



The American Society of Appraisers¹, American Society of Farm Managers and Rural Appraisers², MBREA³, and the National Society of Real Estate Appraisers⁴ appreciate the opportunity to provide feedback to the Federal Housing Finance Agency (FHFA) and its December 28, 2020 *Request for Information (RFI) on Appraisal-Related Policies, Practices, and Processes*. While we acknowledge the efforts of FHFA leadership and staff to engage in a meaningful conversation regarding appraisals generally, we believe the underlying premise of the RFI is fundamentally flawed.

For the purposes of the RFI, “appraisal modernization” – the crux of the RFI – is defined as “exploring the respective risks and benefits of the entire range of property valuation alternatives.”⁵ This definition suffers from two distinct flaws that, taken together, undermine the ability of FHFA and the stakeholder community to engage in a meaningful dialogue regarding the future of appraisals as part of housing finance transactions: First, that there is meaningful equivalency between appraisals and other “property valuation alternatives” such that they can be treated as a collective whole, subject to commoditization; and, second, that appraisals themselves have been fully maximized in terms of their informational utility to all participants in a housing finance transaction.

Either of these flaws alone is concerning, but together paint a cynical view of the future of appraisals – one that we do not share. In our comments, we will unpack these flaws while providing substantive input towards actual appraisal modernization. Finally, we will discuss the questions raised by FHFA regarding the potential disparate impact of collateral valuations on minority communities.

Commoditization is Not Modernization – And Much of What FHFA Identifies Isn’t Modern, Either

In its approach to the RFI, FHFA casts all collateral valuation products as roughly equivalent – to commoditize the market for valuation products such that each one can substitute for the other. While the output of (almost) all valuation products being discussed in the RFI are similar – the production of a value conclusion – the differences in *how* these conclusions are reached vary significantly and have a material effect on how the output itself should be viewed in terms of veracity, reliability, and replicability.

¹ The American Society of Appraisers (ASA) teaches, tests, and credentials professional appraisers worldwide across all appraisal disciplines, including real property. ASA is a founding sponsor of the Appraisal Foundation.

² The American Society of Farm Managers and Rural Appraisers (ASFMRA) is the premier organization for rural property professionals, focused on advancing the standards of the disciplines we represent through an unparalleled level of expertise and integrity. We empower our members to provide best-in-class service with an invaluable balance of education, accreditation and support. ASFMRA is a founding sponsor of the Appraisal Foundation.

³ The Massachusetts Board of Real Estate Appraisers (MBREA), formed in 1934, is an association of valuation professionals located throughout New England and is a sponsor of the Appraisal Foundation.

⁴ The National Society of Real Estate Appraisers (NSREA) is the first Affiliate of The National Association of Real Estate Brokers (NAREB). NSREA is the nation’s largest and oldest professional trade association of Black real estate appraisers organized in the state of California in 1956 to meet the needs of appraisers who had appraisal businesses and lived predominantly in urban markets. NSREA is one of the founding sponsors of The Appraisal Foundation (TAF).

⁵ See RFI at p. 7.

To understand how alternatives vary, it is important first to establish the basic process by which an appraisal is developed and reported. With a traditional appraisal, the appraiser (or a trainee under the appraiser's direct supervision) goes to a subject property and collects information. Among other data points, square footage, room counts, location and view as well as the unique features, amenities, and construction materials necessary to develop conclusions regarding the condition and quality of the subject improvements. This data is often compared to and supplemented by public record data, such as recorded deeds and tax information.

