February 26, 2021

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street, SW, 9th Floor
Washington, DC 20219

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

Director Calabria:

We applaud the FHFA's decision to transparently gather information and opinions from all stakeholders on this important aspect of the housing finance ecosystem. We support a thoughtful, deliberate inquiry and appreciate the opportunity on behalf of CoreLogic to respond to the agency's Request for Information.

Our economy's housing finance ecosystem has delivered for consumers during this presidential disaster period and we need to continue to make thoughtful and probative decisions about changes to it, including those contemplated in the Request for Information. As a company, CoreLogic will continue to support the ecosystem that helps consumers find, buy, and protect their homes.

Our point of view is uniquely informed because of how our technology connects with thousands of lenders, appraisers, and appraisal management companies (AMCs). CoreLogic has created an end-to-end solution for valuation needs including appraiser education delivered through our own appraiser training institute, appraiser software, and collateral management platforms for lenders, servicers and AMCs. We also produce appraisals and other valuation services through a national independent AMC and a 180+ staff appraiser firm. Additionally, CoreLogic provides automated valuation models, collateral analytics and public record physical characteristic data to appraisers, lenders, real estate agents, investors and many others.

Valuation Services Continuum

A risk-based approach to valuation is prudent. Building on experience drawn from the COVID-19 appraisal flexibilities, a new, permanent continuum of services would give lenders options when providing a collateral value estimate. Ultimately, we believe that focusing the confluence of an appraiser's expertise and data-driven analytics on analysis and forming an opinion of value will ensure that the lender and consumer expectations for speed, accuracy and simplicity are met. A well-designed continuum will help address appraisal industry capacity concerns by changing the scope of what the appraiser is expected to do. For example, using trained third parties for property data collection when appropriate, and other similar policy changes will allow the combination of technology and appraisers to meet the industry demand for speed and accuracy, and allow an appraisal to be part of the risk analysis on the majority of loans, which is often what consumers expect to receive.[1]

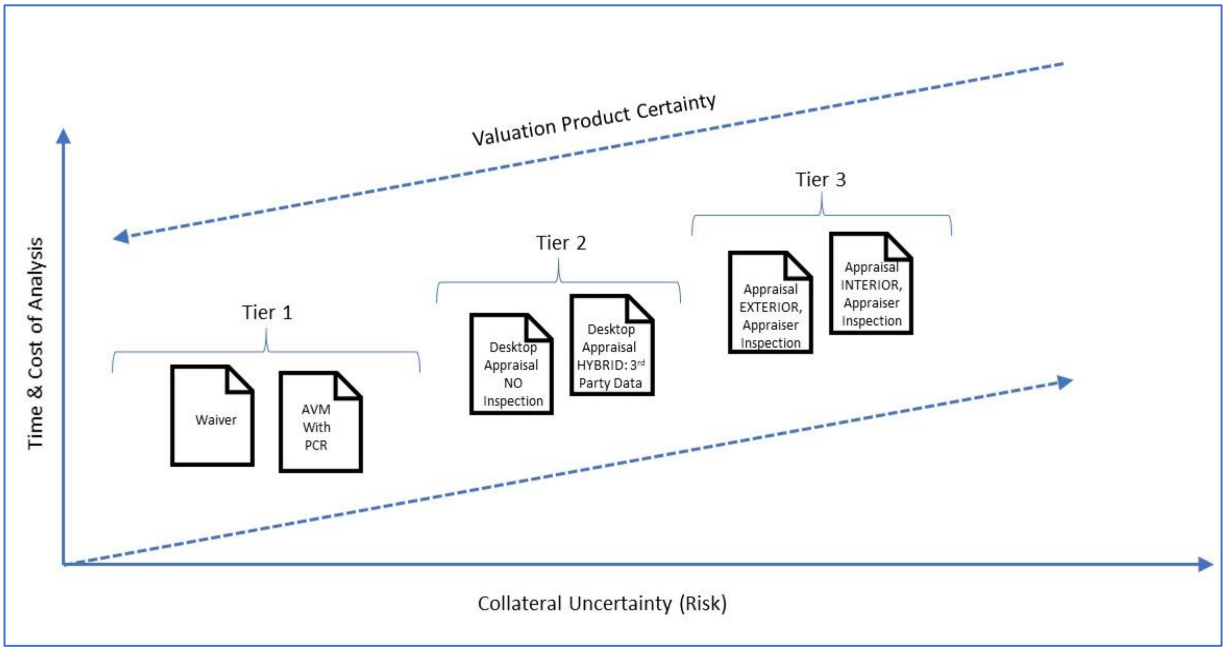

Figure 1. Example Valuation Service Continuum with Risk Tiers

In the example above, we group valuation products into risk tiers, which utilize factors such as loan type, combined with other risk factors (such as loan-to-value, debt-to-income, FICO scores, etc.) to quantify and define the transactional risk. This continuum and risk tiering could be utilized by the Enterprises to allow a lender flexibility in valuation product selection. Additionally, as innovation leads to new valuation products in the market, they are simply added to the appropriate tier as an option.

