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REQUEST FOR INFORMATION

FOR

Appraisal-Related Policies, Practices and Processes

February 26, 2021

Prepared By:
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Re: Appraisal-Related Policies, Practices and Processes

Radian Group Inc. (Radian) appreciates the issuance of this RFI via FHFA. Through the lens of over 1900 lenders that we work with nationwide, as well as our own observations as a vendor in the valuation services space, we see first-hand the need for modernization of valuation services as required to support the U.S. Residential Housing Market.

FHFA's role as a leader in modernizing valuation policies, practices and processes, while balancing risk and oversight, is a great start. For lenders, both mortgage banks (depository) and independent mortgage bankers (non-depository), the existing layers of regulatory oversight provide challenges to modernization. Common sense flexibilities, together with best practices with clear standards, provide a necessary foundation for the modernization of traditional valuation practices. Now more than ever, transparency and access to data will assist this endeavor.

Radian, through its various business lines, leverages core competencies and financial strength to address the strategic needs of the residential mortgage and real estate markets. Our diversified and integrated business model is informed by data and analytics, powered by technology, and is driven to deliver new and better ways to transact and manage risk, with enhanced transparency for all market participants.

The offerings of Radian Valuation Services LLC are a key component of the suite of services offered by the family of Radian Group companies and include valuation services, products, data and analytics to the mortgage lending, servicing, and investment communities. Interaction with technology, analytics and data has now become the foundation for how Radian companies create products and services and support our customer base.

We appreciate the request for input, and the opportunity to present our thoughts on appraisal modernization. We look forward to working together as an industry towards the future of valuation services.

Respectfully submitted,

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V.P. National Account Manager, Enterprise Sales	S*VP, Valuation Services Operations*

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I. Appraisal Policy and Process Improvements

The good news for the United States mortgage industry is that, while we have been dealing with capacity constraints with regards to the number of appraisers, we have made significant technological advances in innovation, access to data, and the use of analytics in the valuation services space. These advances allow for the opportunity to refine policy and process that leverage new ways of valuing real estate residential mortgage collateral. By embracing policy and process improvements, the mortgage industry can balance capacity and quality risks with the value and need for a vibrant, expert appraisal community.

New Solutions

It is no secret the number of certified and licensed appraisers nationwide is decreasing, and the profession possesses significant barriers to entry. It is imperative that we as an industry develop, refine, and enhance valuation capabilities to meet consumer real estate loan demand. Radian believes that there is not a single valuation solution that meets all needs and that only allowing use of a traditional 1004 appraisal is no longer feasible.

> *The No. 1 issue noted across the board was appraiser attrition, which has only been exacerbated by the pandemic.*
>
> *"What's happening is because it's difficult to become an appraiser. And because you have to go through third parties whenever you have a spike in production, those agencies and appraisers get backed up," said Phil Treadwell, vice president of development and regional manager for Mason-McDuffie Mortgage. "There's not a whole lot that can be done — at the end of the day we have a finite number of appraisers. You all of a sudden have to hire more support staff to maintain your current level of support."*
>
> *https://www.housingwire.com/articles/surging-mortgage-volume-puts-pressure-on-appraisal-turn-times/*

We advocate two co-existing paths for mitigating the reality of a diminishing appraiser pool and addressing the need of market participants and consumers for faster and more accurate valuations: 1). Augmentation of the existing manual process and 2). Automation of some or all of the valuation process.

