FHFA RFI RESPONSE

Appraisal-Related Policies, Practices, and Processes

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Company Introduction

In 1980, Mueller Reports was founded in the Buffalo, New York area with the singular goal of revolutionizing data acquisition and reporting for the insurance industry. After several decades in practice, the organization grew to become one of the largest providers of inspection data services to the top property and casualty insurance companies throughout the country. In 2014, Mueller Reports recognized cross functional opportunities between the insurance and mortgage services industries, and as a result, Mueller began providing valuation and property inspection services to the mortgage lending community, and has since become the largest non-affiliated staff appraisal firm in the U.S., offering appraisal services in all 50 states.

With a workforce made up entirely of employee Staff Appraisers and Field Representatives, Mueller Reports has been engaged to provide bifurcated appraisal solutions to both bank and non-bank lenders. All of the services that are offered by Mueller utilize a bifurcated workflow, whereby an employee Field Representative of the organization performs the physical inspection component of the process, providing findings directly to one of our group's employee Staff Appraiser's.

As a result of engaging in an entirely bifurcated workflow, Mueller Reports has realized significant improvements in overall cycle time for residential appraisal products, without experiencing a diminution in the credibility of the appraisal reports that were completed via this process. By utilizing an alternative resource instead of the appraiser on a given assignment, all stakeholders to the transaction benefit from an enhanced service experience. The entirety of the process, from inspection to appraisal report development, is supported by industry leading training, proprietary mobile technology and layers of oversight, resulting in a best-in-class solution that focuses the appraiser's time on analysis as opposed to onsite data capture.

Perspectives on Appraisal Modernization

Due to our company's early exposure to these new processes, and our experience having operationalized these new approaches, we believe that the ongoing development of new appraisal products, methods and techniques will afford the valuation services industry an opportunity to provide the types of product solutions truly needed by mortgage lenders and investors in today's environment.

Over the past several decades, the needs of the mortgage lending industry as it pertains to valuation services has evolved. In the years immediately following appraiser licensure requirements, mortgage lenders relied upon appraisal services to ascertain risks and value potential associated with the collateral underlying a mortgage loan. However, in that era the lenders and investors had very little transparency into the market, as data was scarcely available and oftentimes unreliable.

During this time period, the originators and holders of these mortgages relied on the insights provided by appraiser's, as the appraiser was the source for much of the data that was needed to identify a property's value along with area market trends. The lenders were in what could be best described as a data deficit as compared to the depth and breadth of data available to an appraiser. As more data became digitized, and more algorithmic tools were made available to the lenders and investors involved in residential mortgage lending, the data deficit that previously existed was all but eliminated entirely.

In today's marketplace, originators and investors have similar – if not superior – access to data services and algorithms that can be used to identify more observable transactional risks in advance of engaging an appraiser for an appraisal service. This additional level of transparency into transactional risks allows originators and investors an opportunity to benefit from more tiered appraisal offerings if made available. By creating and utilizing more streamlined appraisal products/processes, the originator and investor can ensure the appraisal product being used is in alignment with the observable risks identified by the originator at the inception of the transaction. This approach will result in both time and cost savings, without unnecessarily exposing any transactional participant to excessive risk.

As the industry has continued to evolve, the requirements associated with achieving an appraiser credential, along with the ability to provide services to certain investors, has changed along the way. As many appraisers that have been involved in valuation practice over the past few decades will remember, in order to provide services to FHA the appraiser would have to pass a proctored exam that covered all of the property specific inspection elements outlined in the 4150.2 Handbook. This vetting process, used to board appraisers onto FHA's panel, was the last time the appraisal industry had any semblance of standardization surrounding property inspection methods and techniques. Since this requirement was done away with, there has been no concerted effort by the industry to ensure standardization surrounding data acquisition protocols. In contrast, the level of standardization and training specific to property inspection and data acquisition procedures that exist in the bifurcated segment of the industry have been fully built out and tested in production. With this in mind, it has become increasingly more difficult to refute the merits of a non-appraiser completing an inspection, given the superiority of the training, guidance and output generated by properly trained non-appraisers.

Utilizing a bifurcated workflow where a non-appraiser completes the property inspection adds to the level of security associated with the assignment from an AIR perspective, since the appraiser that is responsible for the development of a value opinion isn't directly exposed to the consumer that has a material interest in the transaction. This additional level of separation between a borrower and an appraiser reduces the potential for suborning the appraiser or attempting to bias their results based on pressure from the borrower. This added level of separation between the appraiser and the borrower also reduces the likelihood of appraiser bias, as it eliminates the potential for any altercations that may have historically occurred when the appraiser was inspecting a subject property.

