Reggora

February 25, 2021

Federal Housing Financing 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

As a technology provider bringing appraisal workflow solutions to lenders and appraisers, Reggora appreciates the opportunity to offer comments and insight into the FHFA Request for Information (RFI) for Appraisal-related Policies, Practices, and Processes. While our organization is technology specific and relatively new to the lending community, we do have subject matter experts on our team with extensive operational and valuation experience to assist with our responses.

Appraisal and the valuation of collateral continues to be a priority bringing stability and trust to the marketplace. Current day focus on valuations include: concerns over supply and demand imbalances creating extended appraisal processing times; the Enterprises' increased use of appraisal waivers; the viability and applicability of alternative valuation products; and concerns for bias in appraisals.

A well-documented outcome of demand and supply imbalances is a reduced customer experience for users and benefactors of appraisal services. Continuation of imbalances will lead to further mortgage application delays. The efforts to reduce the demand for appraisals through the extensive use of waivers has the potential to erode confidence and increase systemic risk, presenting the potential for liquidity problems.

Reggora supports the continued use of appraisers as a key role in identifying and measuring the impacts of collateral risk, not only through the gathering of data and observations relative to the physical aspects of the collateral, but their contributions to identification and measurement of risk from external factors.

Current circumstances managing the Covid-19 emergency have been a catalyst of technological improvements to key stakeholders in the mortgage lending arena. The resilience of consumers, lenders and providers of appraisal services, has created an environment determined to deliver exceptional products and services.

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It is our collective opinion that risk positions have increased due to expansion of the waiver program by not measuring physical and external influences that can impact the value of collateralized real estate for specific mortgage transactions. Reliance on automated valuation models alone as the singular measurement of the risk associated with the collateral should not be predicated on an assumption of condition for any substantive level of transactions. One only needs to review the practice of extensive Automated Valuation Model (AVM) use and the subsequent outcomes for home equity lenders experienced prior to and during the Recession in 2007-2009 to gain a better understanding of the risks associated with AVM use without a clearer understanding of the collateral.

Solutions are available to leverage available technologies and data sources, to enhance the support to the existing provider network. The result will be a lift in the capacity for appraisal services in the marketplace. These creative solutions will facilitate the goal of modernizing the collection of data necessary to complete a reliable appraisal process and reliable reporting process, while providing the benefit of contributing to a sustainable risk management oversight program for both the qualification of the collateral and the valuation of the collateral.

Attached, please find our responses to the questions presented in the FHFA Request for Information on Appraisal-Related Policies, Practices, and Process.

Thank you,

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General Questions on Appraisal Policy and Process Improvements

Question A1:1
Is there 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?

Identification of Need
The Reggora appraisal platform was created as a result of marketplace demand to improve technology for appraisal order processing. Users of our platform have expressed the desire to explore technology-assisted processes and products to assist with addressing appraiser capacity constraints, particularly during periods of heightened demand, to offset delays and negative consumer experiences. It is clear, through analysis of appraisal flow through our platform, that supply and demand disconnects in the marketplace, at the local level, are a major source of appraisal delay. Generally, appraiser capacity remains fixed in the marketplace, while demand has been variable. This is clearly shown in Figure 1 in the FHFA's RFI document and supported by observations on our platform. The stress created by supply and demand imbalances are a contributing factor in today's adverse customer experiences, and will continue without addressing needed structural changes.

Potential solutions
While there has been much discussion about bifurcating appraisal processes, there should be further exploration and focus on development and implementing support for expansion of the Enterprise's AUS and other automated systems to establish a more nimble and stepped approach leveraging the use of bifurcated processes and products. Today, as a part of the valuation process, appraisers measure and report on market risk, and the risks associated with both the physical aspects of property as well as any external factors that may impact the valuation and/or marketability of the collateral all within the definition of appraisal services. These components, either individually, and in combination with each other, can be utilized as support for a decision to establish the required appraisal service appropriate for the transaction to support the lender's decision (and/or model assumptions) to accept the collateral and valuation method to determine the credit capacity based on the use of the value point estimate provided (either by the Enterprise or the appraiser). Use of dedicated products and appraisal services would provide the basis for evidence-based outcomes to assist with decisions for risk-appropriate collateral and valuation product requirements.