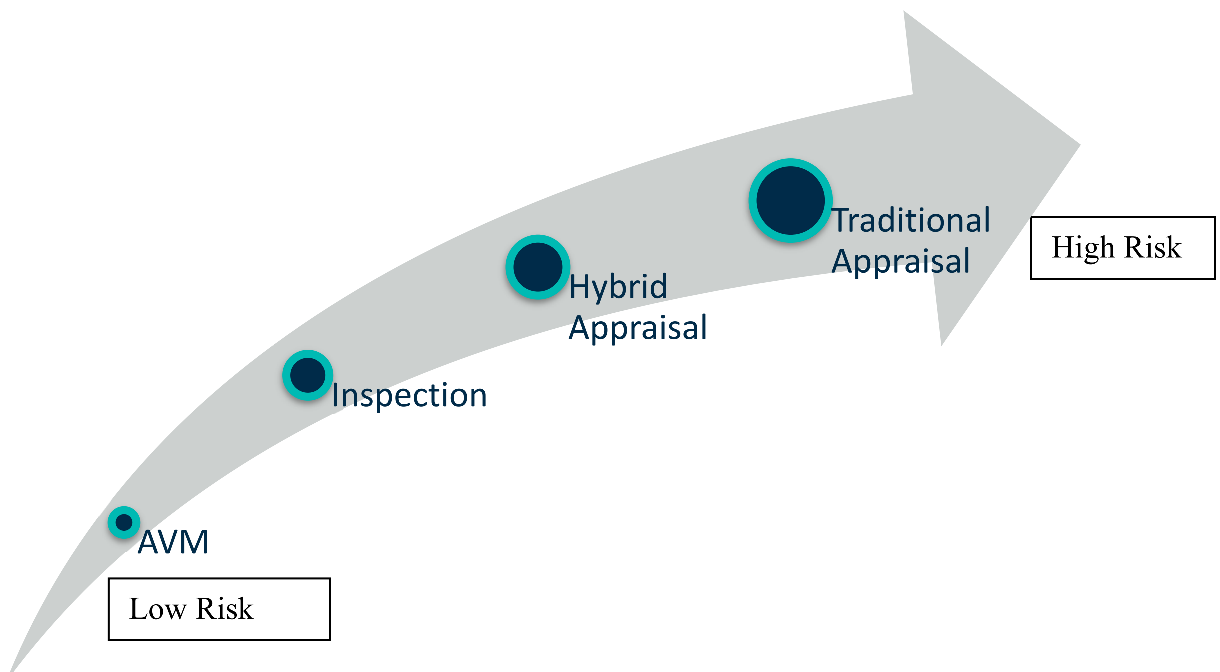
These goals will be furthered through thoughtful policies that utilize a **risk-based framework**, supporting a variety of alternative valuation products. With technology advances and access to data (public, MLS, and data collected through the GSEs), there exist various valuation methodologies, ranging from in-person interior and exterior appraisals to property inspection waivers, that can readily be incorporated into a risk-based framework. The policy decision to use an alternative product at its core should continue to be based on the fundamental concepts of the *five Cs* of *credit*: **character**, **capacity**, **capital**, **collateral**, and **conditions**. Radian supports increased efficiencies, but only through the use of a well-constructed valuation waterfall policy.

Efficiency Through Valuation Waterfall Policies

What is a waterfall? A waterfall uses multiple valuation products to create a balance of cost, time and quality that is customized to meet the needs of the lender.

Why use a waterfall? A waterfall can combine the consistency of standard data sources with the deeper insights gained from multiple data points. It increases results coverage to nearly 100%, improves the quality of the results and raises confidence in valuations.

When is a waterfall beneficial? A waterfall is most beneficial when cost is a concern or constraint, when there are limited resources and/ or a lack of expertise, or when time and efficiency are critical.



While flexibilities offered by the GSEs during the COVID-19 pandemic provided alternative valuation solutions for lenders, the challenge of quickly changing internal processes and behavior, together with unfamiliarity with alternative valuation tools and available risk offsets, precluded most lenders from taking advantage of this opportunity. What was achieved, however, was proof of concept: that alternative valuation solutions are viable. The industry now largely recognizes that a risk-based framework, with built in flexibilities and multiple sets of data, ultimately reduces bias and risk, and should be part of "business as usual", and not reserved to market disruption events. Below are examples of valuation waterfalls for both loan origination and servicing/loss mitigation which display how these alternative solutions can work:

Loan Origination

Desktop-Only and Drive-By appraisals inherently create heightened risk due to an appraiser's inability to identify physical condition with the absence of contemporaneous interior and/or exterior photos. Based on a risk profile of a loan asset, alternative valuation tools are readily available to provide additional validation to support value:

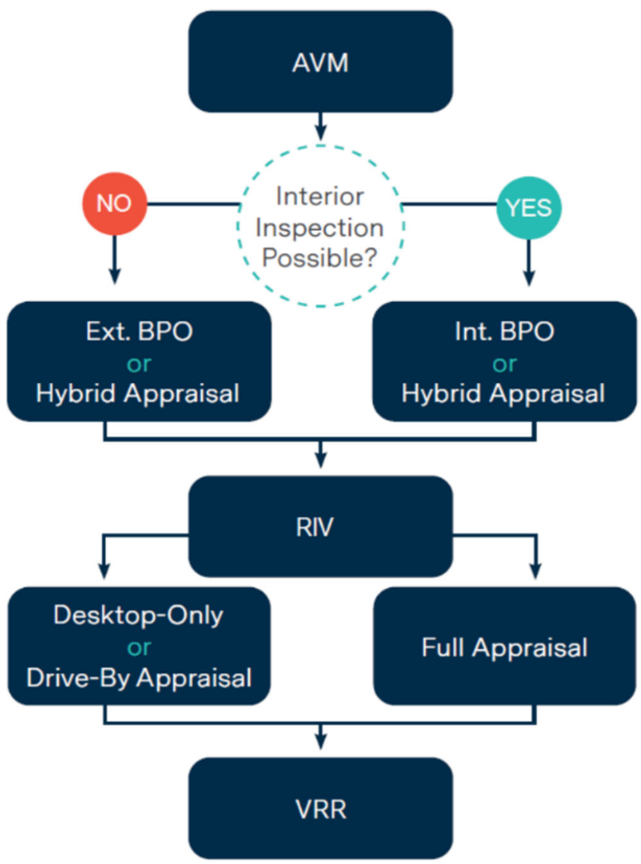
Radian Interactive Value (RIV): view interior and exterior photos from ~400 MLSs. User can interact with results and define comparable properties.

Radian AVM: quickly provides an automated, model-driven price estimate with a reliable confidence score.

Exterior Inspection: leverages a national database of over 35,000 real estate agents to provide exterior data and photos of a property. Includes disaster inspections.

Hybrid Appraisal: a real estate agent from our database of 35,000 agents completes an inspection, then an appraiser reviews and provides an opinion of value.

Valuation Risk Review (VRR): desktop appraisal review that provides a second opinion on a previously provided valuation product.



Servicing and Loss Mitigation

Before the onset of the pandemic, valuation tools were routinely used in traditional servicing and loss mitigation environments, e.g. for default, natural disaster, MI termination, etc. As we emerge from the pandemic, valuation tools and resources will also be needed once lender forbearance ends and modifications and/or workouts begin to take place. AVMs and BPOs traditionally have been utilized, and there are additional alternative valuation tools that complement and validate the valuation process.

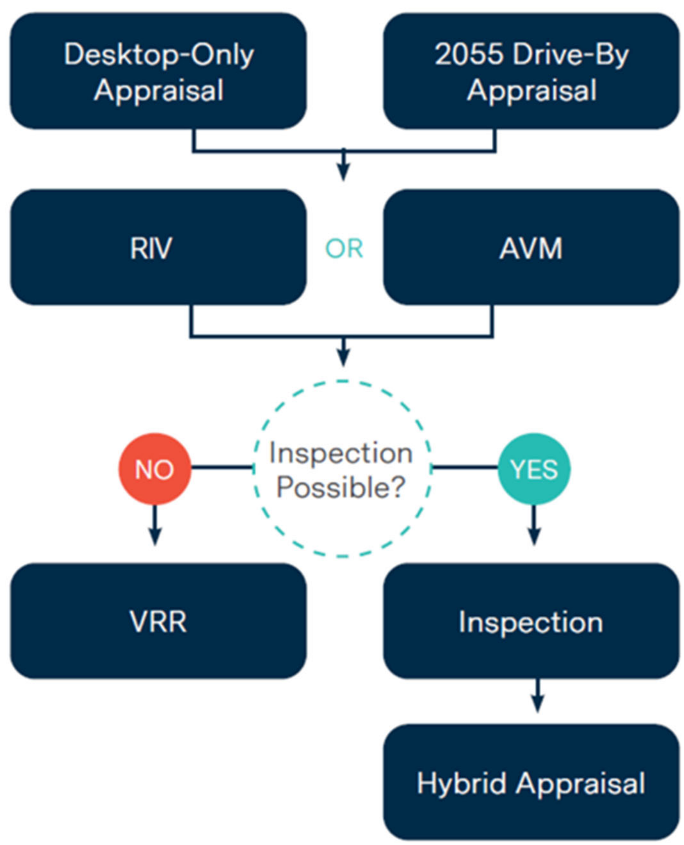
Radian Interactive Value (RIV): view interior and exterior photos from ~400 MLSs. User can interact with results and define comparable properties.

Radian AVM: quickly provides an automated, model-driven price estimate with a reliable confidence score.

Broker Price Opinion: a real estate agent from our network of 35,000 agents completes and inspection and provides an opinion of value.