The fact that the residential appraiser workforce is aging, and the number of new entrants joining the profession continues to be relatively low on an annual basis, capacity and sustainability are rightly top priorities for all stakeholders. By engaging a non-appraiser to perform the physical inspection of a subject property, the appraiser is able to refocus their attention on appraisal report development. By separating the appraiser from the physical inspection, the appraiser resource is able to use the time they would have lost to driving/inspecting on accepting the next assignment, effectively expanding upon the capacity available through the existing workforce of ~40,000 residential appraisers providing services in support of Fannie Mae & Freddie Mac pipelines.

Responses to RFI Questions

Mueller Reports is only providing responses to a subset of the RFI questions posed based on the organization's expertise and areas of practice. Those questions not responded to are considered to be outside the scope of expertise for Mueller Reports.

• Appraisal Policy and Process Improvements

Question A1.1*: If 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?*

Response A1.1: The need for new solutions that mitigate the impacts associated with the areas of concern noted above is of critical importance. Our suggested solution involves ensuring the best labor pool is utilized at each point in the process. Through the effective use of non-appraiser third-parties, the time a typical appraiser would spend in transit to and from a subject property and "driving" their associated comparables is effectively eliminated. This approach allows the appraiser to singularly focus on analysis, and appraisal report development, which yields increased appraiser capacity and improved appraisal credibility.

The most concerning risk associated with this approach is specific to the individuals used to perform the physical inspection. Mueller does not believe it is in the public's best interest to allow any party to perform the inspection. Instead, Mueller believes these resources should be qualified through training, and empowered with mobile technology/hardware that reduces the potential of data gaps identified post inspection.

Through a combination of extensive training that's concentrated on data acquisition techniques and the use of new technologies that offer full transparency and oversight to the process, it is our belief that any perceived risks associated with the bifurcated appraisal workflow can be effectively abated. Implementation would not be considered a material deterrent to realizing the benefits these types of processes would offer to all transactional participants, provided there is universal standardization.

***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?*

Response A1.2: Yes. Opportunities to utilize alternative approaches, processes, techniques and form types abound, including bifurcated workflow solutions that do not include the use of a credentialed appraiser to complete the inspection on a subject property. For low risk transactions, using an exterior Property Condition Report (PCR) in combination with an investor generated Automated Valuation Model (AVM) may be sufficient to offset the risks inherent to this transaction type. For transactions that represent low to moderate risk, using an interior PCR in combination with an investor generated AVM could provide sufficient risk mitigation. When the transaction represents moderate risk, using a PCR that's produced via a non-appraiser third-party along with a desktop appraisal developed using the information contained in the PCR (along with additional data services like MLS, Public Records, etc.) could effectively limit associated risks. Finally, when working through the origination process as it pertains to a high risk transaction, using a traditional appraisal workflow may be the best product to effectively reduce collateral risks the investor would have to manage if the transaction ended up in default at some point post-closing, but as mentioned, we believe offering additional product/process optionality through the use of a bifurcated workflow on a subset of the volume that would have otherwise been managed using a legacy appraisal workflow will result in improved turn-times and reduced costs in the aggregate.

***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?*

Response A1.3: Yes. Although appraisal waivers – and specifically, Fannie Mae's "Data & Done" program – should not be considered for all transactions, those that present lower observable risks (e.g. high credit borrowers; low LTV transactions; extensive origination history with an Enterprise; etc.) should be afforded alternative means to identify value potential, provided there is a physical inspection of the subject to ascertain underlying quality and condition. Mueller does not believe it is in the public's best interest to solely rely on algorithmic data when originating an Enterprise loan. Instead, we believe it is imperative for the investor to continually obtain fresh data specific to each subject property's overall Condition and Quality at the time of each origination. This approach prevents system manipulation, as new observational data would be fed into the Enterprises on a recurring basis upon each subsequent transaction.

