

February 26, 2021

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

To Whom it May Concern:

On behalf of the nearly 17,000 designated members, candidates, and affiliates of the Appraisal Institute, thank you for soliciting stakeholder information and feedback on appraisal policies, practices, and procedures of the government sponsored enterprises (Enterprises). Our general comments are found directly below, while we respond to the specific FHFA questions in a separate Response to Questions attached.

The issues discussed and contemplated in this Request for Information are so immense to the appraisal profession that we urge great care in approaching each of them. We offer several broad suggestions to FHFA moving forward:

1. Facilitate greater dialogue between end users of appraisals (the Enterprises and loan sellers) and appraisal practitioners. Several outstanding issues need to be resolved (such as the prohibition of the use of trainees by some loans sellers) before contemplating new alternative products or workforces.
2. Seller/servicer guide and policy changes would benefit from the same kind of effort that is going into the Uniform Appraisal Dataset and Forms redesign. Stakeholder and practitioner feedback can lead to better informed and more transparent processes and procedures and innovative loan products.
3. We see potential for a range of policy solutions that address community and economic development, with appraisal being an important part of those plans. We urge the Enterprises and FHFA to continue innovating with creative approaches to collateral analysis, leveraging the skills and experience of the appraisal profession.

We urge FHFA to be judicious with the appraisal modernization proposals and plans – professional appraisers and industry stakeholders can and should adapt to change – some of the change envisioned by the Enterprises could be helpful; yet some of it could be harmful by further disconnecting users of appraisal services and appraisers.

For example, current certification and limiting condition statements found in many hybrid appraisal assignments are forced upon appraisers as “take it or leave it” propositions¹. The hybrid arrangement truly represents the worst situation for appraisers, who then are mandated to be responsible for the subject property condition observed by an unaffiliated third party. We do not believe this process benefits safety and soundness, and certainly increases appraiser liabilities and costs.

Next, many lenders continue to reject appraiser trainee inspections. Trainee inspections would help to partially solve the supply side of turn times for appraisals. This is endemic of larger concerns between lenders and appraisal management companies. Some of the current methods of appraisal procurement - oftentimes places locational *competency* and property type competency behind turn times and fees. This practice is directly at odds with quality loan production goals. We need a better and more holistic partnership that identifies solutions and solves problems between the GSEs, loan sellers, and appraisal service providers.

Sometimes, differences between GSE guidelines creates confusion amongst lenders and underwriters, causing second-guessing of appraisers. For example, we note a substantial difference in accounting for the value impact attributable to solar components in appraisals. One GSE permits the use of cost and

¹ See attached letter to AI Fannie Mae and Freddie Mac, May 28, 2019.

income methods, in addition to sales data analysis. On the other hand, the other GSE only permits the use of paired sales data. This requirement may conflict with USPAP and it restricts the appraiser from using all the tools in our toolbox.

We support the direct sharing of GSE data with appraisers. For instance, the collateral underwriting systems used in the secondary market provide potential comparables and ratings to lenders/reviewers. A best practice would be to have the data available for review and analysis at the time the assignment is awarded rather than blindsiding him/her in the review process. Establishing a direct link between appraisers and Enterprise level data would be even better. This has been discussed for years, but we now urge this idea to be rapidly advanced both in concept and application phases.

Regarding appraisal waivers, not every situation requires an interior and exterior inspection appraisal. Risk-based approaches are acceptable, but they require active oversight and engagement by FHFA. We remain deeply concerned about an ongoing or potential "race to the bottom" on risk management through the appraisal waiver process. More transparency and risk based decisioning is sorely needed here.

We also believe the full force of appraisal expertise is currently underutilized. Appraisers could help validate existing property and market conditions like banks are expected to do with appraisals on loans held in portfolio. Appraisal professionals are well prepared to develop market trend tools and services, and advancements can be made relative to the appraisal development process that we will describe below that may assist with addressing concerns about bias or discrimination. A wide range of exciting opportunities are possible through broad industry collaboration and direct engagement of professional appraisers. We are firm in our commitment to evolve the valuation process and we look to work in partnership with the GSE's and FHFA to do so.

We look forward to thinking boldly and creatively with the GSEs and FHFA to promote community and economic development throughout the country.

Thank you again seeking comment from the Appraisal Institute on these important issues. Please contact Bill Garber, Director of Government and External Relations at 202-298-5586 or bgarber@appraisalinstitute.org if you have any follow up questions.

Sincerely,



Rodman Schley, MAI, SRA
President

Responses to Questions

Appraisal Policy and Process

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?

We urge a balanced view on appraiser capacity concerns. Spot shortages of appraisers may exist and could relate to certain property types (new construction, for example). That said, capacity constraints are likely **demand side** driven due to low interest rates, or in relation to widespread economic events, such as the COVID-19 pandemic (as opposed to decline in the appraiser population). We caution against ushering in dramatic changes in policy or process due to short term events.

