



February 25, 2021

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street SW, 9th floor
Washington, D.C., 20219
(Transmitted via email to AppraisalRFI@fhfa.gov)

RE: FHFA Request for Information on Appraisal-related Policies, Practices, and Processes.

In response to the RFI,

Clarocity Valuation Services (CVS) is a national provider of valuation, appraisal and inspection services. In addition to providing valuation services, Clarocity also develops proprietary valuation software and platform solutions for our clients. Since 2011, CVS has built a reputation for the invention of proprietary valuation products and services. Our Clients include Lenders, Credit Unions, Loan Servicers, the GSEs, Government Agencies and Investment Firms. Our products and services run the valuation gamut incorporating traditional appraisal, alternative or hybrid appraisal products, real estate agent products and automated valuation.

We will focus on a response to the RFI questions in section 1 "General Questions on Appraisal Policy and Process Improvements." Most of these questions are formulated in context of the Enterprises' proposed approach to modernization found on page 7 in the RFI. As noted on this page, "One possible alternative proposed by both Enterprises is appraisal bifurcation, also known as the hybrid appraisal." What the Enterprises term as "bifurcation" we call "collaborative valuation." From day one, Clarocity has approached valuation as a collaborative process. Our very first product in 2011 divided the inspection process from the valuation process providing multiple valuation opinions with only one inspection. To the best of our knowledge, we are the first company to provide nationwide services that divided the inspection and valuation processes. Based on our pedigree, we will provide detailed input on questions A1.1 and A1.3 concerning alternative valuations. These compound questions have been separated for clarity. Below are our responses by question number.

A1.1 Is there is 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?

The "unique appraiser population" (Figure 1) on page 5 of the RFI's, poignantly demonstrates the genesis of most of the questions posed in this document. There is no disagreement among informed stakeholders that we do not have adequate appraiser capacity. Issues surrounding turn-times, higher costs and underserved markets all stem from insufficient supply of appraisers to continue completing appraisals in a traditional manner. To make matters worse, the appraiser population is

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aging, and we are not introducing new entrants to the profession. Quite simply, we cannot continue to conduct the valuation business “as usual.”

The appraiser supply crisis aside, we at Clarocity argue there remains a need for new valuation solutions. As an industry, we have approached collateral valuation in the same manner since well before the inception of FIRREA. There have been some advances in technology over the last four decades; however, we are still completing reports on the Uniform Residential Appraisal Report (URAR) which debuted in 1984. Major advances in data collection through the Uniform Appraisal Dataset (UAD) have been shoehorned into antiquated forms originally intended for typewriters. We understand that the Enterprises are beginning to update UAD and the appraisal forms, but new valuation solutions are a paradigm shift that goes well beyond data and forms. In the age of laptops, handheld devices, satellite imagery and vast data stores, it is no longer acceptable to value properties the same way we did with our typewriters. Appraisers need new innovative tools to do more than insert canned comments, check boxes, supply three comps and upload the report.

Yes, there is a need for new valuation solutions. Beyond that need, as an industry, we also have a responsibility to provide the best collateral risk assessment possible. To meet this charge, we must employ new technology and implement new processes that are contemporary with the technology of today and at the same time keeping an eye on tomorrow's emerging solutions.

A1.1 What are those potential solutions?

First, as a potential solution, we must maximize the productivity of the existing appraiser population while also facilitating their "highest and best use." Appraisers should only be completing tasks that require their unique professional skill set, solving valuation problems. As with many other professions there are tasks that can be completed by others that assists the decision-making of the professional. Physicians are capable of many of the tasks performed by their nurses but choose to rely upon the information those nurses have collected to make decisions regarding the patients. Examples can be found in numerous other professions. Appraisers must follow the lead of these other professions.

Traditionally, appraisers spend a large portion of their time in the field viewing properties to collect information for their analysis. Driving to and from properties, walking through properties, measuring properties, and driving by comparables for photographs are very time-consuming portions of the traditional appraisal process. All of these tasks can be completed by other people trained to provide credible information to the appraiser. Appraisers are trained to solve valuation problems by applying the appropriate scope of work, analyzing data and reconciling information into a final opinion of value. Most of these unique appraiser skills occur at their desk. That is where appraisers are maximally productive and where they should invest the majority of their time.