***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?*

Response A1.4: Yes. Utilizing alternative inspection workforces can help to alleviate capacity concerns when market volumes peak, but there are additional benefits that should be considered. The benefits Mueller believes are tied to the use of non-appraisers for data acquisition/property inspection services are enumerated as follows:

- **Appraiser Market Capacity**
  - In times of increased volume due to market dynamics, allowing a third-party non-appraiser to conduct the physical inspection of a subject property has as a force multiplying affect, resulting in increased bandwidth for the credentialed appraiser. This increase in overall appraiser capacity can have a material impact on turn-times and consumer experience during peak volumes.
- **Training Standardization**
  - Unfortunately, not all supervisory appraisers are equally capable of providing adequate guidance and tutelage to their trainee appraisers regarding how to consistently and effectively obtain data via the physical inspection of a subject property. Using a non-appraiser, that has been comprehensively trained on how to acquire data with a level of granularity seldomly seen in the output produced when an appraiser inspects the subject creates a level of standardization in how property data is obtained and delivered that the valuation services community hasn't previously seen. Consistency and replicability, independent of an assignment's location, acts as a means of enhancing the public's trust, which is the primary tenant of the appraisal profession.
- **Technological Guardrails**
  - By standardizing the way in which property inspection data is captured via the use of mobile applications, the process can be safeguarded against manipulation while ensuring consistency and objectivity of findings. Graduating from tape measures and clipboards to LIDAR enabled applications and mobile hardware will lead to higher degrees of credibility throughout the process. It's no longer a question of whom should be completing the physical inspection of a subject property, but instead, it's a question of how the information should be captured, collated and communicated to an appraiser or non-appraiser end user.
- **Enhanced Protections Supporting AIR**
  - As a result of using non-appraisers to perform the physical inspection of a subject property, the appraiser is able to avoid any potential suborning or influence that could impact their independence as a result of being more arms-length from the borrower. In fact, leveraging a bifurcated workflow on as many transactions as possible (based on underlying origination characteristics) will reduce the number of assignments that require an appraiser to inspect the subject property, yielding an overall reduction in the number of assignments where an appraiser and borrower interact face-to-face, resulting in a much lower probability of borrower-centric AIR violations.

***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.*

Response A1.5: Yes. As mentioned, the key to successfully operationalizing these types of new approaches, especially the use of non-appraiser's to provide physical inspection services, is to standardize the way in which physical property characteristics are identified and captured during the course of the inspection, along with how this information is ultimately submitted to an end user.

- ## Risk Management

***Question B2.1**: How could the Enterprises make additional data available to appraiser's while promoting appraiser independence without crowding out other data providers? What additional challenges arise if the enterprises provide data to appraisers?*

Response B2.1: Offering additional data that could be used to further inform an appraiser's analysis and enhance the credibility of their findings based on a more detailed understanding of a market's trends further acts to support the appraiser's contribution to ensuring the public's trust. Mueller believes the Enterprises should consider offering a version of the SSR findings that are currently only made available to the lending community in an effort to provide more transparency into quality concerns that may have been overlooked by an appraiser during the appraisal report development process. By providing the appraiser population with some derivative of the quality control data that's currently only available to the lending community in the context of an SSR finding, all transactional participants can benefit from more process efficiency by reducing the number of touches each transaction requires post initial submission.

***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?*

Response B2.5: The challenges associated with quality of service, enforcement and consumer protection are overcome through a careful vetting process of the field representatives. Mueller only selects field representatives for our lender specific training who have proven themselves in the field to have the required soft skills of customer service while simultaneously providing a report that is comprehensive and objectively factual. The field representative is supported by dedicated quality assurance agents who they can reach out to in real time. Field representatives also have available to them a professional customer service team that they can direct consumers to for any questions outside the scope of their knowledge. All field representatives have passed traditional character screenings, criminal background checks and drug tests. They are fully covered as employees of Mueller by all the insurance coverages purchased by Mueller. Many field representatives also take advantage of Mueller's health care coverage options, paid sick time and personal protective equipment provided at no cost that has proven so important during the Covid-19 pandemic to keeping everyone as safe as possible.

Due to the sensitive nature associated with the subject's physical inspection, Mueller does not believe it is in the public's best interest to rely upon untrained crowdsourced resources to fulfill this activity. Instead, Mueller believes the Enterprises should institute some minimum qualifying standards to prevent bad actors from participating in the process. These standards should include background checks, initial training, ongoing educational requirements, and technological guardrails if they are to be considered wholistic in nature, providing sufficient protections to the consumer population.