Whether under the direction, supervision or review of a credentialed appraiser, these valuation services and products would fall within the existing regulatory framework and standards, maintaining a process that gives assurances to maintain the public trust.

Expansion of products and services will serve to bolster capacity, increase training opportunities and broaden access to underserved geographies. Additionally, the Enterprises will bring added confidence to decision criteria for collateral assessment through a transparent process to support the Enterprises' decision matrices and algorithms, increasing shareholder, stakeholder and taxpayer confidence.

Implementation Risk

Communications revolving around new solution options will require clear and concise instruction, definition of data elements, and the definition of performance expectations, with clear direction of best practices to monitor quality control and quality assurance. Change produces challenges on many fronts, and will be presented to both lenders and providers. While the changes may contribute to some initial contraction of valuation service providers, the marketplace will adapt with modified business models, resulting in an overall expansion of capacity for appraisal services and products.

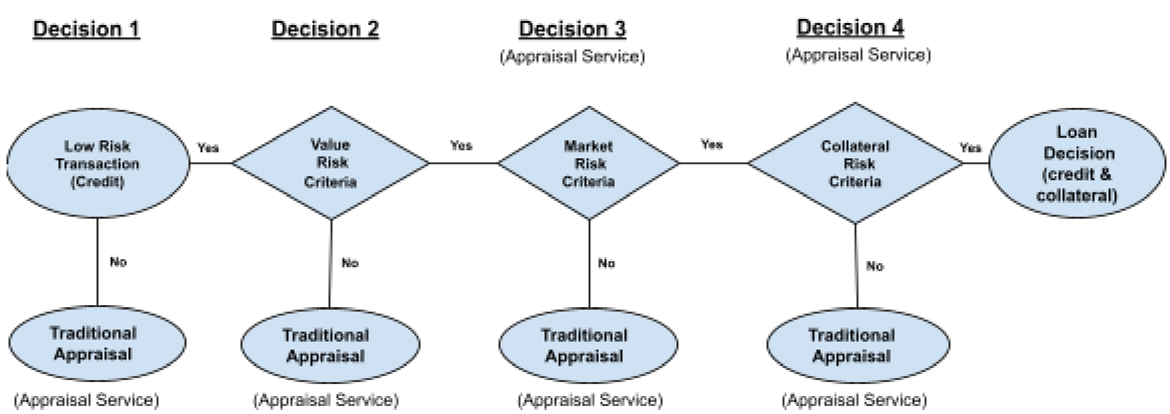
Question A1.2:

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?

Opportunities for improvements

The Covid-19 environment has provided ample evidence of adaptability of appraisal services and products to meet marketplace demands. The resultant increase in capacity is clearly shown in the FHFA RFI document Figure 1, where appraiser output has risen significantly in 2020 in a response to surge in demand, and in part attributed to the presence of appraisal flexibility (see RFI Figure 2).

While the current "one-size fits all" approach that relies on traditional appraisals creates a uniform approach to the measurement of collateral risk and value, the approach to risk identification can be modulated and anchored to the transaction risk, without exposing a lender or investor to heightened risk of loss. For example, in theory, an appraisal can be an effective measurement of risk indefinitely, provided there are no changes to the property, or external influences that impact the original appraisal conclusions. This option has been available in the banking sector since the passage of Title XI (FIRREA). As touched on in the previous question, a risk-based decision algorithm can be developed based on readily available data about the proposed transaction and the collateral, to develop paths to mitigate the risk of relying on outdated market and property-specific information, ensuring adequacy and confidence in addressing the identification and measurement of risk.



