Robert N. Mossuto Jr.
PO Box 817
Ocean Shores, WA 98569

Federal Housing Finance Agency, Office of Housing and Regulatory Policy
400 7th Street SW, 9th floor
Washington, D.C., 20219.

Comments to FHFA – Request for information on appraisal related policies, practices, and processes.

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I provide the following thoughts to the questions proposed:

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?

First, the majority of mortgage related appraisal volume is handled by Appraisal Management Companies (AMC's)! Appraiser capacity and turn time failures the mortgage industry is facing has a lot to do with the way AMC's are mishandling their client's appraisal needs!

In reviewing the UCDP appraisal volume vs appraisal population if find that the statistics fail to identify the number of appraisers unwilling to work for AMC's seeking the cheapest fee and fastest turn time. There are a large number of AMC's still broadcasting assignments to large numbers of local appraisers in hope that someone will take the assignment for fees less than customary and/or reasonable. This significantly delays the appraisal process, which is often relayed to the lending community as an appraiser shortage by the AMC's; when in fact, it is the appraisal profession saying we are not working for half fee or less anymore! Pay my full fee or I'm not doing the appraisal.

The fee issue does not just fall on the AMC's. Lenders also refuse to pay full fee bids provided by appraisers. The lenders refusal to accept appraisers full fee bids also significantly delays placement of the appraisal assignment with the best qualified appraiser. In fact, I have seen lenders bounce appraisal requests from AMC to AMC in hopes of placing an assignment. Often these will bounce around for a week, two, and even three before the lender finally raises the appraisal fee to an amount that an appraiser is willing to accept. In my own experience I have refused an assignment based on low fee, seen it bounce around for weeks, and could have had it done and turned in before it is ever accepted, were the initial fee acceptable!

When this is fixed, the market participants will see a big change in the way appraisals are accepted and handled by appraisers. Appraisers only ask for customary and reasonable fees. And we are spending too much time each day in the appraisal bidding process, which takes away the time needed to complete appraisal reports. A large number of appraisers will not even participate in the appraisal bidding process. They simply hit delete. Those that do participate now vet the property to be appraiser and determine if the fee offered is relevant to the scope of work. If it is not, they request a fee increase. This process can literally take days for approval to come back and frequently, once an approval does come back, the appraiser has already accepted other assignments, further delaying that one that took days to get approved. On other occasions the increase is just denied by the AMC or lender and they continue their search for the cheapest appraiser, no matter how long the delay!

So, before those not providing appraisal services start blaming the appraisal profession for slow turn times, FHFA needs to dig deeper into the processes in which appraisals are actually assigned! Were this fixed, life would be better for all! And this is the real bear in the closet, because AMC's and lenders won't admit they are part of the problem.

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?

In regard to bifurcated and hybrid appraisals. There a large number of appraisers that refuse to provide these products. Two primary reasons come to mind. First, liability. There are already appraisers that have completed these products that have been disciplined by states regulatory boards. And while FHFA considers these products as "opportunities" for appraisers and trainees, a large number of the appraisal population considers these products as a significant liability to their future livelihood. The second thing that comes to mind is the fact that AMC's want to pay the appraiser 70% less than full fee for these products, when in fact, the appraiser still has to complete all previous due diligence, obey USPAP guidelines, and yet faces increased liability based on the lack of personal observation. So, I would say that a large number of appraisers would disagree that bifurcated and hybrid appraisals are the future of the appraisal profession. In fact, most appraisers see these products as a method or precursor to getting rid of appraisers altogether.

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?

In regard to AVM's and appraisal waivers. They are like rolling the dice at a craps table. I see AVM's all the time for the area I appraise in. They are rarely accurate and often have a reliability score that often falls below the minimum score rating. It would be interesting to see a study of the number of <u>defaults</u> in which an AVM or waiver was used vs the number of defaults on a property appraised by an appraiser. And even you admit that "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."

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?