The appraisal profession is responding to appraiser capacity concerns by supporting new pathways of entry into the appraisal profession and by engaging with end users to understand how appraiser service providers can better address the needs to end users. For example, stakeholders in Tennessee have come together to discuss capacity concerns following a temporary waiver request by TriStar Bank. These discussions have created more awareness of existing appraiser procurement outlets and options, while helping to inform all parties to underlying needs and challenges. Meanwhile, new programs are being created to help aspiring appraisers garner the necessary experience for certification. The Appraisal Foundation's Appraiser Qualification Board recently approved the Practical Applications in Real Estate Appraisal to provide an alternative pathway to appraisal experience. The State of South Dakota recently proposed a new program that provides a controlled and monitored supervisor to multiple trainee appraisers. We understand that as many as 40 appraiser trainees have registered for this program following a funding announcement from the Appraisal Subcommittee. The Appraisal Institute too is responding to capacity demands through education and training. We have worked alongside Freddie Mac to develop training programs for appraisers for rural markets and manufactured housing to name some.

With these efforts, professional appraisers express continued frustration about the clear disconnect between the appraisal regulatory structure and end user needs. While some loan sellers will complain about appraiser capacity, many also prohibit the use of appraiser trainees to conduct inspections for certified appraisers. Appraisers are generally limited to having no more than 3 trainees at one time by state law and federal policy, but they are also being stunted by end users from bringing in the next generation of appraisers. Consideration of hybrid appraisals using "property data collectors" is irksome to some appraisers because this creates double standards and parallel, siloed structures. To truly address appraiser capacity concerns, we must remove lender overlays that reduce the demand for appraisals which currently incentivizes the next generation of appraisers.

We urge FHFA to prohibit widespread use of hybrid or bifurcated appraisal options when widely acceptable and available alternatives such as desktop or exterior-only inspection appraisal options exist. Should FHFA accept hybrid alternatives, we suggest they be limited to well-trained and more trustworthy sources of property inspection information and only in well-documented and supported cases of capacity constraints. In considering such capacity constraints, we urge the FHFA to evaluate whether loan sellers are fully utilizing allowances for appraiser trainees as well as desktop and exterior-only inspection appraisals.

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?

Yes, the recent COVID-19 pandemic has largely illustrated the potential of desktop and/or exterior-only appraisal options. These services were not new to the appraisal profession, but their widespread use was ushered in by necessity to promote safety amongst appraisal professionals and property owners. We believe that appraisers have adapted well to this environment. If anything, our members report that loan sellers have been reluctant to take advantage of these flexibilities, in some cases, forcing appraisers to complete full interior/exterior inspection appraisal assignments when safer alternatives existed. Our members inform us that many of their clients remain uncomfortable with ordering something less than a full interior/exterior inspection appraisal assignment out of fear of repurchase requests. This could be a result of concerns about a potential disconnect between the observable exterior condition of a dwelling versus the interior problems that it masks. We urge FHFA to intervene on this issue with loan sellers to resolve what we see as a needless concern over repurchase requests that put the health and safety of appraisers, and the public, at risk.

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?

Use of appraisal waivers has dramatically increased in recent years under the conservatorship by FHFA. The increase has been confined to lower risk refinance transactions with rate and term reductions. We are entering an uncertain period in the market cycle – forbearance and eviction policies may be propping up some of the residential market, as job losses from the COVID-19 pandemic are just now beginning to recover. The rapid rise in appreciation gives rise to concerns about collateral risk management, especially with new purchases and cash-out refinance transactions. From our view, the Enterprises have paid close attention to risk management so far, balancing the needs for liquidity to the market. Yet, the uncertainty of the market begs for **heightened** attention to collateral risk management. Due diligence should be enhanced as markets begin to peak or decline, as we will not know the damage from appraisal waivers until the next storm arrives. We believe it would be wise for FHFA to establish a ceiling on the degree of waivers that will be allowed by LTV class.

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?

We believe a better question to ask (at least, initially) is: why do some loan sellers prohibit appraiser trainees from conducting inspections when the policies of the Enterprises clearly allow them to?

An answer to this question should be found and resolved before embarking on any new “alternative workforce” solutions that would stunt new entry in the profession. This is further supported by the COVID-19 appraisal flexibilities that can further be enhanced by the work of appraiser trainees.

Our members prefer desktop and exterior-only inspection appraisal assignments to so called bifurcated or hybrid appraisals, largely because of the disconnect between the property observation and the appraisal analysis. The hybrid assignment silos the appraiser from the observation and inspection process which can create complications and increased liabilities for appraisers. Current hybrid assignment parameters put appraisers in a box. They must accept the existing structure, do their own supplemental work (without pay), or revise the scope of work, or drop the assignment (after effort and time has already been expended). Further, the liability gaps are far more limited with trainees because appraisers will want to use **their** trainees rather than someone else's. The liability for both inspection AND valuation will remain resolutely within the practitioner's firm. When two disjointed Companies are involved in different parts of the process, there may be a question as to liability in the event of dispute over the appraisal facts and conclusions.

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.

We recommend against allowances for disjointed hybrid proposals as described above. However, should the FHFA decide to allow them, limitations and controls should be established. The property data collection process should avoid undercutting appraiser trainees and growth in the appraiser population. And such allowances should be limited to areas where demand is significantly outstripping supply.

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, we support the work of the UAD and appraisal forms update. The update and development effort has been complex and has involved stakeholder input from the very beginning. The Appraisal Institute has facilitated several feedback workshops between the Enterprises and practitioners evaluating proposed changes to the UAD and forms. While we do not expect the UAD and forms update to be perfect, and they may result in an increase in scope of work for appraisals, the updates are thus far needed and well-received.

