



Housing Finance & Regulatory Affairs

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Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street, SW
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Washington, DC 20219

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

Submitted via Electronic Delivery to: [FHFA.gov](https://www.fhfa.gov)

To Whom It May Concern:

On behalf of the National Association of Home Builders (NAHB), I appreciate the opportunity to submit feedback in response to the Federal Housing Finance Agency's (FHFA) Request for Information (RFI) regarding appraisal-related policies, practices and processes. Collateral valuation is a critical component of the mortgage lending decision and should be based on sound data. NAHB believes that having accurate, timely and robust data (including data for newly constructed homes) is essential to ensuring accurate valuations.

NAHB represents over 140,000 members who are involved in building single-family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. NAHB's members construct approximately 80 percent of all new housing in America each year, and help provide decent, safe, and affordable single-family and multifamily homes across the country. NAHB and its members have a strong interest in supporting a housing finance system that offers home buyers access to affordable mortgage financing in all geographic areas, in all economic conditions.

The process to properly evaluate the collateral supporting real estate transactions is an important component of the overall housing finance system. NAHB strongly believes that fair and accurate appraisals are a critical part of a safe and sound housing system.

Background

During the 2008 financial crisis, appraisal quality and validity issues were the basis for many of the repurchase requests lenders received from Fannie Mae and Freddie Mac (the Enterprises). Specific appraisal quality issues found by the Enterprises at that time included poor data quality, unsupported adjustments and value conclusions, deficient market analysis, errors in property condition, inflated or fraudulent valuations, and a lack of appraiser independence from the lender originating the mortgage. In response, the Enterprises embarked on a multi-year effort to improve data quality, provide collateral valuation tools for the industry, and conduct industry outreach to better understand the problems appraisers and lenders were facing.

In 2010, FHFA and the Enterprises prioritized the standardization of single-family mortgage data through the Uniform Mortgage Data Program (UMDP) to improve data accuracy, process efficiency, loan quality, and mortgage credit risk management. The data standards serve as the foundation for ongoing efforts to enhance Enterprise business models, lender-facing technology tools, and quality control practices, which in turn help

lenders improve the quality of their loan manufacturing processes. In 2013, the Enterprises began using collateral tools for their own quality control purposes and then later made them available to lenders to use for their review of appraisals prior to closing on the mortgage.

In 2017 FHFA hosted an appraisal workshop to discuss appraisal policy and process modernization efforts. The event was attended by appraisal and mortgage professionals including appraiser associations, lenders, data vendors, and government housing regulatory agencies. Discussions centered around issues identified by industry participants that included appraiser shortages in rural and high-volume areas, the impact of licensing requirements on new entrants, sources of meaningful training for trainees and new appraisers, and how to use technology to help trainees gain practical experience. The 2017 workshop revealed that industry challenges in the procurement of appraisal services, particularly in times of high volume, require solutions in order to support mortgage market liquidity. Currently available and emerging technologies could be leveraged to improve process flows potentially providing relief on appraiser capacity and a reduction in delays due to appraisals.

Purpose of the RFI

FHFA has issued this RFI on appraisal-related policies, practices, and processes to determine the necessary modifications if any, that are needed to ensure the Enterprises operate in a safe and sound manner. FHFA believes that modernizing the appraisal process has the potential to streamline and more accurately determine the value of the collateral however, if not properly adopted, it could have negative unintended consequences. The FHFA is interested in understanding how the Enterprises can improve the appraisal process while at the same time ensuring they do not take on unintended or additional risk.

NAHB Comments and Recommendations

NAHB is pleased and encouraged the FHFA has issued this RFI regarding appraisal-related policies, practices and procedures to determine whether any modifications are necessary to ensure Fannie Mae and Freddie Mac continue to operate in a safe and sound manner. In light of current modernization efforts already in process by the Enterprises, NAHB believes it is important to have the opportunity to address issues before changes are finalized and is privileged to share our comments and recommendations during this stage of the process.

NAHB supports sound valuation practices and procedures that produce credible valuations in all economic circumstances. NAHB has been at the forefront of working with the appraisal industry and housing stakeholders to improve the home valuation process and appreciates the FHFA's focus to better understand the appraisal process and the role Fannie Mae and Freddie Mac share in setting appraisal practices and standards. Overall, NAHB's efforts have focused on making improvements in four key areas of the appraisal process:

- Improve the quantity, quality and availability of data for newly constructed homes
- Develop new appraisal standards and best practices for conducting appraisals that can respond to all market conditions
- Strengthen education, training and experience requirements for appraisers of new home construction
- Develop a process for an expedited appeals process for inaccurate or faulty appraisals

NAHB looks forward to working with FHFA and all stakeholders to improve appraisal practices specific to new home construction as housing leads the nation's economic recovery. The housing market must continue to remain active and vibrant as builders create much needed new housing supply, but face headwinds caused by rising construction costs.