Hybrid Appraisal: a real estate agent from our database of 35,000 agents completes an inspection, then an appraiser reviews and provides an opinion of value.

Valuation Risk Review (VRR): desktop appraisal review that provides a second opinion on a previously provided valuation product.



Obvious benefits of alternative valuation products over traditional appraisals include turn times and cost. However, there are challenges when it comes to alternative valuation offerings: some appraisers are not comfortable opining on value based on someone else's inspection of the home, especially given the risk that the inspector may fail to note or photograph material defects that could impact the assessment of value. Appraisers are required to comply with USPAP standards, imploring them to follow ethical and performance measures for the appraisal services performed. Should they fail to meet these standards their licenses can be negatively impacted, therefore, delegating the inspection to a third party potentially exposes the appraisers to greater risk.

Appraisals have traditionally been required because of a need for an independent review of collateral by a valuation expert. Over the last 20 years, a number of alternatives have emerged in response to a need to remedy concerns about capacity, turn times, quality, and coverage. However, their adoption rate has been low, at the expense of bias.

Alternative valuation tools that bifurcate or augment the human process are valuable:

- Independent validation of appraiser data
- Independent sourcing for property data
- Consumer provided property data
- Remote guided inspection
- Gig-work data collection

There are additional measures we could implement today to improve traditional appraisals:

- Remove obstacles to becoming an appraiser
- Allow a simplified appraisal form for properties deemed lower in risk profile
- Allow the use of comparable photos taken from valid data sources, saving SUBSTANTIAL time and resources of the appraiser who normally spends significant time in the field visiting these properties to take photos

There are also opportunities for process improvements, such as enabling non-traditional valuation services (e.g., inspection-only, desktop, exterior-only) to augment traditional appraisals. Examples abound: Real estate agents can complete an interior inspection of a property and collect data through a broker price opinion, with that work being reviewed by an appraiser for final determination of value. This significantly lowers the cost and improves the delivery timeline.

The onset of the pandemic led the GSEs to waive appraisal requirements in certain situations. Unfortunately, the data used to create these waivers is not transparent and this methodology has not been made available to portfolio/community lenders across the country who also may desire to deploy alternative valuation methodologies based on their assessment of risk. Another concern is the large percentage of appraisal waivers issued with no alternative forms of valuation validation other than the waiver itself. While the GSEs have internal supporting data, that data has not been made public.

Radian observed a significant increase in the use of appraisal waivers in the >80% LTV space in 2020, but with limited transparency of the model assessment and the lack of available supporting data, could not definitively determine whether and/or when appraisal waivers were limited to low-risk properties. Radian also observed lenders running both GSE automated underwriting systems ("AUS") and choosing the AUS that offered an appraisal waiver. The valuations used and approved as part of an appraisal waiver can have a material impact on the loan transaction, including the loan-to-value ratios, mortgage insurance pricing, mortgage insurer and GSE capital. For this reason, it is critical that appraisal waivers are offered only on low risk properties with robust supporting data and model transparency.

II. Risk Management

Mitigate risk though data sharing

The core mission of the GSEs to support homeownership through efficient access to mortgage funding would be furthered by broader dissemination of property and appraisal data, currently held exclusively by the GSEs, to appraisers and other valuation professionals. Combined with the depth and breadth of data held by industry data providers, the GSEs would benefit from third party valuation tools and services built on information beyond that related to GSE or FHA transactions only.

In addition to enhancing innovative product development, risk can also be reduced through the enablement of independent data validation providers, thereby ensuring that data collected by appraisers, or even consumers or unaffiliated parties to a transaction, are validated at the point of collection. Third party data validation allows for a more robust data set for review and validation practices, thereby reducing fraud, improving time to completion, and enhancing valuation accuracy. Third party validation also reduces risk to the GSEs and the market in general, as it eliminates the bias that emanates from exclusive reliance on internal or proprietary tools. Independent third-party industry data providers can offer powerful data validation tools to support valuation efforts and ensure the most accurate, knowledgeable, and timely products and services are available.

The GSEs' capabilities also are limited by their inability, due to licensing constraints, to be an aggregator of MLS transactional data. Thus, they cannot utilize the most relevant data in serving the lenders through their collateral tools. (The GSEs, however, can obtain from third party providers such as Radian subsidiaries access to valuation services that utilize MLS data for their own use in review of collateral.). By making their existing data available to independent third parties, other participants in the valuation process would benefit, reducing risk to the Enterprises and reducing bias through elimination of the current environment of asymmetric information availability.