Our baseline assertion is that risk to the Enterprises and the housing finance eco-system is reduced and mitigated when valuations are completed by licensed and certified appraisers. However, as discussed above, by no means do we support removing technology and data from the process; rather, we believe in using both, in conjunction with new methodologies such as hybrid appraisals, in order to make the appraiser more efficient, more accurate and less prone to bias of any type. We agree that there are loan scenarios where the certainty of collateral value is not germane to the lending decision and thus valuation by an array of existing technology-based solutions would be prudent (such as when the Enterprises already hold the risk of the loan).

This new continuum would allow lenders to provide a better experience for borrowers, in many cases by reducing turn times due to the elimination of drive time, scheduling time, etc. and in some

[1] We are concerned about and encourage discussion of an inspection-only approach that feeds property data to an Enterprise model in an effort to produce an appraisal waiver. The "data and done" approach removes an independent analysis and an appraiser from the process in favor of a model-based approach that is not transparent.

cases by shifting the inspection to third parties. This policy change would add capacity to the industry by allowing less labor-intensive valuation services and distributing the work, creating efficiency. Below are additional thoughts on the value of a new continuum.

As data on real property characteristics has become ubiquitous and accurate, reliable and credible appraisals can be produced without the need for the appraiser to participate in the data gathering exercise of personally inspecting the subject property (except in certain risk scenarios). Desktop appraisals or exterior appraisals that use these data or new data collected by third parties has been proven satisfactory, keeping the independence of an appraiser in the collateral valuation process while at the same time providing more options than a 1004/70 (full appraisal) to lenders.

Additionally, we support allowing appraisers to use and rely on data collected by the borrower or other home occupant. The nature of this data collection can be controlled to minimize the risk of the borrower not being independent. Borrower-provided data combined with data from public and private commercial sources in many cases will allow the appraiser to form an opinion of value with high reliability and credibility. This approach could be allowed on certain lower risk loans where a desktop only service is appropriate as part of a risk-based valuation services continuum.

There are other considerations. For example, removing requirements to provide data found elsewhere or to provide data that is informational in nature, but which is not used in an underwriting risk analysis. Consider the policy of requiring exterior inspection and photographing of comparable sales. The inspection of a comparable that listed and sold potentially many months prior provides limited data that changes the appraiser's opinions. Maps, satellite images, MLS information and other publicly available data can provide the appraiser with sufficient information. The desktop appraisals done under COVID-19 flexibilities validate this observation.

While acknowledging a limited data set of observations of Enterprise pilots for the Fannie Mae 1004P and the Freddie Mac 70H, we found only modest improvement in turn time and reduction in cost to borrowers. In order to reap the full benefits of the hybrid approach, training in proper data collection and likely a corresponding certification is needed for those involved. Additionally, lenders must be given time to build out the workflows and tools to effectively manage a panel of providers or to engage management companies for data collection or inspection services.

Independent Collateral Valuation, Analysis and Appraiser Capacity

Appraisers are an important, well-established core component of the loan origination and servicing risk management process. Innovation that reduces independent, disinterested analysis of property valuation in the loan underwriting decision process must be approached with utmost caution and thoughtful examination.

The use of appraisal waivers poses a risk to independence by removing the independent appraiser from the equation. Instead, the Enterprises rely on models and approaches under their respective management which are not transparent to the housing finance ecosystem which, for example, impairs model governance assessments made by primary market prudential regulators. We encourage FHFA to consider the question of removing opacity.

Some have noted that the appraisal waivers reduce pressure on appraisers who, in certain areas, could not have met the recent historic demand. Had a continuum like the one discussed in this letter been in place we believe the mix of waivers, AVMs, desktop and full appraisals would have successfully met pipeline demand and would have ensured that appraisers are focused on the part of the market where it matters most via an orderly system that is framed by a risk-based approach. Notably, even the current COVID-19 flexibilities lean heavily towards a full appraisal in virtually all cases which is a rigidity for which there is a solution via the continuum. It's our view that a well-designed continuum which allows for alternative valuation products such as desktop appraisals, no inspection valuation options, and hybrid appraisals would conservatively double (or perhaps even more) the existing active appraiser capacity relieving any demand pressure and producing additional benefits compared to a waiver.