Using the collected data, the appraiser (or trainee) will then use three approaches to determine the value of the subject property: The Sales Comparison, Income, and Cost approaches:

- In the Sales Comparison approach, the appraiser (or trainee) will look for recently sold homes that share significant characteristics to the subject property – style, room counts, square footage, location, quality of construction, and condition are factors considered, among others – and then adjust for differences between the subject and comparable properties. The appraiser (or trainee) will look at several comparable properties, make relevant adjustments, and then use the completed picture to decide what the value would be solely under a Sales Comparison approach.
- In the Income approach, the appraiser (or trainee) will investigate the net operating income from comparable rental properties and divide it by the capitalization rate (or expected rate of return). This formula produces an expected market value for the property. Much like in the Sales Comparison approach, adjustments are made for things like property condition, occupancy, and rent reductions.
- In the Cost approach, the appraiser (or trainee) will look at what it would cost to purchase a lot and build a new home that would otherwise be comparable to the subject property. From the combined cost of these two inputs, the appraiser (or trainee) then adjusts for depreciation to reflect the age of the subject property.

Once the appraiser (or trainee) has used each of the approaches to value listed above they will reconcile differences between the approaches, giving relative weight to how strongly the appraiser (or trainee) believes each approach best reflects the value of the subject property based on the quality and quantity of data available to support each approach's conclusion. This reconciled number is the final opinion of value as developed by the appraiser (or trainee). If done by a trainee, the supervising appraiser will review and sign off on the trainee's work, making any necessary revisions to ensure the reliability of the appraisal.

All the foregoing work is completed under the Uniform Standards of Professional Appraisal Practice, or USPAP. Promulgated by the Appraisal Standards Board of the Appraisal Foundation, USPAP establishes the framework for how appraisers (and trainees) are to perform appraisal assignments in a replicable manner, using generally accepted methods and techniques. Should an appraiser (or trainee) fail to adhere to USPAP or otherwise deviates from accepted practice, they are subject to professional sanctions from the state appraiser licensing entity from which they have received a license or certification (required prior to engaging in appraisal practice).

The preceding paragraphs are an oversimplification of the work involved in producing an appraisal, and for many reading these comments are first order concepts. However, it is important for the purposes of analyzing the differences in process between appraisals and "property valuation alternatives" that a benchmark be established for the purpose of comparison.

Note that we are not saying there is no place for the alternative below to be used as part of the overall ability of housing finance system participants to understand portfolios over the life cycle of a mortgage loan. But the needs of lenders and the GSEs for surveillance purposes are far different than what is required at the time a funding decision is made. Our focus, therefore, is on the impacts of “property valuation alternatives” in the context of origination and refinancing transactions, and their connection to the safety and soundness of the overall economy.

Hybrids Are not Modern, They’re Just Desktops Rebranded

The first focus of the RFI is the idea posited by the GSEs that broader use of so-called hybrid appraisals could fill a perceived need between traditional appraisals and appraisal waivers. The concept relies on the collection of data like that used in a traditional appraisal being transmitted to the GSEs for consideration. Where the data is inconclusive or counter-indicative of expected outcomes, the GSEs could then process to order a traditional appraisal, to be completed by an appraiser (or trainee) who did not collect the underlying data. However, if the data aligns with the GSEs expectations, there would be no need for further investigation and no appraisal would be ordered; this second process is known colloquially as “data-and-done”.

This proposal has numerous defects. For starters, the GSEs proposed means of ordering appraisals where needed is not modern. What they call a hybrid appraisal is really a desktop appraisal, a product that was in use prior to the housing crash of 2007 that led the GSEs into government conservatorship. Desktop appraisals, relying on a limited scope of work, ask appraisers to use publicly available information along with an exterior-only or “drive-by” assessment of the property to develop an opinion of value. A fifteen-year-old (at least) valuation product is not modern.

The only new aspect of the GSEs proposal is to use subject property data collected by a third party, who lacks any relationship to the appraiser, to augment public record information. While this adds a patina of modernization to the existing desktop appraisal product, it also injects serious questions about who the GSEs and FHFA expect to act as third-party data collectors. FHFA itself acknowledges “third-party inspections performed by non-appraisers could add a level of complexity and risk because a uniform regulatory framework does not exist at both the state and federal levels that holds non-appraisers accountable for their work on appraisals.”⁶

One example in use by hybrid appraisal providers today involves the use of real estate agents to collect subject property information. On the surface, this solution seems tenable. After all, real estate agents have a level of knowledge about residential real estate and are subject to state licensing laws (whose ambit may not apply to this kind of activity). However, this ignores a glaring flaw with using real estate agents: They have an inextricable interest in positive outcomes for all real estate transactions, even if they lack a direct interest in the specific subject property.