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

Response B2.6: Since Mueller does not support the legacy appraisal process (e.g. appraiser is engaged to inspect and appraise a subject property), we do not have the ability to compare/contrast turn-time elements or report credibility between bifurcated appraisal volume and non-bifurcated appraisal volume. However, we are continually engaged by lenders that use a champion vs. challenger vendor model, and our allocation continues to grow as a result of our bifurcated products performance from both a time-service and report quality perspective. Again, using a non-appraiser labor pool to perform the physical inspection of a subject property allows the appraiser to focus on analyzing data as opposed to procuring it. This approach results in a significant reduction in overall turn-times when compared to volume that is managed using the legacy appraisal model.

***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?*

Response B2.7: Yes. During the COVID-19 crisis, the appraisal flexibilities that allowed lenders, borrowers and appraisers to benefit from Desktop or Drive-By reports on transactions that would have otherwise required a traditional appraisal process offset the impacts this crisis would have otherwise had on the residential real estate market. These new techniques have exposed appraisers, and lenders, to the benefits associated with a consumer assisted valuation. As a result of the lessons learned throughout the crisis, Mueller firmly believes that these types of flexibilities should be leveraged (1) in subsequent times of disaster, (2) in impacted rural markets, and (3) as an alternative approach when market volumes exceed appraiser capacity.

- ## 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?*

Response C1.1: Mueller expects these ongoing modernization activities will have a significantly beneficial impact on the appraisal industry as a whole. Through the development of new processes, methods and techniques, the appraisal industry will be in a better position to provide the types of process efficiencies the lender client population demands.

Mueller believes that the increasing use of alternative appraisal solutions has actually expanded the bandwidth and capacity of the appraiser workforce, yielding improved turn-times for bifurcated appraisals while alleviating the pressure placed on the traditional appraisal service providers in times of heightened market activity.

***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?*

Response C1.2: Introducing new process improvements that would allow the current population of appraisers an opportunity to contribute to the profession in a meaningful way even as they become more physically limited would be welcomed.

With the introduction of technology, whether in the form of digital cameras, appraisal production software or online MLS systems, the appraiser workforce has seen significant process efficiencies realized in the past few decades, however, none of these advancements have allowed aging appraiser's to expand their longevity in the profession. By allowing a subset of the origination volume associated with Fannie Mae & Freddie Mac transactions to benefit from a bifurcated workflow, an appraiser with age related physical limitations would still be able to contribute to the mortgage lending process. The adoption of a bifurcated workflow will keep the most tenured and experienced credentialed appraisers involved in the profession for years beyond where they would have previously retired.

***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?*

Response C1.3: Yes. Rural and underserved communities may be the market areas that see the most immediate benefits of appraisal modernization activities, specifically from the use of bifurcated workflows that leverage a non-appraiser for the physical inspection of a subject property. In the past, when market activity trended upwards, rural markets were disproportionately impacted in two areas: (1) turn-times for appraisals were extended to weeks or even months from order assignment; and (2) fees for appraisal services in these areas increased by an order of magnitude in some cases. Using an alternative workforce to complete the physical inspection of a subject property in these areas will help to reduce the time it takes to have an appraisal completed, while simultaneously offsetting the increase in fees typically associated with rural and underserved market areas in times of peak volume.

***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?*

Response C1.4: Mueller does not have any data that would indicate that there is a systemic issue within the profession as a result of policy or practice. However, in an effort to further reduce the likelihood of the potential for discrimination in collateral valuation from taking place, Mueller does believe that expanded use of our diverse employees and the bifurcated workflow would mitigate potential bias as it ensures there is true separation between borrower and appraiser. Mueller also believes that the combination of the bifurcated process with our plan to participate in alternatives to the traditional Supervisor and Trainee model (PAREA) will allow us to create an exciting new pathway for our field representatives to become credentialed appraisers. It is our intention to specifically reach out to field representatives who reside in traditionally underserved communities, that might not otherwise have considered becoming a credentialed appraiser as a possibility due to the visibility of the profession in their communities, the difficulty of managing the costs of traditional trainee programs and access to a committed supervising appraiser.

Conclusion

Mueller Reports would like to thank the Federal Housing Finance Agency for developing this Request for Information. We applaud the agency for soliciting the feedback of industry participants, and believe these matters are critical to the safety and soundness of the domestic residential real estate marketplace. Mueller Reports will look forward to providing additional information if needed as the agency continues to examine aspects of appraisal policies, practices and processes.