



February 26, 2021

Comment Intake
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

RE: Request for Information on Appraisal Modernization

To Whom it May Concern:

I am the Managing Member of True Footage. True Footage is a real estate data authentication company, launching in 2021, that will provide a means for improving the integrity of all real estate transactions through third party verification of real estate data. Our method of collection is the first purely software solution, leveraging lidar and computer vision to offer the first contactless data collection process. We are uniquely positioned to deliver standardized property level data to tax assessors, appraisers, and lenders.

In the last ten years, consumer facing real estate data has become more available, allowing stakeholders to make more informed decisions; yet, there is no oversight on the validity of the data and we have found widespread falsehoods that pose a risk to the financial health of Americans. Furthermore, trends of virtual transactions, accelerated by COVID-19, make this issue increasingly pressing. The process as it exists has led to variable data and assessment reporting, unequal outcomes for marginalized homeowners, and appraisal processing times of as much as seven weeks in some states.

Data-driven and software based decision making, while imperfect, leads to significantly fairer outcomes than status quo. There has been significant focus on the Automated Valuation, but no focus on ensuring the validity of the data that fuels the Automated Valuation. Specifically, property level data on the size, condition, and quality of homes, is unreliable. As the mortgage industry moves towards a desktop, hybrid, and automated appraisal model, a secure and uniform data infrastructure is required to make sure this transformation is faster, more accurate, and fairer.

In Response to Appraisal Policy and Process Improvement

A) Square Footage Reporting is Broken and Needs Regulation

Deceptive practices in the calculation of square footage are rampant and represent a major issue that has not been properly addressed. Square footage lacks regulation and standardization, which results in a failure to protect Americans in their single largest consumer purchase:

1. No Regulation

i. Data sources unchecked: A property often has a different square footage posted on the government tax collection website vs. Zillow vs. Redfin vs. Movoto vs. CoStar vs. Broker Website and others. This lack of uniformity is more than just confusing to consumers, it is fundamentally deceptive and leads to appraisals with inaccurate information.

ii. In comparison to stated square footage, we have found over-reporting by as much as 16%, resulting in substantial market mispricings. Many Americans are not buying what they think they are buying and the federal government is insuring loans on non-existent square footage. Appraisers we interviewed are guessing as to which square footage to use for their report.

2. No Standardization

i. Different property types: For example, within residential, townhomes are measured differently than single family homes or condominiums or cooperatives. This has resulted in apples to oranges comparisons. While GLA (Gross Livable Area) is most common, it is not used uniformly. Even with the ANSI standard, standardization has not been successful.

ii. Different components: With measuring standards unenforced and suggested on state-by-state basis, some stakeholders have taken creative liberty and counted unfinished basements, attics, outdoor space, detached garages, or even FAR into their calculation of square footage without disclosing what has actually gone into the calculation.

iii. Different measuring techniques: Properties are alternately measured from the interior or the perimeter. In addition, human error related to methodology contributes to non-standardization across different properties.

B) Condition and Quality Assessments are Unreliable and Damaging

Condition and Quality are two of the most determinative factors in valuing a house; yet, we found widespread discrepancy in how current processes are assessing these metrics. We conducted a study of 1,335 appraisers from all 50 states asking appraisers two questions to understand how quality and condition are assigned (results below). The results, showing extreme variability and wide standard deviations, demonstrates that current assessments have excessive subjectivity and bias. One person's opinion can not be driving such an important portion of the home valuation process. A data-driven approach that takes into account interior property quality and condition, but does not randomly assign value based on which appraiser shows up to the property must be implemented so that all consumers can be treated fairly.

1. When you are evaluating the quality of a property, what % of the quality score is related to each part of the property (exterior, ceiling heights, light, window and air, kitchen, bathrooms, and main living areas)? Total sum of points distributed must equal 100.