Real estate agents are traditionally compensated based on a percentage of the sales price of a home, in the form of a commission. While the percentage may vary between agents, the way to increase commissions is through home price appreciation. While an agent may have no direct financial interest in one transaction, its presence as part of larger market activity can drive prices higher for subsequent home sales – meaning agents derive larger commissions. This motivation could lead agents to present

⁶ See RFI at p. 7-8.

the data in the best possible light, understanding that a successful transaction today can mean larger commissions tomorrow.

A secondary concern is that agents are generally advocates within a transaction. They work to represent the interests of their clients – this very tension is underscored by laws and regulations governing how agents operate where they have dual agency (that is, representing both the buyers and seller of a home). This is contradictory to the role of an appraiser – to provide an independent, objective, unbiased opinion of value. Asking real estate agents – advocates who financially benefit from sales price appreciation – to provide unbiased subject property data is untenable and could lead to data manipulation.

Lastly, the real estate community is close, with competitor agents frequently co-brokering deals or representing one side or the other on transactions. This collegial nature could motivate one agent to portray a dwelling in a most favorable light. To do otherwise jeopardizes relationships and, when the tables are turned, could lead to a less than accurate report in retribution.

If real estate agents provide the best alternative to appraiser-collected subject property data – and suffer from incurable defects of interest and subjectivity – it becomes easier to understand how reliance on any non-appraiser third party for subject property data is a fraught concept.

Even if a perfect third-party data collector existed (leaving aside other appraisers), another problem exists: The potential for data manipulation to “game” the GSEs front-end systems and avoid the ordering of an appraisal. With Fannie Mae’s Collateral Underwriter and Freddie Mac’s Automated Collateral Evaluation tools, manipulation already happens to achieve desired outcomes. Whether getting a loan approved or receiving Warrant and Representation relief, gaming of the GSEs systems is not a new challenge. To extend this challenge into a “data-and-done” approach that relies on third parties who can be pressured will lead to the GSEs purchasing loans where appraisals *should* have been completed, and where the appraisals may have exposed serious deficiencies that will now go undetected until the loan runs into problems, harming the economy.

With all the shortcomings to the GSEs proposed approach, what is driving the push for hybrid appraisal usage in the first place? If the goal is providing some level of time savings to appraisers so they can focus on analysis and opinion formation, the logic is faulty. Inspections of subject properties are not time-consuming, and the firsthand knowledge an appraiser (or trainee) gets from walking the property offers certain intangible benefits when developing an opinion of value. To detach the appraiser (or trainee) from that process provides no real benefit.

Some argue that using third-party data collectors in rural or underserved areas will help augment appraisal capacity where appraiser availability is limited. However, as we addressed in comments as part of the North Dakota request for an appraisal waiver⁷, this anecdotal scarcity did not exist in 2019 prior to the increase of the residential appraisal threshold to \$400,000. While acute demand pressure for appraisals has and will likely continue to occur in some areas due to a specific blend of factors, making

⁷ See Letter from the Appraisal Institute, American Society of Appraisers, American Society of Farm Managers and Rural Appraisers, Massachusetts Board of Real Estate Appraisers, and the Northstar Chapter of the Appraisal Institute, *Re: Notice of Received Request for Temporary Waiver, State of North Dakota, North Dakota Department of Financial Institutions, and North Dakota Bankers Association (Docket ID AS19-04)*, filed June 29, 2019.

large-scale changes to collateral valuation requirements based on the exceptions – and not well understood norms – is misguided at best.

This is also not the first time that the GSEs have tried to front-end data collection with the “data-and-done” model. In fact, FHFA itself asked Fannie Mae to pause its “data-and-done” pilot in Value Verify in early 2020 ahead of the pandemic.⁸ Absent data to the contrary, this pausing of “data-and-done” suggests that data alone is not sufficient for the GSEs to make informed collateral decisions, regardless of who collects the data. Its inclusion in the RFI as a discussion point is remarkable given this track record.