In addition to delegation, new valuation solutions must also include the application of modern technology and a complete overhaul of "traditional appraisal." Cell phones and handheld devices have had an enormous impact on the lives of individuals. Now we consume information including news and education from small computers in the palm of our hands. No longer do we carry cameras

on vacation. Our governmental authorities are held accountable for their public actions by videos collected by concerned citizens. The enormous impact of handheld devices has tremendous potential in real property valuation as well.

Is it really the best use of a licensed or certified valuation professional to spend an hour driving to a property, taking a photo of a missing smoke detector, returning to their desk and then completing the form certifying the smoke detector is there? We don't think so. At Clarocity we have developed handheld device technology for collecting information from the homeowner as well as any other third-party alternative workforce. The technology has safeguards to verify the location of the handheld device and we run homeowner input through our quality control team to ensure there is no inappropriate commentary regarding value. Certainly, every inspection cannot be done virtually and many times the appraiser is the best person to visit the property. There is however a high percentage of cases where the risk is low, and we can keep appraisers at their desk.

The above example is only one of many applications of technology and the data collection process. New valuation solutions must also consider the general scope of work for the appraiser. Desktop assignments can be streamlined and other valuation methodologies, such as qualitative analysis, employed. Again, technology can assist in many ways. We can connect the appraiser to large stores of data and provide them with regression-based technology that identifies the best comparables and applies adjustments not to just three sales but to the whole population of sales in the market segment. The appraiser can then make a selection of the 10 best sales for consideration and modify the adjustments based on their experience. No longer are we basing important value opinions on three comparables because they fit on a typewriter-based form. Rather we are supporting value conclusions with extensive data enabling the appraiser to provide transparent, replicable valuation results.

In the context of this RFI, these valuation solutions are described as "new." However, they are not new to Clarocity. We have been taking a collaborative approach to valuation since 2011. We already have the mobile inspection technology and have been utilizing it in a variety of ways with credible results. Developing solutions with valuation data is part of our corporate DNA and we use it to augment human decision-making as well as provide automated results. We are constantly looking for what is "next" or "new" in valuation. Much of what's discussed in this RFI we are already implementing for our clients.

Clarocity is not alone in developing new valuation solutions. There are many good and credible companies that are our teammates. We certainly believe these other companies would agree with our assessment that the industry collective of new valuation solutions needs to be implemented. We are all standing on the sidelines anxious to get in the game. Some of us are veterans, others are rookies and we all want to be "the most valuable player."¹ Most important, everyone on the "innovation team" wants our opportunity to see our mutual new solutions move the ball forward.

¹ To those who may be familiar with our alternative appraisal product called "MVP," the acronym in this case stands for "Market Value Pro" not "most valuable player."

A1.1 What are the risks of these policies and the challenges in implementing them?

A primary objective of new valuation solutions is to reduce risk. However, with any new technology or procedure, there are some new risks that are introduced. There are two main categories where new risk could occur, the use of alternative inspection workforces and the introduction of new technology.

Keeping the appraiser at their desk will certainly improve their productivity and focus their time on their most valuable contribution to the process, analysis and reconciliation. The valuable work of the appraiser at their desk is based on their knowledge of the local marketplace. Appraisers can gather this information electronically and through conversations with market participants. However, there is also valuable information collected in the field. When an appraiser drives through a particular market segment, they collect knowledge on the general condition of properties and other attributes that are either favorable or unfavorable to the area. The same is true when driving by comparable properties. If appraisers remain at their desk entirely, this valuable first-hand information will be lost. Less information always equates to more risk.

While this risk is evident, it is mitigated by the reality that appraisers will not remain entirely at their desk. Appraisers complete assignments for a multitude of reasons other than mortgage lending. Also, inside of mortgage lending, new alternative appraisal reports will only be one particular scope of work based on the collateral risk level. There will certainly be some appraisal assignments that require the appraiser to collect property information on site. There may also be particular properties that are best valued by the appraiser seeing the exterior from the street. All of these different scopes of work will keep appraisers engaged in viewing local markets and properties firsthand.