The results were:

Exterior: 23.9% with a standard deviation of 12.3%
Ceiling Heights: 6.6% with a standard deviation of 4.9%
Light, Windows and Air: 10.1% with a standard deviation of 5.8%
Kitchen: 21.9% with a standard deviation of 7.4%
Bathrooms: 18.4% with a standard deviation of 6.3%
Main Living Areas: 19.9% with a standard deviation of 10%

2. When you are evaluating the condition of a property, what percentage of the quality score is related to each part of the property (exterior, kitchen, bathroom, flooring, electrical, plumbing, windows)? Total sum of points distributed must equal 100

Exterior: 21.9% with a standard deviation of 10.7%
Kitchen: 22.4% with a standard deviation of 7.2%
Bathrooms: 19.2% with a standard deviation of 5.8%
Flooring: 12.9% with a standard deviation of 5.2%

Electrical: 7.2% with a standard deviation of 3.6%
Plumbing: 7.3% with a standard deviation of 3.7%
Windows: 9.5% with a standard deviation of 6.0%

Solutions

- 1) Decoupling the data collection process from the valuation process means that the risks presented from the on-site inspectors biases entering into the valuation process is materially mitigated. The expansion of the hybrid appraisal program will lead to fairer and faster outcomes. This will also help mitigate turn times and appraiser shortages. Third party inspection workforces that do not make valuation judgements will result in less discrimination and faster turn times.
- 2) Digital appraisals via Zoom should be explored as an alternative in rural and supply constrained markets.
- 3) We need to build a universal database of standardized property level data. The MLS is not accurate, current property records are stale, and traditional appraisals have significant variance.

In Response to Risk Management and the Appraisal Waiver

The Appraisal Waiver program instituted in 2017 has seen unprecedented expansion in size and scope in 2020. The appraisal waiver saves consumers money and helps lenders process loans more quickly. However, the waiver program, as it currently stands, creates risks for borrowers, buyers, and taxpayers alike. Mechanisms to safeguard the waiver program, but mitigate the risk that the program presents, must be put in place going forward. While the percentage of loans utilizing the waiver will likely stabilize after social distancing guidelines have been lifted, it is clear that the appraisal waiver program moving forward will be a much larger share of the entire mortgage market. Therefore, it must be critically evaluated to ensure the integrity of the mortgage market writ large.

I am writing to highlight the great need for an appraisal waiver verification program that will provide lenders and the Government Sponsored Enterprises (“GSEs”) with updated property level detail to ensure that the true value of the property being collateralized is understood. Our goal is two-fold: 1) Ensuring that already eligible waiver properties are properly understood before initiating the waiver and 2) Establishing a trusted data source that when used could move more properties into the eligibility range. This verification will protect Americans from transactions that are inaccurate without increasing loan closing times. True Footage is uniquely positioned to provide this service.

Problems Today

- 1) MLS and public record property data used to make waiver decisions is inaccurate, unverified, and often, conflicting. MLS data is reported by seller brokers who are incentivized to present property in the most favorable light, often times obfuscating the truth.
- 2) Many properties that are waiver eligible have endured significant wear and tear that is not being captured by the current program, resulting in an overestimation of the underlying value of the asset.
- 3) As a result of COVID-19, many property owners have significantly altered their properties, adding features that could considerably change the underlying value of the asset.
- 4) The waiver program suffers from institutional bias. Based only on previously available appraisal data, minority homeowners are less likely to obtain a waiver, resulting in increased costs for some homeowners, but not others.
- 5) The velocity of the housing market in 2020 has resulted in significant changes in the value of property. Stale appraisals used on file to corroborate current values are simply inaccurate.

Risk: Fundamentally, the risk of the program is that the government is purchasing loans that are not representing the actual value of the property.

Solutions

- 1) Consumer reported data, combined with digital verification, has proven to be a viable solution for the lending industry to reliably evaluate the present condition and quality of residential property.
- 2) Smartphone proliferation and software development allows for fast and easy reporting of current condition and quality of residential property, which should be overseen by a non-appraisal body as appraisers have historically provided discriminatory data.
- 3) A waiver verification program will provide a standardized reporting system for property data that is the same across various markets. This will limit the reliance on existing MLS and public record data that has proven to be incomplete, and to be inaccurate in its representation of property. Further, this will even the playing field in terms of which homeowners and borrowers have access to the waiver program.