We applaud the GSEs for their efforts in providing more curated data to lenders through the creation of collateral tools like Collateral Underwriter and Loan Collateral Advisor. Enterprise sellers, non-seller correspondent lenders, and approved mortgage insurers have access to these collateral valuation tools. This was an excellent first step. These are not tools, however, that can be used by appraisers, nor is the data within these tools made available publicly for other experts in the private sector to use in the creation of new and innovative valuation products to support them. Today, these tools are used primarily as an appraisal review tool by the lender itself. With the creation of proprietary valuation tools, the GSEs are providing risk scores, and further provide some level of representation and warranty relief based on the score. The data and analytics behind these risk ratings, are however masked from the public domain. Getting all data out into the public domain would work to strengthen our industry and create a more open and equal playing field. This lack of model transparency makes it difficult for the industry to provide valuable feedback to the oversight and regulatory functions the FHFA so importantly provides. One way to mitigate this risk is to offer the market closer inspection of the models.

Data or evidence we could share regarding the accuracy of alternative appraisal solutions versus traditional appraisals is less relevant if we employ a risk-based framework that utilizes multiple data points and both traditional and alternative assessments within the valuation waterfall. Comparison is also complicated when appraisers constitute the benchmark to this study, and today we lack industry benchmarking of independent appraisers.

While appraisals have been the de facto single source of valuation measurement for most real estate transactions for years, evaluating the accuracy of appraisers is difficult. First, their product and geographic focus are highly concentrated such that broad comparison and benchmarking is difficult. For example, there are no 100-year old homes in the southwest U.S. whereas the Northeast contains plenty. Appraisers tend to be specialized by their geography and the similarity of product in a particular area is often not comparable to other parts of the country. Secondly, the experience of one appraiser, in years or product type (i.e. single family vs. condo), can be very different than another. Racial bias, locational bias, and experiential bias can occur in the appraisal community.

This historical reliance on a single source of valuation creates risk. Cost and time considerations typically warrant obtaining only one appraisal or valuation. Mitigating single source risk through multiple valuation data points or a risk-based valuation waterfall would allow us as an industry to eliminate areas of bias and increase confidence of value. Additionally, the potential insurability of certain valuations against valuation defects or errors offers an opportunity to reduce single source valuation risk through private market involvement.

Automated valuation models are independently tested. Unlike manual valuations, we can measure and quantify the accuracy of automated and model-driven solutions through independent testing firms, without sample cohorts. As a result, use of multiple valuations simultaneously (e.g. pairing manual, hybrid and automated values or even multiple automated values) can also enhance confidence and reduce risk to the market and taxpayers.

Using alternative workforces to collect property data utilized in alternative valuation products arguably increases risk, but primarily due to certification and USPAP requirements. Certifications placed on the collection of data by an independent appraiser, however, come at a significant cost, particularly when we are faced with capacity constraints and lack of growth in the appraiser workforce. Mitigating against the perceived risk of data collection by non-appraisers is the removal of bias that flows from use of an alternative workforce. The appraisal modernization initiatives by the GSEs provided a way for us to test these workforces and these studies can provide great insight into an alternative workforce performance.

In summary, we believe that the FHFA can reduce risk in collateral valuation through broader leverage of the private sector to create innovative solutions. Data sharing of appraisal and property valuation data, use of a risk-based waterfall for product selection, wider acceptance of simultaneous use of multiple valuation tools, the potential for warranted or insured valuations, and the creation of independent validation resources at the point of data collection all can reduce risk, bias and other inefficiencies.

III. Industry Considerations

Through modernizing the appraisal process and products available for use, we can speed up current timelines and offer valuation solutions that increase accuracy and remove bias. In many cases, it would also reduce cost. Through the use of alternative valuation products, you open the market to better products and allow more valuation professionals to enter the space. By relying on the best data available and a more data-driven product, the valuation result can be more reliable and fact-based.

Alternative valuation offerings allow appraisers to have new roles and responsibilities, in performing desktop appraisals and focusing more on their valuation skillset, by removing more menial tasks such as appointment scheduling and travel to properties. It gives professionals interested in the appraisal field an alternative to the traditional practice, and we have identified many appraisers that prefer desktop to traditional appraisals. It affords them more time to focus their expertise on the actual valuation determination, rather than the other time-consuming pieces that can be done by others in the valuation field. It is important to consider the alternative valuation offerings for all origination, risk management and servicing functions that require a valuation, including quality control, default servicing, etc. By applying a risk-based framework for the various valuation needs, the industry optimizes its use of appraisers for the tasks that are the highest and best use, given their skill and experience, and promotes efficiency and cost reduction for low risk valuation activities.