Communicating Value Estimate as a Range

The current single point estimate approach to value creates many challenges. Frequently, scenarios arise where asking appraisers to make a change to their value opinion is the path of least resistance to making a loan "work." Much of the pressure placed on the appraiser could be eliminated if a value opinion was delivered as a range. This change would remove the notion that an appraisal equates to a "price" rather than an estimate of value, a significant problem when it comes to anchoring bias and other misunderstandings in the industry around the role of the appraiser and the appraisal process in establishing value. Lenders would continue to utilize a single value in calculations such as loan-to-value (LTV), by using the borrower's estimate or the purchase price as the basis for LTV calculation, similar to the manner done today in the waiver process. The appraised value range would then be used to support the LTV calculation. The approach was mentioned during the public listening session.

Appraisal Waivers and Process Transparency

Common sense tells us in many cases technology can render a reliable opinion of value using vast data stores and other information. For example, in the lending scenario where the loan is already owned by the Enterprises and only loan terms are changing. In this scenario, the value of the collateral is established by the origination appraisal and as the Enterprises already hold all of the collateral risk, the current valuation is less important in this transaction.

If appraisal waivers are offered to reduce lender and borrower costs and shorten the total time needed to originate a loan, we are concerned. As mentioned, the current binary approach (pre-COVID) for valuation—either an appraisal waiver offer or a full appraisal (e.g., 1004/70 with an interior inspection by the appraiser) being completed—does not correlate to a risk-based approach to valuation. There are many existing alternative appraisal services on the valuation risk management continuum that could result in the reduced transactional costs and time needed for appraisal services, combining appraisers, technology, data, and analytics in a much more efficient manner.

AVM Considerations

Automated Valuation Models have matured with the national digitization of property data, input of traditional appraisal data, and a compliment of other geospatial data allowing for superior refinement of algorithms that deliver accurate real time values when all necessary components are present.

This blend is the combination of digital data and "eyes-on" data. Some eyes-on data in the market comes from satellite or drone technology, however the most practical eyes-on data comes from actual human property inspections as that is the only true way to glean overall condition of many assets.

Additionally, as an AVM is an algorithm-based tool, the blending of multiple models is prudent to derive the most accurate value. Thus, the use of the open, well-tested marketplace would certainly assist in both accuracy utilizing varied approaches and promoting public trust in this solution.

Net-net, an AVM is a helpful and now integral tool in many facets of the loan manufacturing process, and a creative way to reward creditworthy borrowers with a faster, more efficient and lower-cost way to acquire certain mortgage products. It is important as we move forward to carefully blend high-performance databases, multiple public market models, and human inspection input.

As we understand appraisal waivers, AVMs are a component of the models and are proprietary to the Enterprises (with little understanding externally as to how they are used in the models). We believe an approach that utilizes the best models both within the Enterprises and the commercial marketplace should be employed. The AVM cascade then automatically uses the AVM in the area that has tested as most reliable first, utilizing the other acceptable AVMs sequentially. When appraisal waivers are risk appropriate, we propose the Enterprises employ an AVM cascade that leverages industry models in addition to their own, thus ensuring a higher level of accuracy, transparency, and incentive for the market to be effective in producing accurate AVMs. This approach would improve the confidence in the appraisal waiver process, remove uncertainty, and likely create a better outcome and overall understanding of the collateral, and the risk associated with the collateral valuation process.

Transparency and validation are key components creating trust in any system. Independent of other suggested changes, we urge the FHFA to implement an external and independent testing process on AVMs and models used in the waiver and rep and warrant decision making process. As mentioned, the AVMs used by the Enterprises today are key components in the decision to offer an appraisal waiver. Best practices often include independent third-party testing that offers a comprehensive view of commercially available AVMs for a given geography and provides assurance to the regulator that the approach is a safe and sound lending practice.

Rep and Warrant Relief Considerations for Lenders

Today an appraisal on a 2055 form is not eligible for rep and warrant relief. Rep and warrant should be property specific, not appraisal form specific. Regardless of the appraisal service used from a proposed risk-based continuum of appraisal services, the same rep and warrant relief should be available to the lender. In our included example, the rep and warrant relief could be tied to the risk tier rather than a specific form.

UCDP Collected Data: Distribution and Sharing Considerations

We advocate sharing of the UCDP data with the industry.

The data collected through the UCDP provides a significant advantage to the Enterprises in understanding collateral valuation and the associated risks. The benefits of having this data universally available in the industry are significant and self-evident. This data, if incorporated into existing collateral management products, analytics, tools, and services provided by CoreLogic and others to lenders, servicers, appraisers and many others in ancillary industries such as insurance, etc., would decrease risk through transparency and improve existing products already tightly integrated and used widely throughout the industry. We would anticipate increased support, adoption and alignment from industry participants for appraisal data modernization efforts if the benefits derived from the existing and new data collection efforts would be shared across the entire ecosystem.