Interior property data through digital evaluation will ensure full understanding of property condition without materially increasing loan processing times. For most Americans, their home is their biggest asset. Why are we valuing homes in the dark? It's necessary to protect all stakeholders through data standardization and transparency to ensure proper and fair valuation.

In Response to Industry Considerations and Rampant Discrimination in the Appraisal Market

Redlining has restricted access to minority homeownership in many neighborhoods in the United States.¹ For minorities that are able to purchase a home, these properties are chronically under-assessed. Discrimination is the biggest problem with current valuation practices. Black homeowners have found that by removing pictures of their families, re-appraisals result in significantly higher valuations.² The subjectivity of property data collection today has resulted in restricted access to credit and depressed property values for minority homeowners. President Biden recently noted that the "persistent undervaluation of properties owned by families of color" is a top priority for the administration.³ Undervaluation is fundamentally unfair and limits abilities to reinvest in education, healthcare, and small business innovation. Population growth in America is driven by non-white populations, and the financial health of our country depends on increased personal wealth of these populations.

National Impact of Discrimination: The Data Speaks for Itself

- 1) The mortgage denial rate for black homeowners is 16% contrasted with 7% for white homeowners. Many of these denials occur because of low appraisals.
- 2) Unequal mortgage expenses result in \$67,320 in lost retirement savings for black homeowners, accounting for more than half of the wealth gap between whites and blacks. 83% of wealth at retirement is attributable to home equity.
- 3) A near-identical home in a black neighborhood versus a white neighborhood is appraised at 23% less/ \$48,000 nominally on average, and results in \$156B in cumulative losses for black homeowners.⁴
- 4) Depressed assessed values result in less tax revenue and thus less investment in public schools.
- 5) A *New York Times* study concluded that "Home appraisers, who work under codes of ethics but with little regulation and oversight, are often all that stands between the accumulation of home equity and the destruction of it for Black Americans."⁵

Fair appraising is an immediately actionable problem that will close the wealth gap between white and non-white populations. Fair appraising can help solve racial inequity and raise the wealth of urban communities.

¹ Stephanie Leydon, Boston NPR.

² Deborah Kamin, "Black Homeowners Face Discrimination in Appraisals," NY Times.

³ President Biden, "Memorandum... on Discriminatory Housing Practices and Policies," January 26, 2021

⁴ The Devaluation of Assets in Black Neighborhoods, Brookings Institute

⁵ *ibid.*

Correct appraisals will result in better schools and greater personal wealth. Low appraisals mean that minority homeowners are less able to refinance their home, tap into higher equity, and take advantage of lower interest payments in a period with historic low interest rates. These lower interest rates would offset any increase in property taxes upon reassessment. Further, 12% of entrepreneurs use home equity partly or fully for startup capital. Businesses backed by home equity survive longer and are unburdened by higher interest rate alternatives.⁶ In a congressional hearing on June 20th 2019, four of the five industry representatives argued that there is no gap in racial outcomes in the appraisal industry.⁷ While the social justice movement of the last year has forced many objectors to acknowledge the racism pervasive in the appraisal industry, we must go beyond acknowledgement and change regulations and practices to undo current, troubling patterns.

Recommendations

- 1) Data collection must be fully separated from the valuation process. Decoupling the data collection process from the valuation process means that the risks presented from the on-site inspectors biases will be materially mitigated.
- 2) Data must be collected in a uniform way across different neighborhoods. A standardized data collection infrastructure will make sure the industry is more accurate and will treat every homeowner equally.
- 3) Data collection must occur earlier in the real estate process. Municipal and county property data is the source that powers the downstream market and is used to make valuation determinations. This will also provide more liquidity and access to credit markets. Public private partnerships to collect this data will result in more standard data that is less subject to a single appraiser who, when controlling the end to end valuation process, has too often limited the purchasing ability of non-white Americans.

True Footage is uniquely positioned to work directly with the FHFA to help solve these problems facing the industry today. In doing so, we can usher in an era of fair, faster, and more accurate valuation which will clear paths to homeownership for all Americans.

Respectfully,

John Liss
917.608.8759
John.liss@truefootage.tech

⁶ House Prices, Home Equity and Entrepreneurship, William Kerr June 2019

⁷ Financial Services Committee, "What's your Home Worth?"