If the goal is to accelerate the overall process by which an appraisal is ordered and delivered, it could be argued that the problem is not the collection of data, but the time it takes for lenders to order an appraisal. As we discussed in a 2019 comment letter, “[o]n average, it takes **9** days after contract date for an appraiser to receive an order that comes directly from a lender. When the appraisal is ordered via an AMC, that number doubles to **18** days.”⁹

In short, hybrids are a rebranding exercise made new through the injection of bad ideas, designed to rely on third parties who either have vested financial interests or who are unable (either through conflicts of interest or outside pressure) to remain objective. To use this data either to inform the completion of an appraisal report or, worse, be “data-and-done” invites disaster for the housing finance system.

Automated Valuation Models Codify the Views of Few on Many, Without Standards

Automated valuation models, or AVMs, are not modern conveniences – they have been in use for decades, first applied in the tax assessment space. What is modern is the combination of robust data sources and artificial intelligence that offers a veneer of certainty to the results that AVMs produce. This veneer, however, masks a hard truth about AVMs – that they are people too.

Like any computer program, AVMs are developed by a team of modelers, data scientists, and computer programmers who build AVMs to inform a host of lending decisions across the life cycle of a loan. But the codification of human judgments that result in an AVM are no different than the assumptions, experiences, and biases that can inform an appraiser’s judgment when developing their opinion of value. Where the differences become meaningful is in the level of transparency afforded to understand the process by which a conclusion was reached, and whether something informed the result that should not have played a role.

Real property appraisers must adhere to USPAP by law or regulation, both in its Standards 1 and 2, as well as conform to the appraisal specific guidance found in the accompanying Advisory Opinions, FAQs, Definitions, and Rules including ethical obligations contained in the corpus of the text. Because of this, it is relatively simple to review an appraisal (using Standards 3 and 4) to see whether an appraiser performed an assignment in line with the obligations imposed by USPAP, and to what extent departures

⁸ See [FHFA Puts Brakes on Fannie's Bifurcated Program \(workingre.com\)](https://www.fhfa.gov/news/press-releases/2020-02-10)

⁹ See Letter from the American Society of Appraisers, the Appraisal Institute, the American Society of Farm Managers and Rural Appraisers, MBREA|The Association for Valuation Professionals, the American Guild of Appraisers, OPEIU, AFL-CIO, and RICS, RE: OCC Docket ID OCC-2018-0038; Federal Reserve Docket No. R-1639, RIN 7100-AF30; FDIC RIN 3064-AE87, p.4, filed February 4, 2019.

from expected practices impacted the opinion of value. This is the beautiful simplicity of the appraisal – while it reflects professional opinion, the *process* of reaching that opinion can be observed for flaws that, if corrected, lead to a different outcome.

AVMs are diametrically opposed to appraisals in this way. Despite a legal requirement about to have its eleventh anniversary¹⁰, AVMs continue to operate absent federal regulatory oversight or standards. While the output of an AVM is observable and can provide some clues as to whether its results should be trusted, the absence of a meaningful way to investigate the *process* of reaching that output makes it difficult – if not impossible – to truly know how the design of the model contributed to the output and its veracity.

While some third-party testing exists of AVMs, it is not to the benefit of the average consumer, but to the benefit of the model builders and their clients. Even when used as part of a cascade – that is, running the same property through several different models to control for their differences – the lack of transparency means we cannot tell if the models are all doing something wrong, even if they reach the same general outcome.

The inability to observe and challenge the *process* an AVM reaches its conclusion is its primary weakness, compounded by its broad application of the perspectives of a few across a vast housing finance landscape. Appraisers are more centrally located to the properties they value and have a more nuanced understanding of the economic realities at any one moment than does a generally applicable model. They know what is happening, not just what has happened, and can better reflect this perspective (something we'll discuss further below).

