



February 26, 2021

Federal Housing Finance Agency **Submitted via: FHFA Online Submission Portal**
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

RE: RFI – Appraisal-Related Policies, Practices and Processes

Dear Sir or Madam:

DHI Mortgage is appreciative of the Federal Housing Finance Agency and Freddie Mac (the Enterprises) focus on modernizing the appraisal process in an effort to create a more streamlined and accurate collateral valuation process and doing so in a manner which avoids unintended consequences which could negatively impact consumers. Through the opportunity presented during this RFI, we would like to provide some meaningful feedback that we believe will serve to support the mission of the Enterprises, as well as consumers and the lenders that support them in the home buying and refinancing process.

DHI Mortgage is a subsidiary of D.R. Horton, Inc., the largest homebuilder in America by units closed for the last seventeen consecutive years. D.R. Horton has been in the residential homebuilding business for more than 40 years and has built homes for over 770,000 individuals and families. DHI Mortgage employs approximately 2,000 people in 29 states, while D.R. Horton employs more than 7,000 employees in the United States. The primary mission of DHI Mortgage is to facilitate the financing and sale of new D.R. Horton homes, and to provide a fair price, quality loan product, and an excellent customer service experience to every consumer.

As a framework for our comments, while we facilitate lending for new homes, these loans are managed as standard purchase transactions and not a construction-to-perm transaction, one-time close or two-time close transaction. When our borrower appraisals are completed, the homes are generally very close to completion with only minor items such as appliances and landscaping remaining.

Appraisal Modernization

DHI Mortgage (DHIM) welcomes the opportunity to comment on appraisal modernization. Since appraisal waivers are not issued on new construction purchase transactions, we are particularly interested in alternatives to streamline the appraisal process. DHIM feels that it is

critical to address the issue of appraiser shortages in rural and high-volume areas as we continue to see a trend of appraisers exiting the workforce.

DHIM believes that any discussion of the use of a hybrid appraisal where inspections of the property are completed by a third-party requires careful thought. We would support the use of appraiser trainees to conduct these inspections which would increase a licensed appraiser's capacity while also training a new workforce. We believe it would be difficult to utilize other third parties such as real estate agents or home inspectors unless the issue of appraiser liability is specifically addressed. Many appraisers are reluctant to utilize a hybrid appraisal unless their liability for the information contained in the inspection is reduced or eliminated. In addition, the cost associated with these inspections needs to be addressed so that it does not have a negative impact on the consumer. The appraiser community would need to agree to reduce the cost of their appraisal report since they would not be providing a physical inspection of the property themselves which may be met with hesitancy. The Enterprises may want to consider accepting the architects floorplan designs for the calculation of gross living area on new construction properties rather than measurement by the appraiser and subject property and comparable sales photos to be taken by an approved third-party or appraiser trainee as possible streamlining opportunities.

DHI Mortgage may be interested in being a pilot lender for any hybrid appraisal options. We would look forward to meeting and discussing the ideas and levels of resources required to be a part of any pilot group before making a final decision to participate.

Updating Uniform Appraisal Data Set and Redesigning Appraisal Forms

DHIM supports the initiative of updating the appraisal report forms and moving of certain data elements currently contained in commentary or text sections into more standardized data points that could result in streamlined reviews and opportunities for increased innovation and data mining. We would like to also take this opportunity to suggest a redesign of the FNMA Collateral Underwriter (CU) system. From the perspective of a lender who is focused on new construction, CU provides great value but also opportunities for improvement. For example, CU often has difficulty with geocoding of the subject property's proximity to comparable sales which leads to unnecessarily high CU risk scores. In addition, CU is not designed to properly assess comparable sale acceptability in conjunction with the Enterprises' requirement to use at least one comparable sale from a competing neighborhood. CU will often issue a high-risk score when the top ranked comparable sales are all within the subject properties neighborhood and the comparable sale(s) that the appraiser is required to use to meet selling policy guidelines is ranked lower. This leads to inefficiencies due to unnecessary reviews of appraisals that have a "high risk" scores issued through CU because of false positive comparable sale selection warnings.

Automated Valuation Models (AVMs) and Appraisal Waivers

As previously noted, DHIM is predominantly a new construction lender with our parent company D.R. Horton. As appraisal waivers are not offered on new construction properties, we have very limited use of them today. However, do strongly support the development of data that

would allow for appraisal waivers on new construction properties with low LTV's and other strong credit characteristics. We believe there is sufficient data contained within CU to be able to determine an acceptable property value within new construction neighborhoods, especially in new home communities that have an extensive database of previously closed properties. One of the primary risks of an appraisal waiver on existing properties is the condition of the property and the lack of an inspection for needed repairs. This risk would be reduced entirely on new construction properties which are in superior condition. DHIM feels that new construction properties, especially with large production builders, should represent an industry standard when issuing appraisal waivers due to the lack of concern on the condition of the property, leaving only the value of the property to be determined as acceptable in contrast to the current structure which does not offer appraisal waivers at all on new construction.

In addition, DHIM recommends consideration of a master appraisal of each homebuilder model or floorplan to be completed with a range of values that is acceptable and which retains an effective period of 90 days. The range would allow for differences in lot sizes, views, differences in options or amenities, appreciation over time and other factors. This master appraisal could be used on a transactional basis as long as the sales price of each individual transaction fell within the master appraisal's range of values. If the sales price was higher than the acceptable range, then the lender would have the option to obtain a new appraisal specific to the subject property to establish value.

Significant changes need to be made in the area of new construction appraisals to address the continued volume growth in the new construction segment coupled with the continued limited capacity of the existing appraisal workforce.

Valuation Differences by Borrower and Neighborhood Race

DHIM is supportive of any steps which can be taken to support USPAP's current rule on unsupported conclusions related to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value. In addition, DHIM concurs that even supported conclusions can violate the law and therefore guardrails should be developed to mitigate this from occurring. While new home construction may be less susceptible to disparities due to the nature of the product (i.e. vacant at time of appraisal, no borrower interaction, less readily visible ethnic concentration) it is still possible. DHIM would look forward to participating in the conversation to discuss any such guardrails being considered.

Conclusion

The industry continues to have significant challenges with the availability of appraisers in the workforce compared to the demand for appraisal services. We believe that we are at a critical juncture to address this growing concern. We are experiencing increasing challenges with appraisal turn times, increased cost to consumers and the availability of locating experienced appraisers to perform appraisals. We believe that any consideration given by the Enterprises must focus on streamlining the appraisal process so that appraisers can complete appraisals more

quickly and expand their coverage areas. We also believe that the Enterprises must focus on ways to offer appraisal waivers and/or streamlined alternatives on low risk transactions, including new construction properties, and on setting policy that allows appraiser trainees to be incorporated into the process and developed into licensed appraisers.

Thank you for the opportunity to comment.

Sincerely,

Chris Bryant

Chris Bryant
SVP, National Underwriting Manager
DHI Mortgage

10700 Pecan Park Blvd, Suite 450, Austin, TX 78750
Phone: 512-257-5486 / Email: CSBryant@dhimortgage.com