Consumers will benefit from alternative valuation options that utilize alternative workforces, as the lack of appraiser availability and access impact turn times. With greater access to data, automated products and hybrid valuation alternatives will expedite the process.

Appraisal bias emanating from reliance on a single individual's valuation opinion is a well-publicized concern. Data-driven valuation products remove human bias, in favor of objective data, such as location, proximity of comparable properties, property attributes, square footage and more. While alternative valuation models themselves can pose a risk of bias, the results of valuation models are measurable, and offer corrective action that is less available with respect to a non-uniform pool of appraisers or other human workers.

Many companies are now also leveraging Artificial Intelligence and Machine Learning in the creation of valuation offerings as well. As an example, Radian in conjunction with its subsidiary Red Bell Real Estate, LLC, has been pursuing a project to identify property condition and rooms, as well as object types within valuations, to improve the quality and accuracy of valuations. These technological advances will forever change alternative valuation offerings, making them significantly more accurate through the depth and breadth of available data.

IV. Summary:

In conclusion, we as an industry are leveraging technological advancements to drive innovation in the valuation space. We believe this can and should be our primary driver. We support and encourage the use of multiple data sources, waterfall validation tools including automated and alternative valuation, and the use of third-party valuation (non-GSE) services and products in a framework that balances risk with oversight. Policy should create flexibility and an equal playing field for lenders, investors, and insurers, which serves to encourage and promote our most important mission of homeownership.

Radian appreciates the efforts of the FHFA in conducting this RFI and we look forward to actionable policy and process improvements to address this critical need as we all work together to support the U.S. Residential Housing Market.

Please feel free to contact us with any comments, questions, or clarifications regarding our response.

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Appendix:

Radian Corporate Overview

Radian Group Inc. (Radian) is a diversified mortgage and real estate services business. Radian is U.S. owned and operated, with headquarters located in Philadelphia, PA, with offices in 7 additional states and a workforce of over 1,200 employees nationwide. Radian has proven financial strength and stability, with over $1B in revenue annually, and continues to provide **confidence** and **trust** for our customers during these difficult times.

Since establishing its roots as a private mortgage insurer in 1977, Radian has evolved and diversified its product and service offerings. Through subsequent strategic acquisitions and an increasing investment in digital innovation, products and associated services offered by Radian's subsidiaries, we are leveraging proprietary technology to generate unique, customized, and valuable insights at every point in the life cycle of a loan.

Today, our offerings are strategically positioned across the mortgage value chain maintained by two strategic business units — **Mortgage** and **Real Estate**.

Our Mortgage business derives its revenue from mortgage insurance and other mortgage and risk services, including contract underwriting services provided to lenders.

Radian Mortgage Insurance promotes responsible and sustainable homeownership and allows lenders to offer affordable mortgage financing options to prospective homeowners. Our products also facilitate the sale of low-down payment mortgages in the secondary market and enable homebuyers to purchase homes more quickly with down payments of less than 20%.

Radian Mortgage Risk Services offers proprietary mortgage risk analytics and custom insurance products to help lenders more efficiently manage risk and help investors participate in mortgage risk sharing.

Radian Mortgage Services offers underwriting solutions to help lenders respond to market fluctuations and increase productivity and considers additional products and services to serve our customers and grow our mortgage related business.

Our Real Estate business offers a broad array of title, valuation, asset management and other real estate services to market participants across the real estate value chain.

Radian Asset Management Services offers solutions for real estate owned (REO) properties, single family rental (SFR) asset classes, propriety property management technology and facilitation of a real estate network.

Radian Title Services provides a comprehensive suite of title insurance products, title settlement services and both traditional and digital closing services.

Radian Real Estate Agent Services offers solutions to real estate broker/agents to facilitate the buying and selling of real estate properties through proprietary technology.

Radian Valuation Services using expansive data, provides automated solutions for assessing the value or estimated sales price of a home, including valuable trending information and analytics to facilitate the selling or buying decision. Residential property valuation services and products are offered through **Red Bell Real Estate, LLC**, a wholly owned Radian subsidiary.