Additionally, AVMs cannot adequately provide reliable valuations in areas that FHFA believe are presently underserved such as rural markets. AVMs rely on a volume of fresh data to inform their conclusions, and often this data is simply lacking in rural markets where few transactions occur every year. While an appraiser is trained to make reasonable time adjustments in these circumstances as part of developing an opinion of value, AVMs cannot overcome the dearth of data available to provide credible results.

This speaks to the competence of AVMs overall, and the absence of meaningful disclosure when an AVM is ill suited for valuing specific properties. Under USPAP, an appraiser is required to disclose whether or not they are competent to perform the underlying assignment, and if not competent, provide details as to how the appraiser plans to become competent. AVMs provide no such disclosure to users, and the lack of warning could lead clients or others who view the results to rely on a valuation that is not credible.

AVMs are a useful *tool* for appraisers and others in the housing finance sector, and will only get better as data, AI, and other innovative solutions weave into the modeling process. But the inability to challenge how AVMs reach their conclusions remains a significant hurdle, and one that needs to be considered when viewed in the context of appraisal “alternatives”.

¹⁰ See Section 1476(q), Public Law 111-203, Dodd-Frank Wall Street Reform and Consumer Protection Act, published July 21, 2010.

Appraisal Waivers, the False Sense of Security

Appraisal waivers reflect, essentially, an underwriting decision of the GSEs based holistically on the creditworthiness of a borrower, loan-to-value ratio, and prior appraisal of a subject property. While the GSEs are entitled to inform underwriting decisions based on risk, waivers have two pronounced weaknesses.

First, most consumers do not know or understand that the appraisal is ordered by and to the benefit of the lender. When the appraisal is waived, the message borrowers receive is the home they are buying or refinancing is worth at least as much as the amount of their loan, if not more. This signal is not universally true and is subject to change given the dynamic nature of housing markets.

Most consumers will not independently obtain an appraisal where it has been waived as a condition of financing, and most real estate agents or refinance lenders will not suggest consumers seek out an independent appraisal. This places consumers in the position of making a major financial decision without one of (if not its most) important data point, and with the belief that they are making a sound financial decision – even if the opposite is true.

Secondly, the appraisal waiver decision engines were built and designed to operate in generally normalized housing markets. But with the combination of high demand, low supply, seismic employment shifts, and a sizable number of homes currently in forbearance, it is nearly impossible to predict with any certainty what housing markets will do. To take on (or continue to carry) loans with little to no contemporaneous understanding of the underlying collateral injects risk to transactions where the risk is easily avoided.

The use of appraisal waivers cannot occur in a vacuum, especially when recent evidence informs the risks should the housing market suffer another collapse. As we experienced in 2007-08, many loans with otherwise reasonable loan-to-value ratios before the crash turned into underwater loans in a compressed time frame. While loans receiving appraisal waivers today may seem well suited given the totality of circumstances, it is important to remember the lessons learned from just over a decade ago. A fulsome understanding of the collateral will not protect from the effects of a market collapse, but it will better situate lenders and the GSEs to begin working out the challenges posed in a down market if they know more about collateral – information best collected and conveyed through an appraisal.

Between the removal of an important consumer protection element and the unique risks extant in the current economic climate, continued expansion of appraisal waiver offers is imprudent and serves no one's best interests. Waivers remove an important safeguard from the single largest investment most Americans will ever make in their lifetime, do so without a meaningful level of context being provided to the consumer, and are not structured to operate in atypical economic markets. To see growth in appraisal waivers as "modernization" is to take underwriting back to the pre-FIRREA days.

Modernization, not Commoditization

The "property valuation alternatives" we have discussed are not better than an appraisal when it comes to the quality of the opinion of value delivered. Hybrids are not markedly faster, and certainly not positioned to offer a "data-and-done" solution based on FHFA's own experience. AVMs are opaque models whose processes are unknown, held to no enforceable standards, and reflect the ideals of a handful of software developers who lack local market knowledge. Appraisal waivers remove the best

parts of consumer protection out of the housing finance process and replace it with a false sense of security. And none of what has been covered is so substantially faster or cheaper than an appraisal to merit raising a “time and cost” savings argument.

