisted valuation program designed for and used by independent appraisal firms.*

*It is important to note that this technology and the process of providing evaluations that were “better, faster, cheaper” than traditional appraisals originated as a result of direct requests by lenders all across the country. As I worked to market my banking software nationally, I was constantly asked by lenders if I could develop a better appraisal solution. They said the product then available was expensive, plagued by long turn-times, and was not credible. These are the exact same complaints we hear today.*

*Our approach proved so successful, that Merrill Lynch purchased that original technology for internal use and for use by LSI, their wholly owned appraisal management company – the largest in the nation at that time.*

*As for opportunities to improve traditional appraisals to mitigate problems and concerns, I suggest the most important consideration be the adoption of reliable “appraiser-centric” valuation technology for ALL valuation assignments. When I speak of “appraiser-centric” valuation technology, I emphasize the use of technology that incorporates traditional appraisal methodology and specifically DOES NOT include regression. The use of regression as a meaningful tool to help determine property values has proven to be disastrous when placed in the hands of independent appraisers. To be truly useful, the technology must be able to be understood by the appraiser and the appraisal user alike.*

Questions 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?

A: *While I have a personal opinion, I do not feel qualified to address this question.*

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?

A: *I can relate from experience that using an alternative inspection workforce is both feasible and useful. It allows the appraisal staff to be more productive with no negative impact on product quality. It helps reduce turn-times and enhances cost management.*

*We used trained non-appraiser third party inspectors in my appraisal offices in Colorado in the 1980s and 1990s. I did not experience any increased risk. I did ensure that inspectors were adequately trained, and provided inspection manuals to help them perform optimally. As with anything, implementation must be designed properly and monitored.*

*It is important to consider that by separating the responsibilities of property inspection from data analysis and valuation, both parts of the appraisal process (data collection & data analysis) receive the direct attention required to produce a high quality product. It’s not that the appraiser can’t do both – it’s just more appropriate that this separation of duties take place to produce efficiencies and proper focus. An endocrinologist performing thyroid surgery might be able to also perform a carotid endarterectomy since he’s “in the neighborhood – but it would be more appropriate to have a vascular surgeon do the procedure. Specialization can produce better results.*

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.

A: *I would imagine there are. Although I hesitate to suggest over-regulation, experience taught me that appraisers can and will find ways to abuse technology for the sake of increasing production (hence revenues). Only after witnessing the misuse of inherent flexibility did I learn that flexibility in a valuation system must be balanced against the possibility of fraud. I was able to implement changes to the technology that minimized the potential for fraud, and more importantly, exposed fraudulent activity if it occurred.*

*I would opt for oversight of system development rather than proposing anything other than the most obvious regulations on appraisers. I think there may be sufficient regulation regarding faulty and fraudulent appraisal production.*

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?

A: *I do not feel qualified to address this question.*

**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?

A: *The availability of data that is relatively complete and relatively accurate has always been challenging for appraisers. Access to data has improved immensely over the years, as has data quality and currency. However, any possibility that allows affordable access to the highest quality to appraisers will only help elevate the quality of the product. This is the goal; it helps all who rely on valuations to make prudent decisions.*

*Note: While good data is essential to the development of reliable value conclusions, it is only useful if the valuation process itself is sound. The issuance of this RFI indicates this has been recognized. Data is one issue; process is an entirely separate issue.*

*As an aside, I have been concerned that appraisers who are charged with the development of reliable value estimates, generally have access to data that is inferior to the data used by those who judge the appraisal product. That does not appear to benefit anyone – appraisers or appraisal users. Unless all parties have reasonable access to the best possible data, appraisal quality will always be questioned.*

Question B2.2

How can the Enterprises improve their collateral tools currently available to lenders?

A: *I do not feel qualified to address this question.*

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.

A: *I do not feel qualified to address this question.*

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?

A: *I do not feel qualified to address this question.*

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?

A: *My only reference is my personal experience. I can state unequivocally that the use of non-appraiser property inspectors enhanced productivity and product quality, with no negative effects. Data collection is a straight-forward process. Training inspectors is not difficult. Data errors (unintentional transpositions, etc.) that impact value estimates substantially, produce results that can generally be readily identified.*

Question B2.6

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

A: *I can offer two pieces of information regarding the comparative performance of alternative valuations and traditional appraisals. One is an opinion based on 40 years of experience, and the other is an opinion based upon evidence.*

*Opinion*

*Having performed millions of valuations using my proprietary valuation technology, and having compared the results with those of traditional appraisals in thousands of instances, I believe that well designed valuation technology will return value estimates that are more accurate – and infinitely more defensible – than those of traditional appraisals for no less than 65% of the residential properties in the United States. I also believe there are unique properties located in unique markets, the valuation of which is beyond the scope of alternative methodologies. However, even in most of those cases, technology can be of assistance to some degree.*

*Evidential*

*In 2013, we developed a tool called Value✓ ™. This is a process designed to give valuation professionals and review personnel immediate feedback relating to the reasonableness of value conclusions. Conclusions are compared to the results of numerous independent analyses, all of which are based on traditional valuation methodology. Each of these analyses was vetted by an independent third party who deemed “The results of the independent analyses are purely statistical, unbiased and accurate.” The analytics, taken together, help professionals identify the “sweet spot” – the narrow range near which the value conclusion should fall.*

*Value✓ was used in a review process with a vendor, wherein all incoming appraisal report value conclusions were compared to the results of the independent analyses generated by Value✓. The number of independent analyses that supported the appraisal results (within 5%+/-) indicated the reasonableness of the value conclusions.*

*Of 3,000 valuation results analyzed, only 50% were supported by at least one independent approach, and 27% were supported by two approaches. The results of this exercise lead one to believe that the quality of the appraisal product could be improved if good analytics were part of the appraisal process for all valuation assignments.*

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?