Do you go to a brain surgeon for heart surgery? Do you call a plumber to fix your roof? When you get a divorce, you go to an attorney. When you are sick, you go to a doctor. When you need insurance, you call an insurance agent. When you want to sell your house, you call a real estate agent. WHEN YOU NEED AN APPRAISAL, YOU CALL AN APPRAISER! Pretty simple!

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.

I as an appraiser think there is more than enough policy and control. Appraisers are policy and controlled to death at this point. In fact; I strongly suggest you consider all the "scope creep" appraisers have had to deal with in the last 10 years. There was a time when the comments required in an appraisal report would fit in the spaces required. But now that we have hundreds of AMC's, each with their own appraisal requirements, an appraiser has to write a 5–7-page dossier in each report just to cover the requirements provided in the engagement letter. Some of these engagement letters are so long, it takes a half hour just to read. The longest I have received to date was 25 pages. Perhaps that's something else that needs to be looked into; standardizing the requirements! While Fannie and FHA have well placed and commonly known standards, it seems there is always something new coming up that AMC's want disclosed. There needs to be a single standard (well 2 with FHA) we appraisers are required to adhere to. All the AMC scope creep needs to go away!

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?

The above address some form concerns. The from needs to be clear and concise. We need to get rid of all the stuff that is not important to make a lending decision. The GSE's are completing waivers and accepting AVMs with little to no information. And I can guarantee you that some of the properties they are insuring loans on are NOT what they are portrayed as in the non-appraisal process. So, make the form functional. Get rid of the non-essential information. And make the AMC's quit requiring all the additional nonsense!

In addition, if the current quality and conditions data is to remain in the reports, it needs to be made more flexible! There are a number of occasions where C3 or C4 just don't apply. The home/property may fall somewhere in between. But there is nothing we can do to compensate for this right now because we can't state the home/property is say C3.5, which may be the case and which would make a difference in the adjustment.

And while we are on form change, lets discuss the ability to adjust for age. At present the form allows adjusting for age, and only for age. But is age the most important adjustment. I don't think so. I think if you're adjusting for age, you should be adjusting effective age! And yes, that is a subjective consideration because one may see effective age differently that someone else, but those of us that have been at this for years, I can say a good effective age adjustment holds a lot more water than a straight up age adjustment. Because a 100-year-old home with nothing done to it in 100 years is a 100-year-old house. Conversely, a 100-year-old house that sees continued update, maintaining code changes, and being remodeled to meet current market expectations, is effectively no longer a 100-year house, but more like a 15 – 20-year-old home effectively. And, it may even be in better condition than the 50-year-old home at the end of the block. So why are we adjusting age, when effective age is what is really a more accurate portrayal of the structure being appraised? This should be made an option in the new forms!

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?

In regards to the information the GSE's maintain (UCDP ®, CU, and LCA). Appraisers provide all the information currently in the databases maintained by the various lending insurers (Fannie, Freddie, and FHA). And, they do not share or make that data available to appraisers. If appraisers had access to the information these organizations maintain I have to believe there would be considerably more consistency in appraisal reports. And, it would also stop a large number of the "bad boy/girl" letters sent to appraisers from the various mortgage insurers, as appraisers could vet their data and conclusions based on the data provided by their peers, which at present is withheld as some sort of "top secret" information for their eyes only.

Question B2.2: How can the Enterprises improve their collateral tools currently available to lenders?

No Comment

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.

I have no answer for 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?

I have no answer for 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?

While the general notion is that appraisers already rely on third party information when going through the appraisal process, the personal inspection of the property is crucial in my opinion. At present there is no standard as to who inspects for the bifurcated appraisal. It can be a real estate agent, a person with no real estate experience, or even some guy that just got out of sing-sing. As long as the person has a camara and transportation, they are good. Well, real estate agents are in the market to sell homes. Do you think for one moment that an appraiser is going to get photos of the deficient areas of the property that may require inspection/repair, making the report subject to? Nope, that won't happen and the mortgage insurer will receive a deficient property and never be the wiser! As for the rest of the field, what experience do they have measuring? Can I count on their measurements when I calculate Gross Living Area (GLA)? Or is that going to turn around and bite me when the owner refinances and an actual appraiser measures the home and determines it is some 200 square feet smaller. I don't even trust what the county assessor provides. So why would I trust what someone from outside the profession provides.