Appraisers spend an inordinate amount of time producing an attractive document, a brochure if you will, rather than emphasizing the nuts and bolts of appraisal (market analysis, analyzing and adjusting comparables, reconciliation, etc.). In some ways, the pendulum has swung so far in the direction of appearances and away from analysis. To the extent the form redesign project emphasizes robust analysis, we will support it.

All things considered, the Enterprises are to be commended for the exemplary work in relation to this project, and we view it as a potential comparable to proposed changes in the respective seller/servicing guidelines. Historically, guideline changes have been conducted without much public comment or stakeholder input. Like the UAD and forms update, the guidelines would benefit from more direct public input and involvement.

We continue to provide feedback into the update process. We have urged particular attention be paid to energy efficiency matters. We also believe that other valuation services could be fostered through the forms development process. We have long said that value is best expressed as a range of value, rather than a single point estimate. The Enterprises have explored this concept, but thus far, no action has been taken. Elements such as a range, or confidence scoring, might be additional inputs that help with risk management and pricing.

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?

The inclusion of the phrase, “crowding out other data providers” raises several issues. It suggests that private sector entities may be trying to sell appraisers solutions to resolve whatever concerns arise from the Enterprise level collateral tools. Are such products necessary when they could be provided directly to appraisers by the Enterprises?

The concept of direct sharing of data with appraisers has been discussed for many years. We believe it is past time for the concept to be taken to test and development stages. To the extent that our organization can assist this effort, we would be glad to participate.

The insertion of Enterprise level tools for loan sellers has raised a multitude of issues in the appraisal review process. Our experience is that lender operations that have trained appraisal review staff can clear through the “noise” that may be created by such systems. However, some untrained review staff may simply forward the results to the appraiser, asking for the appraiser to clear questions or red flags. This results in second-guessing of the appraiser, and it could largely be avoided if the Enterprises shared the information upfront with the appraisers.

Providing ALL the data in the market area to appraisers who choose the data boundaries, AND requiring the tabular total sales set being included in the appraisal, offers market transparency for clients, intended users, and the public good.

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

Making Enterprise level data and information directly available to appraisers (see above) would improve efficiencies and reduce turnaround times as lenders and appraisers would take less time trying to resolve concerns or questions resulting from Enterprise level collateral tools.

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.

We will defer to those with better information or insight.

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?

We will defer to those with better information or insight.

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?

See AI letter to Fannie Mae and Freddie Mac attached below, May 28, 2019.

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

We will defer to those with better information or insight.

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?

Yes, these flexibilities demonstrate the wider range of services that can be performed by appraisers, and they are far much preferred to the use of appraisal waivers in a disaster situation, where collateral risks may be of extreme importance or magnitude.

Appraisal Process Improvement

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?

We do not believe hybrid appraisals that involve alternative workforces other than appraiser trainees would have a positive impact on long term appraiser capacity concerns. This is because the alternative workforces remove one of the strongest incentives for appraiser trainees and their ability to capture appraisal experience. Further, establishing alternative workforces will require an entirely new curriculum be developed for the property data collection process. While we are not opposed to additional training opportunities, we would much rather cultivate the skills of future appraisers over data collectors.

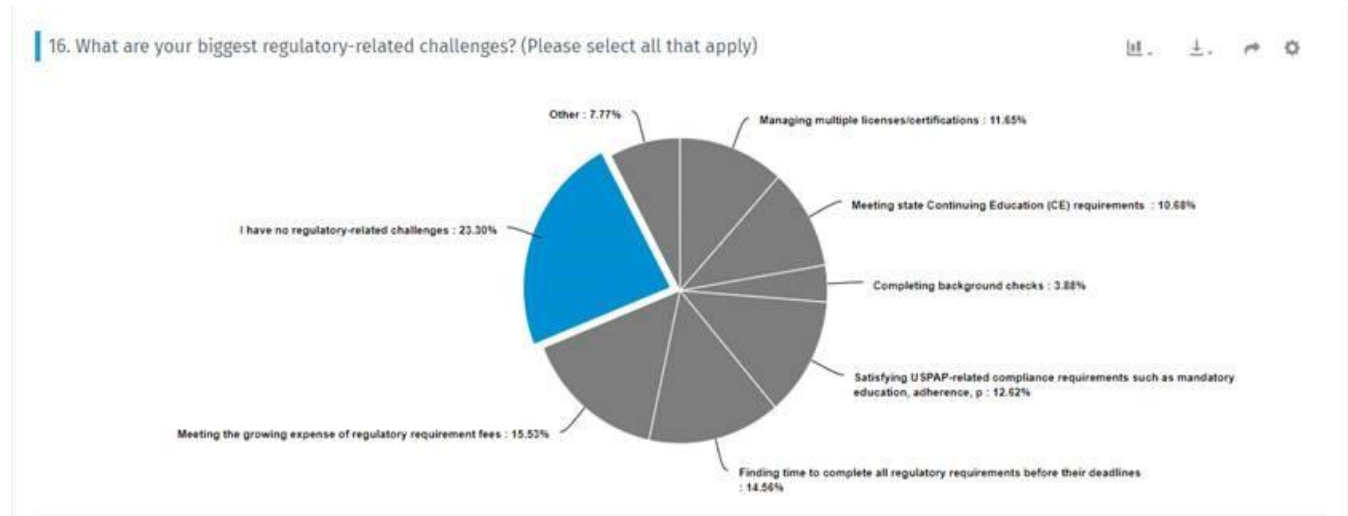
Question C1.2: What would be the impact of appraisal policy and process improvements to the mid or late career appraiser? Do you believe late career appraisers would delay retirement if they could focus on specific valuation services like desktop appraisals? Or alternatively, would late career appraisers cease operations due to technology adoption challenges?