A: *In 2018 I launched a business called Disaster Relief. The company helps victims of federally declared disasters whose homes are damaged or destroyed, file IRS casualty loss claims for unreimbursed losses, which can result in tax refunds to help with their recovery. The elements required in order to file a claim are the Fair Market Value (FMV) of the home before the disaster, the estimate of loss, and the FMV after the disaster. The IRS does not accept values generated using AVMs or BPOs; they want values that can be audited by field personnel.*

*Using our proprietary valuation technology under the supervision of Valuation Techs (who are not necessarily appraisers), Disaster Relief evaluations provides relief for victims who might otherwise have no opportunity to take advantage of this most helpful IRS program. The IRS allows homeowners/victims to provide the inspection data for the computation of loss. Without this flexibility, it would be impossible to address the needs of the thousands of disaster victims annually.*

*So, yes – I believe adequate flexibility must be incorporated into the appraisal process to accommodate disasters and other extreme events.*

**Industry Considerations**

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?

A: *In my opinion, the factor that can cause the most significant improvement in the appraisal industry is the union of good data with good valuation technology, with valuation experts. Nothing short of this will help the appraisal industry survive.*

*As note previously, there are some appraisal assignments that will always require traditional appraisal products produced by talented, knowledgeable, experienced trained appraisers. However, for many assignments alternative valuation products can produce reliable, defensible results more efficiently and cost effectively than those developed using traditional products.*

*As far back as the 1980s, I spoke to appraisers at several conferences, and my message was consistent. I told them they MUST embrace technology, or witness a decline in their business. At the time, appraisers virtually owned the appraisal industry. Today, they provide less than 5% of all valuations performed in the U.S.*

*Appraisers have an opportunity today – perhaps their last opportunity – to reclaim a portion of the business they have lost to AVMs and BPOs.*

*As for the impact the increasing use by the Enterprises of alternative appraisal solutions has had on the availability and/or quality of traditional appraisals, I am not qualified to voice an opinion.*

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?

*A: Some would adopt and adapt, and some would not. I cannot guess at the percentages.*

*The results of the 2019 appraiser survey conducted by The Voice of the Appraiser indicate that the majority of today’s appraisers still view alternative technology as a threat rather than a tool that can enhance their practice. Only 35% use a mobile device to enhance on-site appraisal assignments, with nearly 70% saying they use mobile devices primarily to take photos. The reasons they give for their reluctance to embrace technology include:*

*20% Don’t have time to keep up with latest innovations.*

*38% Don’t have time to learn how to use new technology.*

*15% Don’t believe they can defend results if technology is questioned by a client.*

*Clearly, the barriers to wide-spread adoption of significant change are considerable.*

*On the other hand, it is my opinion that the younger generations will not opt to enter the appraisal profession unless the process becomes technology-based. The reluctance of the older generation to adopt technology combined with the slow adoption of valuation technology by the industry as a whole, will ensure the demise of the appraisal profession.*

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?

A: *I don’t know if access to credit would improve, but any increase in the credibility of the appraisal product would certainly address a major concern that lenders have been expressing for decades. Given better tools with which to make prudent decisions, the impact on lending can be nothing short of positive.*

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?*

*A: Probably. When individuals rely on their “gut” rather than on good technology, they are apt to unconsciously allow bias to influence judgement.*

*Both the Illinois & New Jersey state legislatures have introduced bills designed to address current allegations of discrimination in residential appraising. The New Jersey bill would authorize the state’s Real Estate Appraiser Board to revoke, suspend or fine appraisers and appraisal management companies who knowingly engage in discriminatory appraisal practices regarding residential property based on the property buyer’s or owner’s race, religion or national origin.  The Illinois bill provides for “a private right of action in the circuit court”, which means that aggrieved parties could bring civil claims for damages against appraisers and real estate licensees for alleged violations of the discrimination prohibitions.*

*It will be difficult for an appraiser to prove his or her value opinion was free of bias. The most definitive way is to approach the valuation from a strictly unbiased, analytical standpoint. This does not imply that the appraiser’s knowledge and experience are to disregarded, but that the opportunity to impose bias be minimized.*

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.

A: *I do not feel qualified to address this question.*

Question C1.6

Do you have any additional feedback on issues and questions raised by this RFI?

