FHFA RFI Responses

Section A

Question A1.1: The valuation industry has remained effectively unchanged for decades. While policy changes like Appraiser Independence Rules have effectively remediated lender pressure they fail to address fee pressure and appraisal quality; both of which work in conjunction with each other.

A side effect of rules and regulations on the industry have made it unattractive to younger generations to enter the field. While mentoring is essential to training up a valuable appraiser, mentors use the trainee's acquisition of hours to become a licenced appraiser as a cudgel to underpay them. Working for a couple of years under what in many instances is equal to less than minimum wage is not appealing to a recent college graduate or even someone looking to change career paths.

As a result what we have is an aging appraiser population receiving inadequate fees, delivering at best average quality appraisals at extended turn times.

Given the state of technology today and the power of AI an obvious solution is to use data driven analytics which can be validated by an appraiser. Many tools exist that have high functionality where an appraiser could validate dozens upon dozens of appraisals a day.

Certain transactions simply need an inspection performed but tools exist for smartphones currently wherein a homeowner themselves could perform the inspection and deliver the data to an appraiser.

Obviously there are risks associated with this approach but it's viable and has been utilized over the past several months in the field under COVID guidance in certain circumstances.

Question A1.2: There are always opportunities for improvement in appraisal. I believe that the entire risk analysis change dramatically. Business rule based risk silos should be implemented with valuation cascades and a withdrawal from a static singular value applied in today's appraisal should give way to a value range.

There could be five valuation types in the cascade:

- AVM (Waiver)
- AVM with Images
    - Smartphone app from borrower/realtor
- Bifurcated Third Party
    - Third party field inspection with Appraiser sign off/Desktop
- Bifurcated Owner/Realtor
    - Smartphone app for images with Appraiser sign off/Desktop

- Full field inspection
    - Traditional full appraisal

For example:

- Purchase. Low risk borrower with a high FICO, strong down payment purchasing a home for $350,000.
    - AVM with a range of $325,000 - $360,000 (Waiver)
        - Automatic approval

- Refi. Cash out. Low risk borrower with a high FICO, 20% equity on a home with an estimated Market Value of $350,000.
    - AVM with a range of $325,000 - $360,000 (Waiver)
        - Automatic approval

- Purchase. Medium risk borrower with a mediocre FICO, low down payment purchasing a home for $350,000.
    - Bifurcated appraisal
        - Valuation range conclusion
            - Approve/Decline

- Refi. Cash out. Medium risk borrower with a mediocre FICO, 20% equity on a home with an estimated Market Value of $350,000.
    - Bifurcated appraisal
        - Valuation range conclusion
            - Approve/Decline

- Purchase. High risk borrower with a borderline FICO, low down payment purchasing a home for $350,000
    - Bifurcated appraisal
        - Valuation range conclusion
            - Approve/Decline

- Refi. High risk borrower with a borderline FICO, 20% equity on a home with an estimated Market Value of $350,000.
    - Full appraisal
        - Valuation range conclusion
            - Approve/Decline

This is an oversimplified example as there is a matrix of scenarios that would have to be developed but it's an example of risk based silo'd decisioning.

Using this kind of risk based underwriting/valuation should also include a heavy dose of machine learning (ML). With a significant amount of data this process can be refined resulting in

predictive systems that can isolate not only risky/non-risky borrower work industries but identify things like areas of inequality that would rival HMDA.

Using advanced valuation tools, the ability to build in “gaming” flags where the ML sees an appraiser manipulating data to favor a certain value range conclusion is not only possible it’s available today.

Question A1.3: From our experience Waivers have a positive impact in the lending process. They accelerate the application to close timeline which makes for a better experience for the borrower and offers the lender peace of mind.

Not having sufficient access to any risk metrics related to default of Waiver loans it’s hard to say if they affect the safety and soundness of the Enterprise. That said, any significant economic downturn is going to have an effect on collateral valuations and as we saw in the 2008 meltdown, borrowers are savvy when it comes to cost/benefit analysis. Or rather, “strategic” defaults became commonplace especially among small and medium sized investors with one to ten or so properties.