Residential appraisers are more likely to reduce practice, retire, or leave the profession in the next 3-5 years (according to a recent survey conducted by the Appraisal Institute²) when compared to commercial appraisers. This may suggest that additional challenges to residential appraisers exist and this could result in an increase in their reduction of practice, retiring or leaving the profession.

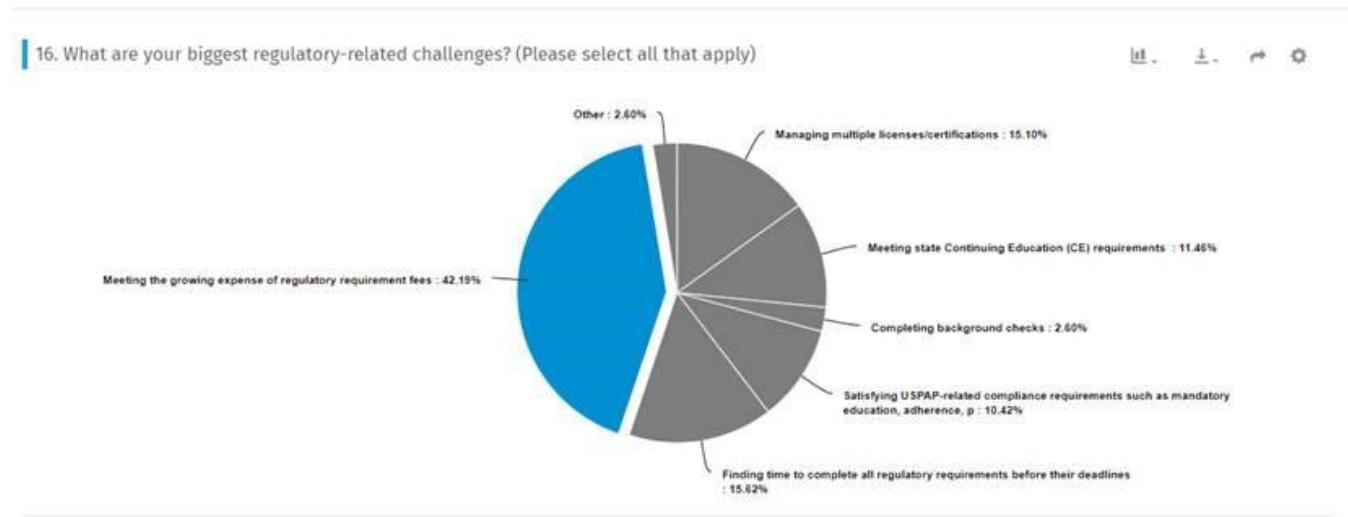
3-5 Year Plan	Residential	Commercial
Transition to part-time appraising All practices mean=9.89%	10 13.33% 13.70%	20 7.72% 27.40%
Retire All practices mean=13.41%	13 17.33% 13.13%	32 12.36% 32.32%
Move to a new career outside real estate appraisal All practices mean=4.34%	6 8.00% 18.75%	11 4.25% 34.38%

Regulatory changes altogether are having more of an impact on residential appraisers than commercial appraisers. The chart below is taken from a recent survey, where roughly 75 percent of residential appraisers expressed concern over regulatory challenges. And taken further, the current regulatory environment is negatively impacting (curbing) appraiser growth opportunities.

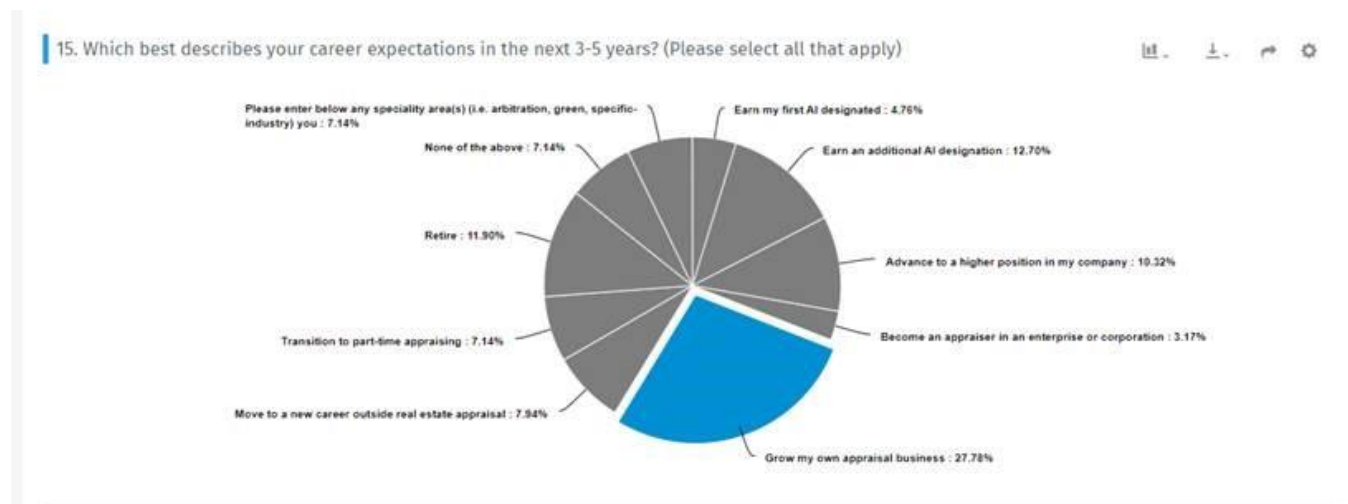
² Appraisal Institute Members Needs Survey, 2018.