Current Enterprise Appraisal Practices

For residential mortgage lending, Fannie Mae and Freddie Mac set the standards used by most of the mortgage industry. The Enterprises have developed forms that are commonly used to communicate the appraisal of properties used as collateral. The Uniform Residential Appraisal Report (URAR) was introduced in 2005 and is used in most mortgage lending transactions that require an appraisal. As such, the Enterprises' forms and requirements are the de facto standard for appraisals even though the Uniform Standards of Professional Appraisal Practice (USPAP) is the generally recognized ethical and performance standards for the appraisal profession in the United States. USPAP is designed to give appraisers flexibility to fully utilize all appropriate tools available for their analysis. While the URAR and Enterprises' guidelines provide an industry standard, they have limitations. For instance, the URAR requires the collection of a limited amount of information on a property and only requires the appraiser to use the sales comparable approach to determine value. The form also includes certifications that cause confusion and can disadvantage new construction.

Question A1.2: Are there opportunities to improve traditional appraisals to mitigate problems and concerns that have been observed to date?

Cost Approach to Value

The Enterprises continue to require only the use of the sales comparison approach to value for appraisals, even though USPAP includes three approaches to value: sales comparison, income and cost. Fannie Mae and Freddie Mac guidelines require that if the cost approach to value is used in an appraisal, the sales comparison approach must also be used and **must** be given the most "weight" or consideration to determine buyer demand and marketability. However, NAHB notes there are no restrictions in the USPAP to prevent an appraiser from valuing a property solely by the cost approach to value yet, the Enterprises will not purchase a mortgage that relies solely on this method. When determining the value of a newly constructed home without using cost approach, NAHB is concerned that appraisers are not including critical information in their analysis regarding input costs and more stringent code requirements.

In a recent survey, NAHB asked home builders what their most challenging issues were related to the pandemic. Shortages and delays in building materials were the biggest challenge cited by nearly all respondents. These shortages and delays in receiving building materials have had a direct impact on the cost of materials, in particular lumber. "According to Random Lengths, the price of lumber hit a record high in February 2021 and is up more than 170 percent over the past 10 months," said NAHB Chairman Chuck Fowke, a custom home builder from Tampa, Florida.¹ According to NAHB, soaring lumber prices have caused the price of an average new single-family home to increase by more than \$24,000 since April 17, 2020.²

The significant and rapid increase in lumber prices has made obtaining an accurate assessment of value very difficult because, in most cases, these price increases have not yet been reflected in closed sales. Therefore, an appraisal that relies only on the sales comparison approach is very unlikely to consider these cost increases incurred by home builders. Since these price increases have not been reflected in closed sales, appraisers are unable to find suitable comparables to support the value of newly constructed homes. As a result, the appraised value is in some cases far below the sales price agreed to by the home builder and home buyer and, in some

¹ [International Forest Industries](#)

² [NAHB Keeps Lumber Prices in the Headlines](#)

instances, does not even cover the cost incurred by the home builder to construct the home. To account for this difference in price and the appraised value, the home builder and in some instances the home buyer are forced to pay out of pocket to help make up the difference in order to close the transaction. Some home builders have ceased construction on new projects for fear of not being able to recoup the cost to construct the home during the sale. This only exacerbates the overall problem of the lack of housing supply.

In order to best incorporate these significant cost increases in the price of materials, NAHB believes it is necessary and vital that appraisers factor these actual costs into the valuation of a newly constructed home by utilizing more than just the sales comparison approach to value. By using the cost approach as part of the analysis, the appraiser estimates what it would cost to rebuild or construct an equivalent structure. Since this component of property valuation considers the costs of materials used to construct the property, it is often useful and, given the current housing market, crucial to accurately assess the value of a newly constructed home.

Builders confronted a similar challenge coming out of the Great Recession making it more difficult for the housing industry to recover. When home prices began declining, relying solely on the sales comparison approach exacerbated the slide in values. Some appraisers used distressed sales – many of which involved properties that were neglected and in poor physical condition – as comparables in assessing the value of brand-new homes, without accounting for major differences in condition and quality. Without such adjustments, the new homes were at a significant disadvantage. The inappropriate manner in which distressed sales were utilized distorted home valuations. Use of the cost approach could have mitigated such distortions.