The use of Waivers should be used extensively provided that the data supports the decisioning result. ML again, is a central tenet to these automated decisions and should be monitored closely as economic activity continues to fluctuate.

Question A1.4: Utilizing third parties to collect field data is a requirement in today’s environment. The downside is education. A certification/education program that is inexpensive and not time consuming would fit nicely into this proposal in an effort to ensure that the “data collector” is aware of the specific needs of the appraiser.

There are some arguments made that USPAP doesn’t allow for a third party inspection which is obviously incorrect as long as there is disclosure; however, some state statutes prohibit the use. Some alignment would need to be negotiated among the individual state statutes in order to make this a reality.

Question A1.5: There are enough policies and controls in place currently without the need to implement more. If anything the industry needs to reduce the level of regulation as it has only increased the cost to manufacture a loan significantly over the past decade.

Question A1.6: UAD, as my proposal indicates would have to change to address a complete retool of the valuation process and the tools used to derive a value/value range. As it stands in today’s environment it functions as intended.

Section B

Question B2.1: Delivering rich data to an appraiser should never be shied upon. As long as the appraiser has the ability to accept or decline any data that they receive why would anyone not want to deliver a treasure trove of data?

Collateral Underwriter et. al. contains significant peer data that should be available to anyone who would like to use it. Using this data lake in conjunction with MLS, public records and any other source is tantamount to creating an open and free exchange of information. Ultimately appraisers should be able to, much like Wiki, edit the data and make corrections/alterations that would have a positive effect on the entire industry. This crowd sourced normalization process would do nothing but benefit every user and have a usefulness for other industries like Property and Casualty insurance for instance.

Question B2.2: The current state of LPA and DU are functional; however as it relates to SSR's there are a number of business rules that are unactionable. It's our understanding that the first iteration of the AUS was a rules based review but it could use some "cleaning up".

Question B2.3: (Research)

Question B2.4: We're a small lender and frankly we haven't become that savvy.

Question B2.5: As stated in A1.4 above, education is key to make this work.

Question B2.6: Currently Beeline doesn't have any evidence to provide as we're a conventional purchase and refinance lender and haven't been exposed to the second mortgage/HELOC environment.

Question B2.7: Appraisal flexibilities in disasters should never be applied. From experience disaster areas are entirely too volatile and condition ratings can range from C1 to destroyed. These are situations that require a field inspection.

Section C

Question C1.1: Appraisal quality has been static if not declining for decades. Post FIRREA Title XI the industry saw an influx of inexperienced but credentialed (through licensing) people infiltrate the industry. The vast majority of these people took a few classes and had never been mentored.

The only real solution is a complete retool of the appraisal process and risk based underwriting as described in A1.2. This solution will significantly reduce the number of appraisers in the US because only the most interested and educated would see the benefit of a system in which regression and ML would benefit the enterprises supporting the entire industry.

Question C1.2: From experience the vast majority of appraisers would simply retire. Technology has always been viewed by appraisers as the death knell for the industry.

There's nothing wrong with reducing the appraiser population provided there is sufficient technology to fill the gap and there is currently significant technology to fill the gap.

Question C1.3: Rural markets are already a difficult segment. These markets require more contemplation much like a commercial property. The level of complexity requires a disciplined approach which is not easily quantifiable/qualifiable in a transaction.

Again this harkens back to A1.2 for analysis. Creating a robust rules based decisioning matrix is part of this process.

Question C1.4: Collateral valuation requires the analysis of a defined area, with comparable sales in the area making adjustments for differences in amenities, condition, quality etc. This has been accepted practice for decades.

Discrimination in valution would require redlining. In my experience this isn't a common practice and the use of big data/ML would mitigate this abuse because it would see it. Digitally choroplething a neighborhood would never allow an appraiser to selectively choose data that would define a value either +/- of the actual value range.

Question C1.5: This is an area that we're unfamiliar with and have no comment.

Question C1.6: We are excited to work with any agency to help improve the lending process including but not limited to collateral valuation. Our vision is to develop an completely digital platform that can accelerate our application to close process while delivering highly compliant mortgage notes with ranked risk. Thank you for allowing us to participate in this exercise and invite any conversation you would like to initiate.