This is creating regulatory “cash-strapped” appraisers as expressed by the chart below.



As a result, only a small percentage of appraiser firms are considering growth over the next 3-5 years.



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, we see several ways in which appraisal policy may have a positive impact on access to credit in underserved markets.

- Recently, Freddie Mac announced initiatives that aim to assist with construction and renovation financing. The “Spark” program that has been piloted in Omaha, Nebraska, and the Community Champion programs both aim to resolve one of the biggest factors of the “appraisal gap,” where the cost of the project is greater than the market value of the subject property – engagement of the appraiser at the beginning of the project. Under these new initiatives, appraisers are engaged at the very beginning of a proposed construction or renovation project to help right size the improvements to the overall market. This kind of valuation expertise helps avoid “over-improvements” with the proposal or surprises relative to the appraisal. The appraisal assignment is straight forward – an appraisal “as proposed” and “as completed” are prepared by appraisers, with inspections conducted at both periods to ensure consistency and market dynamics. We urge this as a model for all construction and renovation loans.
- Appraisal methods and techniques are another area where some creativity and input could prove beneficial as matters of public policy are concerned. We have seen some suggestion that greater use or weighting of the cost and income approaches may be beneficial to appraisals in underserved or energy efficiency driven markets. It is worth noting that the cost and income approaches both rely on market information in their development. If prepared correctly, all three approaches should narrow and support a credible opinion.

And yet, there are times when use of approaches is appropriate to emphasize – or even necessary – to achieve certain lending or policy goals. For example, guidance from Fannie Mae on tribal lands confirms that a lack of closed or verifiable home sales, non-market rents, or the lack of written lease agreements for lands with Leased Fee Ownership necessitates use of the cost approach³. Guidance like this is not just for appraisers, but more importantly, for loan sellers, who oftentimes question appraisers about approaches or adjustments within appraisals during the review phase.

Therefore, we believe the seller/service guidelines would benefit from the same type of stakeholder feedback as the UAD and forms update, because it would build awareness and buy-in from end users and service providers.

- Creative financing – we have seen several local community organizations partner with banks and mortgage lenders to address the appraisal gap concerns. These are modeled largely after the Detroit Home Mortgage program, focusing largely on home improvement loans. This program was created during a time when traditional financing was being denied because of insufficient collateral, leading to an abundance of cash sales in the market. The program is sponsored by a range of financial institutions and community organizations – the program finances up to \$75,000 above the market value of the property with the borrower receiving two mortgages. The portion within market value goes on the 1st Mortgage with a low fixed interest rate. The portion above appraised value goes on the 2nd Mortgage with a 5% fixed interest rate. Program participants report several positive effects from the program, including:
 - Offering an extra negotiation period to level set neighborhood values by infusing realistic comparable sales into the market

³ See Appraising Properties on Tribal Lands. Fannie Mae. <https://singlefamily.fanniemae.com/media/24051/display>

- Acting as a catalyst to spur more traditional mortgage lending
- Uncovering additional needs beyond capital and introduced a potential set of solutions to the market: (Detroit Future City - Detroit Neighborhood Housing Compact).⁴

Similar efforts are underway in St. Louis, modeled largely after Detroit's experiences. We support the Enterprises exploring how they might support programs such as these, be it shared equity arrangements, secondary sources of financing, etc. We do not believe Enterprise involvement is essential to take such programs to scale, but it would certainly help.

- Whole market analysis – the existing appraisal report forms were envisioned during a time when we had a scarcity of data in this country. Of course, in recent years, data has become widely available, and it will become more prolific. We believe there are ways to enhance or reinvent certain appraisal processes that would help build more confidence in the appraisal process, particularly, the sales comparison approach. Such an approach is what we might term, "whole market analysis" where an appraiser would be asked to obtain data from a particular radius of the property, thereby gathering all the historical transactions occurring over a sufficient period to accumulate a body of sales that offer a complete view of the immediate market, even if it may require a look back of several years. It is said that 35 data points are necessary to complete a simple regression analysis – and with modern data mining technology this could easily be captured and subsequently analyzed by an appraiser to indicate the most appropriate comparables sales for consideration. We believe this type of analysis would help as a quality control function for an appraiser by offering transparency of application and insights into the editorial judgment of the appraiser's choice selection of comparable sales. It would also assist with the appraisal review process, even checking for the potential bias or quality of work.

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?

Discrimination has no place in the appraisal process, and we believe any concerns over discrimination involving appraisers should be referred for potential criminal complaint and/or fair housing enforcement. We offer the full weight and resources of our organization to fair housing enforcement agencies in understanding appraisal related issues, which may require specific expertise to help prove intent.