There are significant ramifications here and appraisers are already being disciplined by state boards for failures of others whom are providing property information. And because of this, a large number of appraisers are not willing to sign up for these products.

Question B2.6: Is there any data or evidence you could share regarding the performance of alternative appraisal solutions versus traditional appraisals?

None I am aware of. But it would be interesting to dee the number of defaults on AVMs, bifurcated, and hybrid appraisals vs the defaults on the standard appraisal process.

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?

As for Covid-19. Not an issue. I and a large number of appraisers have continued doing full interior inspections. The scope reduction or modifications provided by the GSE's and FHA again open the appraiser to liability. And 5 years down the road when the appraisal is reviewed because of a default or whatever the case, guess who is going to take in in the shorts for not seeing the interior of that home due to covid-19 flexibilities. Well, many of us that have been around for a day or two know where that will go. Personally, if I cannot see the inside of the dwelling, I am not doing the appraisal. After the housing collapse of 2008-2010 many more appraisers operate under the same pretense!

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?

No Answer

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?

I don't think there are a lot of "mid or late career" appraisers out there that want anything to do with desk top appraisals. In fact, all this nonsense of bifurcated and hybrid appraisals, AVM's, and other valuation processes, as well as Fannie and Freddie's continued pursuit of appraisal waivers has a lot of appraisers wondering if they will have jobs in the next few years. And, it's not a question of technology adoption. Appraisers have adapted to technology challenges just fine over the years. In fact, many of us are using multi-screen computers, laser measuring devices, iPad's and Android field software to capture data on site that can be transferred to the office in close to real time. So, it'd not a technology issue. The issue is there are those out there that want to replace appraisers with technology! But really, that's like getting heart surgery over the internet.

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?

If you want to go back to pre-2008? The easier you make it for lenders to bypass the appraisal process, the more unreliable the collateral will be! And when there are no professionals out there to see what is being considered for collateral and provide an educated evaluation of the property being considered, you will surely be back to the conditions that have created financial turmoil to this country in the past!

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?

In regard to concerns with undervaluation of residential property in minority communities. Appraisers us sales data form the neighborhood in which they appraise. Some of the allegations being presented by those concerned would lead people to believe appraisers are to blame for these values. When in fact, the blame should go to those listing and selling the properties. Appraisers base the value of a property based on similar sales. If the sales are lower than that of other neighborhoods of non-minority residents, what fault is that of the appraiser? Are we supposed to go outside the neighborhood, exceeding normal practices just because the neighborhood has people of different skin color? That's like appraising in a poor neighborhood (regardless of color) and getting comparable sales from wealthy neighborhoods. Lower appreciation in value for homes in majority-Black and majority-Latino neighborhoods compared to White neighborhoods is not an appraisal issue; it's a sales price issue! Perhaps the National Association of Realtors (NAR) should have real estate agents raise the listing prices in these neighborhoods. But there is also a correlation between income and affordability!

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.

Appraisers already abide by a set of rules in regard to fair housing. It is located in the Uniformed Standards of Professional Appraisal Practice (USPAP). It is a violation of USPAP to base an appraisal or value on race creed, color, religion, and much more! So do we appraisers need more policy just because someone thinks it is our fault that values are lower on minority neighborhoods? That's precisely why we appraisers currently face excessive scope creep in todays appraisal world!

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

No, I think I have stated what troubles the appraisal profession and I hope my comments are considered when those to be make future decisions for my profession.

I do thank you for the opportunity to comment.

Respectfully,

Robert N. Mossuto Jr. MNAA
President/Owner
B.N. Appraisals, Inc.

State Certified Residential Real Estate Appraiser
Conventional/FHA/USDA/Legal
Member – National Association of Appraisers
Member & Former President – Appraisers Coalition of Washington
Affiliate Member – Northwest Multiple Listing Service

Serving the Real Estate Community between 1996 and 2002 as a Lender & as an Appraiser since 2002.