The idea of the Enterprises providing data directly to appraisers as part of the appraisal manufacturing process creates many challenges, the least of which is having an interested party providing data and information that could be construed as influencing the process. Putting the most complete and accurate data in the hands of appraisers and lenders is obviously important for quality, credibility and for overall risk management. Existing providers, including CoreLogic, provide data today from numerous sources to appraisers through many existing systems. Making the UCDP data available to these vendors for distribution would produce a positive result that accomplishes what is proposed by the Enterprises and provides far more benefit to the overall housing and real estate industry, including ancillary industries such as insurance, assessors, builders, cost estimation providers, and so forth. Additionally, existing providers know how to process and distribute data and would be able to do so with relative ease. Sharing the data with the industry creates transparency, empowers the industry, reduces costs for the Enterprises and takes advantage of well-established distribution networks with nodes that touch virtually all lenders, both Enterprise clients and others. The least disruptive and most beneficial approach is to allow existing providers to disseminate the data though existing tools, integrations and ecosystems.

Innovation and Proposed Changes to UAD

It is important that innovation efforts around changes to the Uniform Mortgage Dataset be lender-focused and improve the lender's ability to make decisions and ultimately meet the needs of borrowers. Before the entire ecosystem of technology platforms is required to code for these changes more exploration of benefits and risks should be completed. Further, it appears that proposed changes will result in a dynamic data collection process that requires more data than the current appraisal process and which uses a presentation format that will change with each appraisal. Both changes add complexity for appraisers which works against ensuring we streamline processes to increase efficiency. We urge the Enterprises to consider the role MISMO can play in creating a robust stakeholder dialogue that more fully explores the merits of current proposals.

Alternative Workforce Benefits and Considerations

As discussed, we support using alternative methods to gather data for use in an appraisal. Appraising a property and inspecting a property are two mutually exclusive events. The appraiser inspecting a property is not required as part of the Uniform Standards of Professional Appraisal Practice. Today, databases, both public and private provide vast amounts of information about individual properties, neighborhoods, micro and macro markets. The policy of having the appraiser personally inspect the property for all loan scenarios is no longer needed. Updates to Enterprise policy would allow others to do the inspection required today by the Enterprises in appropriate loan scenarios.

We are supportive of using alternative workforces with the caveats discussed in the following paragraphs. Enterprise policy and risk management changes that increase the capacity, throughput and efficiency of appraisers are good for the industry and will meet the expectations of lenders to simplify and speed up the loan process while removing pressure to replace appraisals with technology-only solutions.

To ensure the public trust and appraiser trust, there must be a process to ensure third parties who collect data and potentially enter a borrower's home are professionally trained in proper techniques and practices and are trustworthy—something presumed today when a state licensed, and certified appraiser inspects the home. We advocate for a data collector standard for all providers, more especially those that are not already licensed in real estate in a related field. Training can be carried out by real estate education providers and the oversight of those completing inspections who are not licensed by a government entity could be handled by providers of the services, for example AMCs (licensed) or lenders (licensed) if the lender directly engages the inspection provider. Education providers can establish certification standards in partnership with the Enterprises that meet or exceed expectations.

The use of loosely trained, unlicensed or unregulated individuals for collecting property data or conducting inspections creates uncertainty and risk. Appraisers are less likely to trust data from someone they deem “not qualified” and thus the data provided not credible or reliable. Additionally, a standard for property data collectors would eliminate the tendency for appraisers to question the objectivity and independence of these persons. From the operational side, an AMC or lender seeking to employ these individuals for appraisal data collection may require bonding or insurance, which without a standard can be difficult to obtain.

From a regulatory point of view, if an inspector employed directly by a lender, AMC or similar does something inappropriate or illegal it is difficult to enforce any penalties or consequences as well as ensure they do not subsequently do work for another vendor or lender without a license or a certification. As third-party data collectors potentially become a larger part of collateral valuation, it is important to ensure these operational, regulatory and practical concerns are addressed by the Enterprises.

CoreLogic supports responsible and thoughtful innovation and modernization in the appraisal process. We are confident the recommendations we have offered, which are based on our unique expertise and experience, will provide efficiency and overall improvement to the appraisal process. We are confident our recommendations will provide these benefits without creating risk to the Enterprises or to safe and sound lending practices in the industry.

We are grateful for your consideration and would welcome the opportunity to discuss further or address questions from FHFA staff.

Sincerely,

Shawn Telford
Chief Appraiser
CoreLogic