Where is the benefit in these “property valuation alternatives”? At best, to those who would profit from their use. These are solutions seeking a problem, and not true “appraisal modernization”.

What True Appraisal Modernization Looks Like

If we focused all the time and energy that gets spent on ways to replace the appraisal with lesser products on making appraisals better, where would we start? Certainly not with the current and proposed GSE appraisal forms, which place a premium on data gathering and Sales Comparison approach over all other elements in the appraisal.

Instead, let’s start with a clean sheet of paper. True, zero-based development of an appraisal that serves everyone’s needs in a housing finance transaction. What would that look like?

Just Give Everyone the Same Data, Already

The GSEs have harvested appraisal data for the better part of a decade, built on the efforts of appraisers who have complied with the forms, formats, and datasets thrust upon them by the GSEs who – unknowingly – took control of the appraisal process. While a clean sheet may not use the exact same fields, forms, or formats as what exists today, the underlying data is of tremendous value. It shows historical trends over a significant period, provides insights into how housing stock has evolved in communities nationwide, and is the most powerful tool we have for understanding collateral risk.

And appraisers never get the chance to use it.

It is well past time for data democratization to take place with the GSEs. Rather than worry about appraisers figuring out how to pick the right comps from the underlying data set to sneak by CU and ACE, why not focus on how better front-end data gets you further, faster when looking at collateral? When the expected data comes in, it acts to confirm what a decade of experience has already told you about a home. When something changes, then use it as a prompt to investigate further, to develop a better understanding of the subject property and the comparables around it.

Where concerns exist about confirmation bias, it’s time to acknowledge a more important reality.

Point-in-Time Value is Not the Highest, Best Value

Everyone knows that value is a dynamic characteristic, changing with the markets – rising and falling as trends change and economies shift. And yet, we still cling to the use of a point-in-time dollar value as the way of reflecting value. It is archaic data, useless almost as soon as it is reported. After all, a closed sale a day later could affect the opinion of value but is somehow ignored simply because of timing. It is past time for modernization of the value we seek.

There is an additional way to consider and report value, adding significant benefits into appraisals. The concept comes from the business valuation community, where ranges of values are commonly used to

establish the value of a company. These ranges reflect the spectrum of economic motivations that can drive a business to transact and offer information to prospective buyers and sellers alike.

Similar diverse economic motivations inform home buying and selling. A single house, viewed through different economic motivations, can tell different stories. An inherited property, for example, may be one an heir simply wishes to liquidate quickly. A looming retiree, looking to relocate or downsize, might be looking to maximize return after years of homeownership. A young family looking to move into a larger home may pay more for that extra bedroom.

Markets capture these various economic drivers behind individual buying and selling decisions, but housing finance appraisals currently do not. Why not add information that tells a lender more than a single number, but what the range of activity looks like in each market over a given timeframe? This, too, helps inform consumers to understand where their own motivations have them on a range as well, and can either reinforce the idea of a well-made decision or give pause if the range and the contract price aren't to the liking of a buyer or seller.

The goal here is to provide more decision-useful information than a point-in-time value offers. Not only that, but it offers the ability to overcome the phenomena of anchoring or sales price confirmation, as appraisers will now feel more comfortable reporting the point-in-time value anywhere in the range they establish, understanding that it alone is not the sole determinant as to whether a deal occurs. And, perhaps most importantly, if a reported range is below or above the contract price, it will more realistically reflect a misalignment of the deal with market realities – good information to have before closing occurs.

Other ways of developing or reporting value could also be considered for inclusion. For example, Germany's use of Long-Term Sustainable Value is an example of value that looks beyond point-in-time value and does so with an eye toward controlling for factors that drive cyclicity in housing markets. Whether any individual way of reporting value is worth inclusion requires further conversation, but there is significant room for augmenting how value is reported and the information each type of value provides to parties to the transaction.