Risk measurements gathered in the assessment of credit risk (i.e. loan product, loan amount, CLTV, and credit scoring) can be used as initial qualification and eligibility criteria for the type of acceptable collateral risk assessment(s) required for a lending decision. A second step would be for the Enterprise to qualify the value of record and the risks associated with the assigned value, similar to the process for granting waivers today. When required by the established underwriting criteria, the third step to test for market conditions assumptions can be applied using an appraiser's assessment of market conditions (similar to what is required on the URAR). A fourth process point, when criteria requires, will validate the property data on record (similar to assembly and analysis of collateral specific data for the URAR) through appraiser generated processes, appraiser supervised processes or the use of technology tools and/or third party data collection subject to an established data standard that provides assurances of reliability.

Results from the generation of this data is incorporated in the decision algorithm to either satisfy the criteria required or pursue an expansion to a traditional appraisal service with an appropriate scope of work. This creates a measured and much more transparent approach than what we have today, where the decision is simplified to either waive the appraisal requirement, or to require an appraisal product.

Adoption of such a process will provide substantial savings in both cost and time in the lending decision process by allowing potential for risk-appropriate expansion of the waiver program while addressing risk along the decision-making process by <u>removing the current practice of reliance on unvalidated underlying assumptions regarding the collateral</u>. Such a program will increase the capacity of appraisers to remain focused on delivering collateral risk assessments and measurements, within a system of existing framework regulatory oversight and compliance (USPAP).

Lenders, at the direction of consumers, should have the ability to override this stepped approach by opting into a full-scope appraisal at the on-set, or during the collateral discovery process. Just as today with the appraisal waiver, if a lender and/or consumer opt for a full-scope appraisal, the initial results obtained through the AUS would not be eligible as the basis for underwriting the lending decision.

<u>Opportunities to improve traditional appraisals</u>

The current efforts to improve traditional appraisals have identified most areas for improvement. One enhancement that has received little discussion, is more easily accommodating scope of work flexibilities on a go-forward basis at the loan product level. There will certainly be situations presented, going forward, where limited scope of work may be risk-appropriate.

Additionally, the Enterprises currently have an expansive database of property data, and should provide to their sellers, agents and process partners collateral information via integration, to assist lenders to work with technology partners in developing processes to optimize appraisal ordering and appraisal review decisions. The current practice of lenders providing address-only information on an appraisal order starts the process off in an inefficient manner as the appraiser is blind to basic characteristics of the property that can be made available to Sellers through the Enterprises. The "start-stop-restart" model of appraisal quality control (appraisal review) can be greatly improved by allowing for real-time feedback on the most common appraisal data integrity risks discovered in today's review workflow processes resulting in

reduced post-submission revisions. The Enterprise appraisal risk tools currently bring value to the process when placed in the hands of appropriately trained personnel. However due to the lack of

integrations, they create inefficient add-on manual processes, inviting opportunity for error and inconsistent remediation efforts by Sellers - sending mixed-signals to appraisal providers on where to focus their efforts on risk identification in the appraisal process and reporting of their appraisal results. We have all heard the anecdotal instances of mis-guided Sellers pushing for revisions to an appraisal on all fronts to reduce the final CU or LCA risk score to an “acceptable level”, or requiring and appraiser to address a minor GLA discrepancy on 1 of 6 comparable sales included in the appraisal report - the Enterprises should be actively reinforcing the appropriate uses of the intentions of the risk scoring tools .

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?

Appraisal Waivers
Appraisal waivers have a place for a specifically identified segment of loans, where a worst case scenario analysis of loss due to default is minimal to non-existent, or the loan is priced accordingly. The current level of waivers as noted in the RFI is unsustainable from a data modeling standpoint, and threatens confidence levels in systems used for current collateral underwriting (i.e. collateral data becoming “stale”) and denigration of data inputs used to develop the FHFA’s value indexing that includes appraised value measurements. Physical and external attributes of property change over time, as do market reactions to those attributes. Safety and soundness risk is heightened through how appraisal waivers are offered today as collateral-specific information on physical attributes is not updated and it is unclear if granular level market conditions are being assessed when granting a waiver or if value/price stability is measured on a macro-level as opposed to a micro-level. Additionally, it is unclear how the expanded use of waivers is being accounted for in Enterprise modeling for loss projections.