When we see a story of a consumer who feels they were treated differently because of their race, it is gut-wrenching because that goes against everything we stand for. Bias, in whatever form it takes, is the enemy of the valuation profession.

Appraisers take a lot of pride in being an objective source of real estate value information. Appraisers look at the numbers and facts, attempting to mirror what the market tells. Appraisers know bias is human and exists in various forms (whether conscious or unconscious), and no profession is immune from that. We believe that it is important to continue educating ourselves about the situations and circumstances that can potentially lead to negative bias.

Ensuring bias does not play a role in appraisals and seeking solutions to equity, diversity and inclusion in appraisal is a top priority for the Appraisal Institute. We are spearheading several initiatives, partnerships, and commitments. We are excited to see how this work positively affects the greater real estate industry and the communities across the country where our appraisers work.

From an appraisal process standpoint, we are currently developing additional guidance to curb potential bias in appraisals, as well as reinforcing ethics, education, and training. We are enhancing our Code of Professional Ethics and exposing practitioners to new research and areas of study on unconscious bias

⁴ See Krysta Pate, Detroit Home Mortgage, [Promoting Trust for Fair and Affordable Housing](#), December 17, 2020.

and historic and structural discrimination in housing and real estate. We are backing policy solutions that advance equity related to appraisal, fair housing, and equitable mortgage solutions, alongside consumer groups, real estate brokers and agents, banks, government agencies and others.

Over the last two years, the Appraisal Institute has been amplifying and accelerating internal initiatives and partnerships to bring about positive changes in this area, including improving diversity within the profession through the Appraisal Diversity Initiative in collaboration with Fannie Mae and the National Urban League, and with our Minorities and Women Course Scholarship Initiative. There is more work to do, and this is a priority for Appraisal Institute.

We do all this with consideration given both to the importance of acting for the communities in which we work as well as setting the real estate valuation profession up for future success.

Alternative and automated valuation systems represent processes that utilize large data sets, leveraging the power of technology that lends an aura of credibility to the results. But the physical world of housing patterns and desirability is unevenly distributed over the landscape, and automated systems are only as reliable as they are programmed to anticipate the human motivations and decision making that created the physical world. The underlying algorithms require definitions of what transactions to choose and process, and how to process them. Those algorithms are simply human reasoning translated into code, and programmers are also susceptible to unintentional and unconscious bias that could affect the reliability of the results. The uneven nature of the physical world still requires seasoned human judgment, especially when confronted by areas with limited market data or that face structural economic impediments – including few sales, cash sales with low prices, appraisal gaps, etc.

We believe that a “whole market” process can:

- leverage the data gathering prowess of automated systems,
- require appraisers to transparently reveal all potential sales that could affect value,
- identify market potential for underserved or economically distressed markets,
- reduce the potential for unconscious or implicit structural market bias
- leverage seasoned human judgment more effectively than a form that offers a limited view of the marketplace and all relevant sales,
- increase the public confidence in the collateral valuation process, and
- improved overall outcomes.

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.

The factors going into appraisal waivers are not entirely clear to the public. While there might be proprietary concerns with revealing the criteria, we believe the appraisal waiver criteria should be understood by consumers and the decision risk-based and not subject to other factors or considerations.

Question C1.6:

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

One final comment: mortgage loan sellers have an obligation under the Enterprise seller/servicer guidelines to hire appraisers with "requisite knowledge and experience." This is often not achieved.

The selling guidelines make it very clear that it is the responsibility of the lender to hire qualified appraisers. However, the qualifying process used by some appraisal management companies and/or lenders has become nothing more than verifying appraisers are properly licensed. Further, appraisers repeatedly report to us they are told to complete an appraisal on a property type they have no experience in valuing by simply ignoring the unusual or new features (e.g., solar, energy efficient features, green certifications, accessory dwelling units, etc.).

FHFA Request for Information on Appraisal Policies, Practices, and Processes
February 26, 2021

The proposals before us today may exacerbate these concerns by adding non-appraisers to the process.

We should not lose sight of the importance of quality, reinforcing this with those engaging appraisers.

Thank you for the opportunity to comment.



May 28, 2019

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Director of Collateral Policy and Strategy
Fannie Mae
1100 15th St NW
Washington, DC 20005

Mr. Scott Reuter
Chief Appraiser & Director of Valuation
Freddie Mac
1551 Park Run Drive
McLean, VA 22102

Dear Mr. Radke and Mr. Reuter:

On behalf of the nearly 18,000 Designated members, candidates and affiliates of the Appraisal Institute, thank you for the opportunity to comment on the proposed changes to the *Scope of Work, Limiting Conditions, and Certifications* for an envisioned "bifurcated" appraisal process. Thank you also for the continued face-to-face dialogue. We look forward to working with you for bettering the housing finance system.

Attached to this letter are specific comments and suggestions to the proposed changes.

We have strong concern that some of the proposed changes – without further clarification or action - will cause increased liability for real estate appraisers. Failing to address these liability concerns will likely inhibit appraiser acceptance of the proposed program, at least by those appraisers well informed about the realities of liabilities involving the inspection process. We do not believe this is a desired goal of the proposed changes.

