solidifi

February 26, 2021

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

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

Dear Director Calabria,

Solidifi appreciates the opportunity to provide input on the Federal Housing Finance Agency's ("FHFA") request for information ("RFI") regarding Appraisal-Related Policies, Practices and Processes, dated December 28, 2020.

As one of the largest providers of residential real estate appraisals, Solidifi is trusted by the majority of the top 100 mortgage originators in America in the origination, REO/default, servicing and home equity channels — including Government Sponsored Enterprises ("GSEs"), the top five banks by asset size, the top two non-bank lenders and the Nation's largest credit union. Since 2008, Solidifi has focused on building partnerships with thousands of appraisers, recognizing outstanding performance, exceptional customer service and a commitment to quality. Our goal is to empower our panel of independent appraisers so they can perform at the highest level and grow their businesses.

For Solidifi, modernization of the appraisal industry is about fostering the development and advancement of the next generation of appraisers. Irrespective of the scope of work, services offered by certified or licensed appraisers continue to represent the most prudent, risk-based approach to collateral valuation and provide the best consumer experience.

Investing in the Future

Initiatives that target the qualification criteria to become an appraiser will make the profession more accessible and provide the foundation to move the industry forward and increase appraiser diversity. Over the past few years, the appraisal industry has seen a significant increase in appraiser trainees. According to a recent survey by October Research, 20% of appraisers work with trainees today. Increasing the use of trainees benefits GSEs, lenders and consumers alike. It allows all parties to get the services they need quickly and efficiently, without compromising quality – and most importantly, from a qualified and trained professional.

While alternative valuation methods can provide a short-term solution to surges in demand or unique market situations, we do not believe they adequately address the long-term issue of appraiser capacity and the vital role appraisers play in mitigating risk. We also believe the long-term use of appraisal waivers poses a significant collateral underwriting risk for the mortgage industry. Our perspective is discussed in more detail below.

Once again, we thank the FHFA for the opportunity to contribute to this thoughtful process. Solidifi welcomes the opportunity to discuss our response with you and we look forward to continued engagement on this topic.

Regards,

Andrew Bough – Certified Appraiser
Executive Vice President, Valuations
Solidifi

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?

We believe the key to improving appraiser capacity, turn-times and market coverage is to attract new entrants to the appraisal profession and grow the appraiser base, while broadening the array of services appraisers can provide. Modernization of the appraisal industry is about fostering the development and advancement of the next generation of appraisers.

Initiatives that target the qualification criteria to become an appraiser will make the profession more accessible and provide the foundation to move the industry forward and increase appraiser diversity. These initiatives should include creating more post-secondary real estate-based curriculum, promoting the use of appraiser trainees among tenured appraisers, and leveraging PAREA (Practical Applications of Real Estate Appraisal) to meet the experience requirements for the Licensed Residential and the Certified Residential credentials. Given that capacity constraints are often regional and/or market-specific, increasing the scope of appraiser geographic competency would result in broader market coverage without compromising quality. In rural markets, creating additional training and standards to adapt the designated scope of work to the market would also help ease constraints.

While new valuation solutions can provide a short-term solution to surges in demand or unique market situations, we do not believe they adequately address the long-term issue of appraiser capacity and the vital role appraisers play in mitigating collateral underwriting risk. We support the use of hybrid appraisals as a prudent, risk-based approach to address capacity challenges because they offer opportunities for appraiser trainees to perform inspections and gain the necessary on-the-job experience. Conversely, we do not support the use of alternative workforces for hybrid appraisals which introduces unnecessary risk for homeowners, lenders and the Enterprises.

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?

Solidifi fully supports the Enterprises' ongoing efforts to modernize the forms and reporting standards to align with current appraisal techniques and services. When the risk profile is appropriate, non-traditional valuation services can augment traditional appraisals to expedite the appraisal process and reduce costs for consumers. However, these non-traditional valuation services also present adoption challenges due to the lack of standardization of forms, reporting requirements and scope, as well as differences in the licensing requirements at the state level.

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?

We believe the long-term use of appraisal waivers at current usage levels poses a significant collateral underwriting risk for the mortgage industry. The safety and soundness of the Enterprises is critical to the health of the U.S. housing finance system. Thus, we believe that policies promoting the long-term use of waivers are not a sustainable practice that aligns with prudent risk management practices. We would highlight that the quality and recency of property data contributes to the Enterprises' ability to properly assess risk; continued use of appraisal waivers will significantly erode the recency and quality of data in the Uniform Collateral Data Portal® ("UCDP") that is being relied upon to provide waivers. As was noted in the RFI, appraisal quality and validity issues were the basis for many of the repurchase requests following the financial crisis which led the Enterprises to embark on a multi-year effort to improve data quality. We would advocate for more prescriptive limits or caps on waivers that are consistently applied across the Enterprises.

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?

Non-appraiser inspection workforces do not provide a viable long-term solution to appraiser capacity concerns. These workforces lack standardized training, which results in inconsistent quality, presents significant reputational risk for AMCs and lenders, and introduces unnecessary collateral underwriting risk for lenders. Non-appraiser inspections are likely to result in poor quality of service, which can impact the validity of an appraisal and in turn the level of protection for consumers and lenders. The primary focus should be to encourage new entrants into the profession, including the use of appraiser trainees, to afford consumers a consistent professional experience. The increased acceptance of trainee appraisers for property inspections addresses capacity issues, removes barriers to entry for new appraisers while reducing risk, and offers a sustainable long-term solution.

