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February 26, 2021

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th St SW 9th Floor
Washington, DC 20219

RE: Request of Information on Appraisal-Related Policies, Practices and Processes

Dear Sir/Madam:

The Independent Community Bankers of America appreciates the opportunity to provide feedback and commentary to the Federal Housing Finance Agency (FHFA) regarding the residential property appraisal process as it relates to mortgage loans originated and sold to Fannie Mae and Freddie Mac, collectively known as the Enterprises. The property appraisal process is an important component of the mortgage lending process. The lender depends on the appraisal to determine both the condition and value of the property being financed. Additionally, the homebuyer relies on the appraisal to justify the purchase price of the property and, similarly, a homeowner requires an appraisal to determine the property's value to refinance a current mortgage loan. Accurate and timely appraisal reports are also integral to a community bank's risk management system and help ensure the bank is making sound lending decisions.

The Enterprises rely on the data provided in appraisal reports to ensure the loans they purchase are "investment quality" and do not exceed maximum loan-to-value (LTV) requirements codified in their underwriting and program guidelines. Other participants in the mortgage lending process, including mortgage insurers, property insurers, and realtors, rely on appraisal reports to manage their business and measure risk.

We appreciate FHFA's efforts to engage with industry stakeholders through this request for information (RFI), as well as through previous forums conducted over the past few years to address the issues and concerns related to the appraisal process and its impacts on the housing industry.

Access to qualified local appraisers is critical to all mortgage lenders, but it is especially important to community bank lenders – many of which operate in the small towns, rural markets, and outlying markets that are experiencing the most severe appraisal delays and the skyrocketing costs resulting from a shortage of qualified appraisers. However, obtaining timely and accurate appraisals is also a challenge in suburban and urban markets, further exacerbated by record origination volumes and the complications resulting from the COVID-19 pandemic, which have put additional strain on appraisers and the appraisal process. As a result, FHFA and the Enterprises provided certain accommodations and flexibilities to lenders and appraisers to keep the mortgage origination market functioning.

Background

Over the last decade the Enterprises have utilized technology to improve the quality of collateral evaluations they receive from lenders. Prior to a loan being submitted for purchase, both Enterprises now require all forms of collateral evaluation, including full appraisals, be cleared through their respective collateral evaluation systems – which are part of their underwriting systems. These systems link to the Enterprises' appraisal databases and provide a rating to the lender regarding the quality of the appraisal. The growth and refinement of these collateral evaluation systems have enabled the Enterprises to use a variety of property evaluation methods that range from an outright waiver of the appraisal to exterior-only inspections, to a full appraisal. As the RFI noted, currently 70 percent of rate and term refinance loans with LTVs less than 70 percent received appraisal waivers. While a full residential appraisal provides the most complete picture of a property's value, it is not always the most cost effective or efficient based on other risk metrics of the transaction. Moreover, as we have seen during the COVID-19 pandemic, market conditions can be influenced by events unrelated to the stability of the housing market, requiring all stakeholders to quickly adapt to keep the market moving and liquid.

ICBA Comments

Going forward, we encourage FHFA and the appraisal industry to align and focus on developing a range of property evaluation tools and processes that can be calibrated to the risk profile of the transaction and made available in all markets and at all times. We encourage the Enterprises to explore areas where they can provide the appraisal industry with data from their property databases that could aid in the preparation of appraisal reports. Further, we encourage the appraisal industry to support the evolution of these new methods of property evaluation by aligning their educational and training requirements to increase the number of professionals available to perform these evaluations. Finally, financial regulators must also be a part of this process to ensure that these new evaluation processes are acceptable for portfolio lenders, thereby minimizing the need to have different policies for loans that are retained in portfolio versus loans that are to be sold in the secondary market.

Below are ICBA's responses to selected questions from the RFI.

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?

Yes. As noted above, FHFA, the Enterprises, and the lending industry have been developing and deploying solutions to address appraiser capacity and, by extension, concerns related to turn-times, cost, and quality over the last several years. The COVID-19 pandemic has accelerated the adoption of some of those solutions, but that adoption has occurred in mostly urban and suburban markets. Small towns and rural markets still struggle to get appraisers to provide appraisals on a timely basis and at a reasonable cost. The Enterprises need to find ways to address the uniquely challenging appraisal

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environment affecting small town and rural markets, where the effects of the issues listed above are more acute.

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?

Yes. These solutions, in addition to the use of appraisal waivers by the Enterprises, and hybrid-appraisals, should be viewed as a continuum of property evaluation solutions which are calibrated to the risk profile of the transaction.

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?

Yes. As mentioned above, appraisal waivers do have a place in Enterprise appraisal policy and process, but their use must be calibrated to the risk profile of the transaction. Use of broad artificial caps or limits would not be effective and could lead to higher risk for the Enterprises.

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?

ICBA recognizes that the rationale behind using alternative workforces is to maximize the appraiser's time and focus on the analysis part of the valuation. However, there is concern and skepticism among some lenders about qualifications, incentives, and accountability of results. Some community banks argue that there are inherent weaknesses in data gathered by non-appraisers due to bias or lack of proper training. It is of paramount importance that there is trust and confidence in data credibility. There seems to be significant concern among appraisers about outsourcing, relying on third-party data, and potentially putting themselves at risk in the process.

Therefore, the use of alternative inspection workforces should only be permitted to include appraiser trainees or other professionals who have been trained to perform inspections and are not affiliated with the transaction in any way. Such an approach would allow appraiser trainees or other less experienced appraisers to gather the relevant data. This would hopefully permit an experienced appraiser to conduct the analysis without raising concerns of trust and credibility.

Do the objectives as outlined for the UAD update and forms redesign meet the current and future needs of the mortgage industry?

It is difficult to determine at this point since the update process and redesigned forms are in their early stages. ICBA continues to be concerned that this process will lead to higher appraisal costs – especially in rural and small-town markets – and could accelerate the decline in the number of licensed and certified appraisers.

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ICBA appreciates the opportunity to provide a response to this RFI and looks forward to working with FHFA, the appraisal industry, and other stakeholders as this process moves forward. Please contact the undersigned at Tim.Roy@icba.org if you have any questions regarding this letter.

Sincerely,

/s/

Tim Roy
Director- Housing Finance Policy

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