Use of Extraordinary Assumptions

One of the biggest issues left outstanding and unresolved is the proposed inability for appraisers to utilize an "extraordinary assumption" in completing an appraisal assignment. The proposed changes appear to alter long-standing practice relative to the use of extraordinary assumptions by appraisers, casting reliance on third party inspections as simple ordinary assumptions. This fails to distinguish the critical legal distinction between *believing* third-party information is reliable, versus *knowing* that such information is reliable. This distinction helps reduce liability to the appraiser and has long been established in appraisal and lending practice, including federally regulated financial institutions. Those policies allow appraisers to utilize extraordinary assumptions in market value opinions.

Some might point out that appraisers make assumptions about other third-party provided data (i.e., MLS, brokers, owners, property/asset managers, tax records, flood maps, etc.) that may not be treated as an extraordinary assumption by an appraiser. This is true – however, there are important distinctions about two categories of data the appraiser gathers to prepare an appraisal: Data about the subject property and comparable data.

Data about the subject property establishes "what is being valued." It generally includes lot size, building size, property features, condition, detrimental conditions, energy efficient items, etc. – anything that *could* impact the value of the property. To establish "what is being valued", the appraiser must either *know* this data is accurate, or *assume* it's accurate. That's because "the most probable buyer" within the concept of "market value" – who is presumed to be knowledgeable and acting in their own best interest – would be very concerned about – would go to great lengths to *KNOW* about – such subject property data before plunking down their money to buy it. So, if the appraiser doesn't *know* this data is accurate, but *assumes* it is, that is a significant assumption - or an extraordinary assumption, requiring clear disclosure in the appraisal report.

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On the other hand, comparable data is used in the three approaches to develop the value opinion. However, its actual accuracy is less critical to the appraisal process. When the appraiser prepares an opinion of value, it is really the appraiser's opinion of what *the market* thinks the value is. What the appraiser needs to gather and analyze is the data *the market* is relying on. Market participants generally do not know the details of property transactions with that much accuracy. They only know what's generally available. So, in using the data that market participants are relying on, the appraiser is not assuming anything regarding its accuracy. "The market" believes the information is accurate, and that is all that matters.

In sum, an appraiser could/should not be faulted for using comparable data the market believes to be accurate. But if the appraiser's subject property data is inaccurate, and the appraiser has not clearly stated that the value hinges on the extraordinary assumption that the subject data IS accurate, the appraiser find herself in a precarious position from a liability standpoint.

Other Considerations

Further, we understand the GSEs may be considering utilizing third party inspection vendors who may not have certain liability coverage, including Errors and Omissions insurance coverage, for their work. Frankly, the best way to address this issue is through indemnification of the appraiser for that portion of the assignment relating to the inspection. This would remove nearly all the liability concerns and help promote acceptance of this proposed process.

Inspectors envisioned under the program should be held to the same standard of competence and accountability as appraisers in having to stand and defend their work through such measures as carrying Errors and Omissions insurance coverage. Some might say that the Seller/Service Guides do not require appraisers to carry E&O insurance. However, this overlooks the fact that E&O coverage has been a de facto loan seller requirement for several decades now.

Using alternative workforces to complete inspections is another concern, when viable appraiser-related alternatives are readily available. Appraiser trainees are a good example of this. They seem envisioned as one potential source for inspections, however, lender/loan seller policies continue to stand in the way of their use. While the GSEs have tried to clarify their policies relative to the allowance for trainee inspections, many loan sellers continue to prohibit this practice today. This could be addressed with an altered policy to restrict loan purchases from loan sellers who prohibit trainee inspections.

We say this, acknowledging there are opportunities for some appraisers within this proposed process. Specifically, such gap products may be a strong alternative to alternative valuation services commonly found in the marketplace in such areas as portfolio monitoring and asset management. There may be other efficiencies beneficial to all the parties including appraiser. We look forward to exploring such opportunities with you.

However, the current changes – as proposed - will undoubtedly come back to haunt not just appraisers, but loan sellers to Fannie Mae, Freddie Mac, and inevitably the taxpayer. We hope you will consider our suggestions, and we look forward to working with you as you finalize these documents.

Please contact Bill Garber, Director of Government and External Relations at 202-298-5586, bgarber@appraisalinstitute.org to arrange a follow up meeting to discuss these or any other issues.

Sincerely,

Appraisal Institute



Scope of Work, Limiting Conditions, and Certifications Change Proposal

Both GSEs have been tasked by FHFA with exploring appraisal modernization. One common theme regularly mentioned in the appraisal industry is the concept of alternative appraisal processes such as so-called hybrids and desktops. Today's standard appraisal form (URAR) Scope of Work, Limiting Conditions, and Certifications that both Fannie Mae and Freddie have aligned to and adopted does not accommodate these types of alternative processes. We propose to create and align on a modified set of Scope of Work, Limiting Conditions and Certifications that would allow the GSEs to separately explore alternative appraisal processes. We have presented this idea to FHFA and received permission to engage on this topic. This engagement in no way signals any design or intention to align on any other aspect of appraisal modernization or appraisal policy (other than the ongoing UAD/Forms Redesign alignment).