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.

Modernization of the appraisal industry should center around fostering the development and advancement of the next generation of appraisers. Licensed appraisers and appraiser trainees represent the appropriate labor force to eliminate the need for additional policies and controls. The existing license standards provide the appropriate level of assurances and accountability to reduce risk to intended users and consumers. However, implementing additional flexibility in rural areas and broadening the area of service for appraisers (that are designed for more conforming markets) could ease capacity constraints without introducing additional risk.

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?

The objectives for the UAD update and forms redesign generally meet the needs of the industry and are considered to be long overdue. Some of the noteworthy benefits of the changes include a singular form for all property types with supported UAD requirements for all properties (today manufactured home / multifamily are not UAD compliant). This will allow readers of reports to benefit from seeing appraiser commentary in the appropriate report section versus in an addendum.

We believe future refinements should focus on photos (3D, virtual and how to account for these in the process) as well as addressing variances in how specifications are implemented among different form providers. Today, we work with the same forms across different providers, and structural requirements remain consistent; a similar level of standardization should be carried forward with any prospective changes. As the AUD continues to evolve, we also believe it must take into consideration how data collection is performed in the future, including the role of a non-appraiser labor force.

Education, training, and enabling appraisers to successfully adopt these changes will be critical to the implementation of these changes. We would encourage continued stakeholder outreach, communication and education, and we look forward to understanding the timelines to effectively plan for the implementation of these changes.

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?

The Enterprises' post-delivery risk scoring and supporting information should be shared with appraisers and AMCs to drive greater quality, consistency, efficiency and standardization. With greater risk scoring transparency, lenders and AMCs can apply the appropriate level of review to each report which will help reduce turn times.

B2.4 How can lenders manipulate automated underwriting systems when seeking an appraisal wavier?

We have come to understand that pre-application data changes are prevalent in the automated underwriting systems, and that Desktop Underwriter® and Loan Product Advisor® are often used together to create an optimized decision. This was corroborated in a recent research piece by the AEI Housing Center[1] that demonstrated significant "LTV anchoring" on Loan Level Price Adjustment (LLPA) thresholds. As such, we believe that these practices could be resulting in heightened residual risk for the Enterprises. The safety and soundness of the Enterprises is critical to the health of the U.S. housing finance system. We believe the long-term and/or excessive use of appraisal waivers poses a significant collateral underwriting risk for the

[1] Pinto, E. J. (2021). *Prevalence of GSE appraisal waivers: November 2020 originations.* American Enterprise Institute. https://www.aei.org/research-products/report/prevalence-of-gse-appraisal-waivers-november-2020-originations/

mortgage industry. We would advocate for more prescriptive limits or caps on waivers that are consistently applied across the Enterprises.

B2.5 What are the challenges associated with quality of service, enforcement and consumer protections related to non-appraiser entities providing property inspection data?

Non-appraiser inspections are resulting in poor quality of service, which can impact the validity of an appraisal and in turn the level of protection for consumers and lenders. Non-appraisers lack background checks, insurance, training and are not required to adhere to consistent standards or process, all of which increases reputational risk for lenders. The use of non-appraiser inspections would result in appraisers relying on their inspection reports, and assuming the risk for the appraisal report, despite having little control over the quality of the inspection performed. In addition, given how invasive property inspections can be for homeowners, using an inexperienced, non-professional resource to perform the inspection is more likely to result in a poor customer experience, which presents significant reputational risk for AMCs and lenders, in addition to introducing unnecessary collateral underwriting risk for lenders.

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

Appraiser completed traditional and non-traditional services result in superior quality, decreased risk, and an enhanced customer experience. Based on direct feedback from the Enterprises, appraiser completed reports continue to represent a higher quality standard compared with non-appraiser completed assignments and inspections.

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?

Appraisal flexibilities were highly effective and should continue to be implemented for any future disasters or unique market impacts. We encourage appraisal modernization efforts that include the use of appraisal flexibilities which may be completed by broadening the array of services appraisers can provide during such times.

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?

In the short term, the use of alternative appraisal solutions will provide greater variety in appraisal forms and offer temporary relief to regional appraiser capacity constraints. However, we continue to believe that traditional appraisals represent the appropriate level of assurance and accountability to reduce risk to the intended users and consumers. To date, waivers have not expedited the loan process; consumers are still experiencing 60 - 90 days closing times for refinance transactions.

We believe the long-term use of appraisal waivers poses a significant collateral underwriting risk for the mortgage industry. While there is no correlation between the use of non-traditional appraisal products and the current quality of traditional reports, we would highlight that the quality and recency of property data contributes to the Enterprises' ability to properly model and assess risk; higher levels and continued use of appraisal waivers will significantly erode the recency and quality of data that is being relied upon to provide waivers.

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?

Late career appraisers would benefit from a broader variety of solutions that can be completed using technology, or remotely, so that they can continue to work at their convenience. At the same time, late career appraisers would benefit from engaging with trainee appraisers to reduce appraiser capacity constraints, improve adoption of new processes and increase diversity. Modernization of the industry is about fostering the development and advancement of the next generation of appraisers.

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?

Broadening the scope of geographic competency of appraisers could provide more coverage in rural and underserved markets without compromising quality. In rural markets, creating additional training and standards to adapt the designated scope of work to the market would also help ease constraints.