We Have Third-Party Data Collectors...They're Called Trainees

If FHFA is looking to rely on data collected by someone other than the signing appraiser, then the answer seems fairly obvious: Allow trainees deemed competent by their supervisor to be used in the data collection process without having their supervisor present, and impose requirements on lenders who sell to the GSEs that they must allow for the use of trainees throughout the appraisal process with the sign off of a supervisor.

While trainees are allowed under the GSEs current practices, often times lenders will refuse to let trainees perform any independent work on the assignment. This prevents trainees from being the force multiplier they can provide, and reduce the economic incentive of appraisers to take on trainees. A specific mandate that trainees must be allowed in order to sell to the GSEs would provide additional bandwidth to currently licensed or credentialed appraisers, and ease pathways to entry for trainees who could now offer more economic incentive for a supervisor to take them on board.

This model is already in use to some degree with the Veterans Administration who, in response to specific legislative action, were permitted to use third-party data collection and subsequent assignment

completion by an appraiser who had not personally inspected the subject property. Rather than rely on unknown quantities, VA instead chose to use other appraisers as the data collectors, providing appraisers a modicum of control over the data collection process and more faith in the quality and veracity of the data collected.

If time and cost are concerns to FHFA, then the answer feels self-evident: Greater use of trainees throughout the process creates bandwidth today, and provides for the professionals of tomorrow.

Is There Anything Else You'd Like To Tell Us?

Too often, appraisers know more than they are asked to report in an appraisal – facts and circumstances that would be good for lenders and consumers to know, but that go undisclosed with the current predilection for tightly controlled data fields and values. Understanding employment trends at a more local level, for example, can tell parties whether demand for housing will go up or down, and the likely impact this could have to value. Knowing where new housing stock is emerging in a community can provide insights on how desirable existing homes will be in the coming years. Even growth in multifamily units can indicate local growth, and a looming demand for more housing.

Appraisers are the eyes and ears of the lending community. They drive the neighborhoods, speak with their local peers, and understand where and how a local community is changing. New school going up? They know. Plant added a shift? They know. Local contractor lost a government bid? They know. And they know how each of these things feeds into the economic base. It is information that, while not always reported in the appraisal, can have an effect down the line.

And there's no meaningful way for appraisers to tell us any of this with the current forms and datasets.

With the push to strip subjectivity out of the appraisal by the GSEs to force answers within proscribed data values and fields, we wind up missing the big picture in service of the minutiae. Any conversation about appraisal modernization must include how to get every bit of information from appraisers to those who could benefit from what they have to tell us. More importantly, we need to ask for this kind of input regularly. Appraisers will answer any question they are asked, but if the question never gets asked in the first place, you'll always be left waiting for the answer.

Not only does this provide more information throughout housing finance transactions, but it leads to happier appraisers as well. By offering more ways of capturing value and offering up all pertinent information, appraisers are treated like true professionals, and not just commoditized widget makers. When we value what appraisers know and seek it, we also tell appraisers they are valued as well. This shift in dynamic may seem small, but for a profession that has felt dejected at times, it means everything to have your opinion respected.

Race and Appraisals: An Important, Overdue, and Complex Conversation

The conversation around whether and to what extent appraisals are contributing to the devaluation of homes in minority communities is complex. For starters, there are studies that show devaluation has occurred¹¹, as well as studies that show devaluation has not occurred¹². There are numerous anecdotes of bias and devaluation covered in the press¹³, but it is juxtaposed with nondiscrimination requirements included in Certification 17, part of the certification page every appraiser signs.

There is a place to begin: Overt acts of discrimination based on race are unacceptable. Our organizations' Codes of Ethics¹⁴ make this clear. But if this was just about overt, obvious acts of racial discrimination, then clear and forceful language – backed by meaningful enforcement – would be enough. It's not.