This document contains Fannie Mae's initial draft language for a scope of work that accommodates an alternative appraisal process. In preparing this draft, we considered the following objectives:

- Transparency – it should be clear to all parties when the alternative appraisal process is employed
- Minimal Disruption – adoption should be as simple and straightforward as possible for appraisers, appraisal software companies, AMCs, lenders, UCDP, and other industry participants
- Flexibility – the new language should facilitate independent experimentation by each GSE
- Speed to market – FHFA goals are in flight right now, so a quick solution is desirable
- Measurable – facilitate easy tracking of appraisals completed using this alternative appraisal process

We welcome input from Freddie Mac and look forward to working together on this initiative.

Sentence on Page 2 of the 1004 in the Reconciliation Section

Existing	Proposed Fannie Mae/Freddie Mac Changes
Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certifications, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$_____, as of _____, which is the date of inspection and the effective date of this appraisal.	Based on the defined scope of work, statement of assumptions and limiting conditions, and appraiser's certifications, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$_____, as of _____, which is the effective date of this appraisal.
<i>Removed "a complete visual inspection of the interior and exterior areas of the subject property" to allow for third-party data collection.</i>	

Commented [A1]: "Defined" is not the right word here. The appraiser determines the SOW and then reports it. SOW definition is another matter.

Commented [A2]: An opinion of value isn't "based on" the appraiser's certification statements.

Scope of Work

Existing	Proposed Fannie Mae/Freddie Mac Changes
The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum:	The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum:

Commented [A3]: The whole idea of SOW is that it is tailored to the assignment, not boilerplate. The client (or GSEs) can tell the appraiser what their expected SOW is but ultimately it is the appraiser's responsibility to determine the SOW. So in some cases the GSEs expected SOW may be adequate but in other cases inadequate. So, if a form is going to have a pre-set SOW in it, it needs to be clear that the SOW spelled out in the form is the expectation of the GSEs, and the appraiser's SOW could end up being something more.

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<i>No Change</i>	
1) perform a complete visual inspection of the interior and exterior areas of the subject property,	1) obtain and review adequate and reliable information for the subject property from third party sources such as, but not limited to, property data based on on-site property data collection, public and/or private data records, and information as described by the appraiser in the appraisal report.
<i>This change provides flexibility for the alternative appraisal process by removing the requirement of the signing appraiser having to personally inspect the subject property.</i>	
2) inspect the neighborhood,	2) research, verify, and analyze adequate and reliable data from public and/or private sources for the subject market area including data for each comparable property reported, and
<i>This change facilitates the appraiser's reliance on third party observations of the neighborhood as well as online sources and other information in the analysis of the subject's neighborhood and market in lieu of physically driving the neighborhood themselves.</i>	
3) inspect each of the comparable sales from at least the street,	(remove)
<i>This change provides flexibility for the alternative appraisal process by removing the requirement to inspect the comparable sales from the street</i>	
4) research, verify, and analyze data from reliable public and/or private sources, and	(remove)
<i>This has been removed because it is redundant with the changes made above</i>	
5) report his or her analysis, opinions, and conclusions in this appraisal report.	3) report his or her analysis, opinions, and conclusions in this appraisal report.
<i>No Change other than numbering</i>	

Commented [A4]: BIG PROBLEM with this language. The appraiser is saying here that the information obtained and reviewed WAS INDEED adequate and reliable. How can the appraiser know that? Huge liability trap. This language is not acceptable.

Commented [A5]: Same concern as above. How does the appraiser know this information is "adequate and reliable"? Liability trap for the appraiser. This language is not acceptable.

Commented [A6]: Should be plural (analyses.)

Intended Use

Existing	Proposed Fannie Mae/Freddie Mac Changes
The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.	The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.
<i>No Change</i>	

Intended User

Existing	Proposed Fannie Mae/Freddie Mac Changes
The intended user of this appraisal report is the lender/client.	The intended user of this appraisal report is the lender/client.

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<p>forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.</p>	<p>forth in this appraisal report. If I relied on significant real property appraisal assistance from an appraiser in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.</p>
<p><i>Changed any individual or individuals to "an appraiser" to support USPAP requirements</i></p>	
<p>20) I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.</p>	<p>20) I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that who ordered and will receive this appraisal report.</p>
<p><i>No Change</i></p>	
<p>21) The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).</p>	<p>21) The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).</p>
<p><i>No Change</i></p>	
<p>22) I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform</p>	<p>22) I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform</p>

Commented [A7]: Suggest delete "from an appraiser." Not needed, and could raise the question as to whether the individual was an "appraiser" or not. It doesn't matter if they are or aren't; USPAP says the appraisal report must name anyone who provided real property appraisal assistance. (It's the nature of the assistance that's key, not the credentials of the person who did it.)

Commented [A8]: How does this work when an AMC orders and receives the appraisal report? Further, why is this needed at all?

Commented [A9]: This is problematic for a host of reasons. It should go on to say that such parties are not, and do not become, intended users.

Further, if the appraiser is asked for his/her consent to so distribute, does that make those recipients intended users? It doesn't, but the language needs to be clear. (Appraisers are thrown for a loop when asked for such consent. Best if they're not asked.)

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Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.	Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.
No Change	
23) The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.	23) The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may <u>rely</u> on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.
No Change	
24) If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.	24) If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.
No Change	
25) Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.	25) Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.
No Change	
	26) Unless otherwise noted, I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
Added this certification because of a newer USPAP requirement that appraisers are required to certify.	

Commented [A10]: Again, this badly needs clarification. Such parties are NOT intended users, but "may rely" sure sounds like they are.

Commented [A11]: But other edits are sorely needed.