Another risk of using alternative inspection workforces is the competency of those individuals completing the services. Appraisers rely on these outside workforces to provide accurate credible information for their further analysis. If alternative inspection workforces are improperly trained, or lack training at all, the appraiser may be receiving the wrong information and replicate erroneous information in their report resulting in a misleading value conclusion.

Appraisers regularly rely upon information they have not gathered firsthand. They utilize multiple listing services by reading the listing commentary and viewing exterior and interior photographs of the property. They verify this information by consulting public record files. They use aerial photography and other online data sources. In all of these instances, the appraiser is expected to verify and comment on the credibility of their sources of information. Alternative inspection workforce information is no different. This is just another source of information, in this case about the subject property. In the same way, the appraiser must have confidence that the information from the third-party source is credible.

There are steps that can be taken to provide the appraiser confidence in the results produced by third-party inspectors. A standardized inspection dataset should be considered. This would ensure that each assignment has at least a minimum amount of information necessary for an appraiser to

make proper decisions. Those performing the inspection should also have training specific to the property data collection process. This workforce needs to understand different types of depreciation including the three standards, physical, functional and external. They need to be able to identify and report evidence of these types of depreciation to the appraiser. Many other factors including quality of construction and condition are also essential to a proper decision-making. Ascertaining these factors requires proper training. Alternative inspection workforces also need to have some level of regulation and licensure. Appraisers need to know the identity, training level and competency of those providing them with information on the subject property.

The introduction of new technology adds some risk to the process as well. Property information is very personal. Any information transferred electronically from handheld devices across the Internet needs to have hardened data security. Information should not be stored locally on handheld devices by third-party inspectors or homeowners. And information supplied by homeowners can provide an opportunity to influence appraisers in one value direction or another whether intentionally or unintentionally.

Technology providers, like Clarocity, are familiar with these security issues and have provided state-of-the-art encryption and data protection. In addition, at Clarocity, all commentary is read by a quality control team before being passed on to the appraiser. This serves two purposes; first to make sure there is no inappropriate communication and second to verify that all information needed for the appraiser is evident in the inspection.

All things considered, we at Clarocity believe the additional risk that may be introduced by new valuation solutions is significantly less than the risk of continuing to value properties in an outmoded manner. For the most part, the industry been doing things the same for the last 40 years and we have already applied maximum risk mitigation to existing valuation processes. While this is a comfortable position, good is always the enemy of better. New risks of innovation are acceptable when we consider that doing things the same way we always will result in obsolescence.

A1.3 Do appraisal waivers have a place in Enterprise appraisal policy and process, and if so, for what segment of loans?

Briefly, we consider waivers as a part of the overall valuation continuum. There are many properties that do not require a complex valuation to determine collateral risk. Possibly there was a very recent transaction (with valuation) or refinance on the property or maybe a very low loan to value ratio. In these cases where collateral risk is low, why should the consumer pay for an appraisal? We regard waivers as one instrument in the tool chest of valuation decision-making.

A1.3 What are the current risks to Enterprise safety and soundness in how appraisal waivers are offered?

Waivers are based on electronic valuation of the subject property and consideration of other underwriting requirements. Automated valuations make assumptions about the quality and condition of the subject property. They are also generally unaware of externalities that may

influence value either positively or negatively. These are known weaknesses of modeling for value. Understanding these limitations, we cannot assume a low loan to value ratio if we don't have confidence in the value portion of that equation.

Clarocity recommends continued use of waivers that include some type of property inspection as part of the equation. This would reduce miscalculations that result from assumptions on quality, condition and externalities. In addition, site level information gathered from inspections could continue to provide valuable data to the model for future calculations. As noted, property information could be collected electronically by the homeowner/borrower or by third-party inspectors. We have been applying both of these methodologies for a number of years.

Closing

We would like to thank FHFA for reaching out to the valuation community regarding appraisal modernization. Clarocity is excited for the future of the valuation space. We will make our subject matter experts available to discuss the items we have addressed as well as any other questions you have regarding new valuation solutions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ernie Durbin II', with a stylized flourish at the end.

Ernie Durbin II, CRE, SRA, AI-RRS
Chief Valuation Officer
Clarocity