The institutional aspects of this issue are generally known as well, under the broad umbrella of redlining. But even with Fair Housing protections in place, there continue to be instances where minority homeowners are told their homes are worth less than those of their White neighbors. If laws like the Fair Housing Act have not solved for this, where does the problem lie?

Unfortunately, it is a question that has no easy answer. From an appraisal perspective, there is some thought that an overreliance on Sales Comparison approach may carry forward historical devaluations caused by redlining. A realignment of the balance between the three approaches to value could address this, but how does it solve for an appraiser who selects comps based on notions of what a neighborhood's makeup was or might be, and their own assumptions about the conditions people living there encounter, even if this is never a conscious decision?

This question gets into the topic of unconscious bias, and how our own underlying assumptions and experiences affect the way we view the world and, more to the point, perceive others. This can have negative effects in any aspect of life, but none more so than when it affects where we live and how our homes are valued. Home literally means everything – access to jobs, schools, medical care, food, transportation, and more all stem from where we live. When unconscious bias creeps into the appraisal process, it can be tough to identify and tougher still to unpack, especially for professionals who pride themselves on being unbiased. Our organizations have begun the conversation regarding unconscious bias with our members¹⁵, but we also acknowledge there is more to be done on the topic.

It is challenging to solve a problem that is so hard to pin down: Focus too much on the appraisal process, and you miss the more human elements that can be just as important to tackling the problem where it exists. The opposite holds true as well – if we focus on unconscious bias, we overlook structural elements of the appraisal process that can be equally detrimental. And this assumes we have the entire universe of causes in front of us, or the best answers in mind for these questions. Honestly, we don't. Not yet, anyway.

¹¹ [2018.11 Brookings-Metro Devaluation-Assets-Black-Neighborhoods final.pdf](#)

¹² [Appraiser Bias: Using Large Data to Help Inform about Anecdotes \(aei.org\)](#)

¹³ [Home appraisal for Black couple skyrockets after help from white friend: TheGrio](#)

¹⁴ See [AMERICAN SOCIETY OF APPRAISERS](#) Code of Ethics, p. 19, updated November 18, 2020. See also See [MBREA](#) Code of Ethics, updated October 15, 2020.

¹⁵ See [Press Release RE Unconscious Bias Training](#), held January 13, 2021.

The only way to address this topic is to talk. Not just among appraisers – after all, appraisers operate within the bounds of what their lender clients ask. This conversation requires both the engagement of the entire housing finance system, as well as a steeled commitment when the problems are clearly defined and solutions well vetted, the political will exists to see it through. We encourage our peers to make this commitment and join with us in finding the way forward on this most challenging topic.

In Conclusion...

We appreciate FHFA's interest in the role of appraisers and appraisals in the housing finance industry, and hope our perspectives provide key insights from the point of view of the appraisal profession. Appraisers do not fear change; often, they are the first to embrace new technologies and tools in their daily practice. But change must be meaningful, done for the purpose of improving quality – not just for saving a few dollars or a day in time. We believe many of the “property valuation alternatives” considered in the RFI reflect the latter – done not to improve our understanding of collateral, but cheapen it.

We encourage a real conversation around modernization, both in the context of bringing appraisals to their highest and best use, as well as ensuring that the collateral valuation process is equitable and fair for everyone. Both aims are achievable, with a unified effort bring the best of everyone involved in the housing finance market to the table.

If you have any questions or wish to discuss our views further, please contact any of the individuals listed below:

- John D. Russell, JD, Strategic Partnership Officer for ASA at jrussell@appraisers.org, or by phone at 703-733-2103;
- Stephen Frerichs, Government Relations Consultant for ASFMRA at sfrerichs8@comcast.net, or by phone at 703-212-9416;
- Stephen Sousa, Executive Vice President for MBREA, at 617-830-4530 or by email at steve@mbrea.org; or,
- Robbie Wilson, President for NSREA at president@nsrea.org, or by phone at 469-569-3595.

Sincerely,
American Society of Appraisers
American Society of Farm Managers and Rural Appraisers
MBREA | The Association for Valuation Professionals
National Society of Real Estate Appraisers