Data Integrity: There remains in place today a system of real property data sources that lack standardization for key property data points. While the appraisal process is able to control the creation of

primary data on the subject property, there is heavy reliance on non-standardized data for comparable properties (i.e. gross living area measurements). Furthermore, in the appraisal waiver decision process in place today, there is a reliance on proprietary automated valuation models by the Enterprises and there is not a transparent disclosure of model testing and model validation. While models may have improved in predicting value, without knowing key factual components relative to a specific property’s quality, condition and functionality, the risk for error is heightened when actual components vary from model assumptions (actual conditions vs. assumed conditions).

Eligibility criteria for waivers and automated value model usage, should require the Enterprises to understand any changes to the collateral and loss potential due to:

- Passage of time and outdated property specific data.
- Volatility of the local market.
- Changes in terms and availability of financing.
- Natural disasters.
- Limited or over supply of competing properties.
- Improvements to the subject property or competing properties.
- Lack of maintenance of the subject or competing properties.
- Changes in underlying economic and market assumptions
- Changes in zoning, building materials, or technology.

- Environmental contamination.

Additionally, as experience has shown, in market downturns, value declines due to delayed or deferred maintenance and upkeep or functional anomalies, can significantly exceed the cost to repair and/or replace, often with significant impacts to loan loss models.

Limitations and caps: All stakeholders would benefit from a risk appropriate assessment of collateral. Reporting of how collateral risk is measured, such as by identifying and quantifying collateral assessment processes and products, will allow for management of limitations set forth

by the Enterprises and their regulator to enable a “layered-approach” to collateral risk measurements. This will identify and quantify the distribution and frequency of appraisal waivers and limited scope processes (similar to the criteria of required reporting for higher-risk credits in place today) adding transparency and deeper understanding to the use of limited processes.

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?

In order to accommodate the supply-side constraints of property inspections, we do encourage the use of non-appraiser work forces. That being said, at a minimum, development of a standard of practice & qualification would be necessary to utilize data generated from a non-appraiser to assist an appraiser with data components necessary for a credible appraisal. Use of third party non-appraisers does present risk if there exists no mechanism to enforce a standard of practice. The existing appraisal requirements would need to be modified to reflect contributions of any parties to the appraisal process.

The Fannie Mae Selling Guide cites current requirements of the lender: “..must obtain and review an appraisal to confirm that it accurately reflects the market value, condition, and marketability of the property.” The Selling Guide further states: “A lender must continually evaluate the quality of the appraiser’s work through the normal review process of all appraisal reports.” If alternative inspection workforces are utilized, clarification is needed if the lender would remain responsible for review of any condition or other property assessments. Additionally, consumer regulations at the federal and state level and professional liability concerns should be fully explored and understood by all parties.

Additionally, conflicts may arise on data collection findings and paths to resolutions will need to be established.

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.

Yes, scope of work relief and appraisal waivers need to be quality tested and measured through surveillance of life-of loan and analyzed when losses are incurred. Limits and caps should be managed to require further due diligence and discovery of risk exposure when activity falls outside of established tolerance bands. Additionally, scope of work needs to be expanded beyond the point estimate of value to include other valuation services such as market assessments and property assessments. As previously noted, selling guide and lender responsibilities would need to be clearly defined if property specific data is divided between appraisers and non-appraisers.

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?

Yes. UAD update and form redesign is seen as an improvement to readability of appraisals as well as accommodating enhanced risk scoring tools to drive efficiency in the appraisal review process. If the agencies are entertaining bifurcated appraisals, UAD and form updates will be required to capture the bifurcated process and not create duplicate processes.