*In general:*

* *Expanded authority for the use of Alternative Valuations is essential to the future of the appraisal industry, and to the credibility of the valuation product.*
* *Valuation technology is essential to the production of all valuation products, be they traditional or alternative.*
* *Valuation technology is a tool – not a magic bullet. It is a tool that should be used for all valuation assignments, regardless of scope.*
* *Valuation technology that will be used by appraisers must be based on traditional appraisal methodology. Otherwise it will be misunderstood and misused, as has been proven to be the case when appraisers have been provided regression tools.*
* *To be useful and reliable, value conclusions – regardless of form – must be transparent and defensible.*

*Specifically:*

* *Any valuation – traditional or alternative – should be developed using sound valuation technology.*
* *Any valuation technology made available to appraisers must allow for meaningful interaction by the appraiser, with safeguards to reduce the possibility of fraud. Unlike an AVM value estimate, the conclusion derived from interactive technology is the product of the appraiser – not the technology. Interactivity is an essential aspect of valuation technology for use by appraisers. This also implies that the process must be transparent and understandable by the appraiser and the appraisal user alike.*
* *I suggest that regression is an inappropriate tool to place in the hands of appraisers. It is difficult to use and more difficult to explain (as cited in the Voice of the Appraiser survey above). This has been proven on several occasions, beginning with the introduction of CVR by Bradford Technologies more than a decade ago.*

*For a valuation to be viewed as credible, the methodology used to develop an estimate of value must be transparent, and easy to explain. Regression is neither. A better solution would embrace traditional appraisal technology.*

* *I suggest it is time to change the narrative when discussing appraisal “accuracy” to “defensibility.”*

*Robert Dorsey, recognized industry leader, co-founder of FNC, Inc. and chief data and analytics officer for the company, made the following statement a few years ago:*

*“You would think that by this time in the marketplace, all AVMs would be performing the same. They’re not. There’s a huge difference, and we test AVMs for some of our lenders. First of all, we see hit rates ranging from about 50 percent to about 87 percent. Hit rate means you can find the address and there’s sufficient data to run the model. The second piece is the accuracy. The accuracy is all over the place. Everybody would like to see the value come in between 10 percent – and they would like to see 90 or 100 come in within 10 percent – the truth is, it’s typically around 50 percent that are within 10 percent. That’s the very best model.”*

*I agree with his assessment. As a banker, I generally disregarded assertions of accuracy and asked for an explanation of how a value estimate was derived. If the explanation was inadequate, I deemed the value conclusion to be worthless in a decision making process.*

* *I believe it is important to remember that valuation technology is a tool – it is not a magic bullet. It is a tool that should be used regardless of the scope of the appraisal assignment, because providing the most reliable value estimate is always the goal.*

*There is a tendency to assume that valuation technology “gives you the answer”. The truth is that it helps knowledgeable individuals arrive at the most reliable conclusion. While an automated product might, in fact, provide an excellent value estimate without meaningful interaction by a valuation professional, the professional is the best judge. The union of the human element with the technological element will ALWAYS yield the most reliable value conclusion.*

*This is true whether the end-product is a traditional appraisal or an alternative product.*

* *A reliable value conclusion represents only part of the information needed to make prudent lending decisions. The complimentary information – all but ignored – is the sustainability of the value estimate.*

*While cursory market information is designed to touch on this (trends in days on market, housing prices, etc.), it is inadequate. There are more exacting analyses available.*

*We created a Home Price Sustainability Index (copyright 2015) which measures the disparity between depreciated replacement cost and sale price, by price range and location, over time. There are identifiable limits beyond which home buyers will reject asking prices when the relationship between cost and price becomes unreasonable. It’s the old “no prudent buyer will pay significantly more for a property than the cost to rebuild a similar home on a similar site.”*

*A defensible indication of sustainability should accompany each value conclusion.*

* *As any good can pastry chef can tell you, it’s all about the recipe. Hand half a dozen chefs identical ingredients and ask each to make a cake. Each creation will be unique, because each chef will use his/her own unique recipe – no two cakes will be exactly alike.*

*So why is it that realtors and appraisers and underwriters and appraisal reviewers constantly feud among themselves over what is or is not the “right” value? If they all start with the same ingredients but apply different recipes to arrive at their value conclusions, of course their opinions will differ!*

*Forms have been standardized, data has been standardized, but process has not. Throughout the history of the appraisal industry, training has been relatively consistent, but there is an unreasonable amount of flexibility given to the recipe of process.*

*The discussion surrounding standardization of process (or specific aspects thereof) is too broad to include in this RFI. However, I believe the conversation is essential, and should be addressed.*

* *During my years working with valuation technology, I have learned that no single approach to the valuation problem is always the best. The most reliable value conclusions are derived when available data is analyzed from several different viewpoints, and the results are reconciled.*

*I have chosen to run multiple analyses for every assignment, regardless of the form of the product. A market approach, land residual approach, assessment approach, and trended prior sale analysis are always attempted (all being data dependent), and a computation of depreciated replacement value is always performed. The results of these independent, unbiased statistical analyses are reconciled to yield a reliable, defensible, value estimate.*

*A single approach is quite simply inadequate and inappropriate.*