Questions on Risk Management

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?

Enterprises should make available key property data for all properties within their database including historic accounting of Room count, GLA estimates, Basement area/finished area, quality and condition ratings and effective date of appraisal. Tools the Enterprises use to assess local market conditions and collateral risk should also be made available. Multiple data measurements are not an uncommon occurrence that an appraiser is required to reconcile during the appraisal process, and incorporating data discrepancy reconciliation in the original appraisal process should be facilitated.

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

Allow for technology vendors to have the same level of access to GSE provided tools so that lenders can rely on partners to provide innovative solutions. Currently the level of access for technology providers is limited compared to what the lender has access.

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.

Not Applicable to Reggora's response

Question B2.4

How can lenders manipulate automated underwriting systems when seeking an appraisal waiver? 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?

N/A to Reggora's response

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?

Similar to appraisal challenges. Standards pertaining to market data assessments and data collection will be required, as well as Quality Control requirements and expectations. A review of state-level consumer protection regulations and enforcements will need to be managed when applicable. If a stepped approach for appraisal waiver is incorporated, with market conditions-specific and collateral-specific data collection separate from the valuation process, disclosure requirements would need to be fully understood as those parts may be interpreted as part of the appraisal process.

Furthermore, as USPAP requires the following:

"(c) When a signing appraiser has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work.
(i) The signing appraiser is required to have a reasonable basis for believing that those individuals performing the work are competent; and
(ii) The signing appraiser must have no reason to doubt that the work of those individuals is credible.

This has the potential of creating a problem in the bifurcated process in the event the appraiser tasked with valuation (Part 2 of a bifurcated process), has reason to believe the property data provided is in doubt and will not proceed with a valuation. This can be mitigated by indemnification and/or insurance products when using technology tools that have accepted standards and quality assurance processes.

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

The only available performance data we have to share from our platform, is that on average, there is a savings of 66% in time for a bifurcated appraisal compared to a traditional 1004.

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?

If analysis shows flexibilities are risk appropriate. If the disaster has potential impact on the interior of collateral, flexibilities would not be appropriate.

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?

Wider range of appraisal services offered by appraisers, with alternative solutions that decrease the amount of time to complete appraisal services will increase capacity & efficiency in the market. Primary data collection (i.e. measurements, floorplans, imagery) can be improved with added assurances through provider indemnification & technology utilization, and will serve as an improvement to the current system that does not have complete standardization on the collection of primary data. As evidenced by inspection relief measures, there has been a softening of supply/demand imbalances created by low interest rate and accelerated purchase activity. No significant changes to quality are noted.

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?

We believe there will be some fallout of late career appraisers due to regular retirement, however there will be opportunities created for appraisers to adapt and take on desktop processes as business models adapt to a focused approach based on scope of work and inspection relief (i.e. many mid and late career appraisers may take on exterior only (with trainee contributors) and desktop assignments). Use of advanced technology (i.e. scanning technology) will eliminate some of the barriers in place today that inhibit the use of trainees, and in the long term have the potential to increase capacity. If desktop processes can be streamlined for the appraiser and provide a more frictionless work-life balance, then appraiser may indeed delay retirement.

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?

Yes by opening up data collection opportunities and providing additional access to liquidity when it comes to speed of transactions.

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?

The Reggora Network and processes do not provide the ability to garner insight on this issue. Team member's with experience in this area note that prior incidents of overt bias were extremely limited, however weaknesses in the minimum reporting requirements, guidance on selecting comparable sales and establishing neighborhood boundaries all can be viewed as judgmental, and are open to criticism on how judgment is imparted. The use of automated processes may perpetuate the lasting impacts of bias through statistical analysis that does not identify the potential for bias.

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.

Selling guides should be updated to address comparable sale selection from neighborhoods and what items are to be considered, and not considered, when defining a neighborhood.

Question C1.6

Do you have any additional feedback on issues and questions raised by this RFI?

None