In addition, new construction must be built to updated state and local building codes and standards. Many of these regulations are aligned with market-driven consumer preferences such as safe and sound construction, energy efficiency and water conservation. However, at times, state and/or local governments put requirements on homes that do not necessarily reflect current consumer demand and do not fit easily into an appraiser's determination of market value. It is difficult to incorporate these items into the valuation without considering cost.

NAHB requests that greater weight or emphasis be given to using the cost approach to value, especially given the current market circumstances. NAHB believes the cost approach to value was created to better incorporate market variations that impact new construction. Using the cost approach to value can also address circumstances in which there are few comparables or sales if the subject property is located in a rural area. Further, NAHB believes that in the absence of newly constructed sales as comparables, appraisers should be able to use existing homes that are of similar character and quality. NAHB acknowledges and appreciates the [article](#) published by Freddie Mac advising appraisers how they can account for rising material costs for new construction assignments; however, more needs to be done.

Appraiser Training and Education in New Home Construction

Appraising newly constructed homes, often based on plans and specs, is complicated and should be assigned to appraisers with the experience and training necessary to give an accurate assessment of value. NAHB strongly supports additional training and education for appraisers in new home construction. Following the Great Recession, stringent requirements went into effect to ensure appraiser independence and the use of third-party appraisal management companies increased significantly to ensure that mortgage lenders did not pick an appraiser. However, many home builders expressed concern that, as a result of these safeguards, lenders were no longer permitted to select appraisers known to have experience in appraising newly constructed homes.

Appraisals of new home construction requires a precise skillset which is obtained only by having extensive experience appraising newly constructed homes in various market conditions and should be done by appraisers with adequate training and experience.

Reconsideration of Value

NAHB believes it is extremely important to establish a timely appeals process that is fair, balanced and appropriate to allow all parties to the transaction to appeal appraisals that do not meet USPAP standards or are based on inaccurate data or assumptions. In November 2018, the Appraisal Foundation published a [white paper](#) on the reconsideration of value. The paper is intended to provide information to assist appraisers, users of appraisal services, and others, with a greater awareness and understanding of issues surrounding the reconsideration process and offer some suggestions for those who wish to build a more relationship-driven and consistent method. The paper is a good starting point to developing a standard process.

In addition, builders have reported some success with the VA's [Tidewater Initiative](#)³, introduced in 2003, that allows all parties to the transaction to provide the appraiser with additional information prior to the formulation of the appraiser's initial value opinion, which the VA refers to as the Notice of Value (NOV). The policy is known as the Tidewater Initiative because it was initially tested in the Tidewater region of Virginia. The purpose of the Tidewater Initiative is to encourage VA program participants to provide relevant market data to VA fee and staff appraisers during the appraisal process to assist the appraiser in identifying relevant information they may not have had access to that ultimately creates a more accurate value opinion. Prior to issuing a NOV, a VA appraiser is required to notify a designated point of contact (POC) if the appraised value will come in below the sales price of the subject property. The appraiser will not be at liberty to discuss the contents of the appraisal with the POC at this point beyond explaining that they are calling for whatever additional information the POC may be able to provide. Full cooperation is expected between the appraiser and the specified POC or lender. Once the POC or lender has been notified, they will have two working days to provide additional information to the fee appraiser in a specified format. After receipt of any additional information, the appraiser will proceed with their due diligence and complete the report, which may or may not be affected by the additional information. NAHB recommends a standard appraisal appeals structure similar in design to that of the VA's Tidewater Initiative.

Question A1.4: Would utilizing alternative inspection workforces such as appraisal trainees assist with addressing appraiser capacity concerns? Are there risks of using third-party non-appraisers?

NAHB is supportive of bifurcated appraisals and the state credential requirements for those who collect the information on behalf of a senior appraiser as we believe this flexibility can help address appraiser shortages especially in rural areas. We believe bifurcated appraisals address not only issues of appraiser capacity but also issues related to turn-around times, training and high-volume market coverage.

However, NAHB does not support hybrid appraisals in which the third-party collecting the information is not qualified. While NAHB is an advocate of a more streamlined and efficient appraisal process, NAHB also believes it is important to maintain the integrity and credibility of an appraisal. Licensed and credentialed appraisers, including trainees, are a necessary and vital component in the housing market. There must be a standard qualification that should be met to perform inspections in order to ensure the accuracy of the appraisal.

³ [VA Circular 26-03-11, "New Procedures for Improving Communications with Fee Appraisers and Streamlining Reconsiderations of Value" \(December 22, 2003\)](#)

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?

Uniform Appraisal Dataset and Forms Redesign

NAHB appreciates the joint efforts of the Fannie Mae and Freddie Mac team assembled to implement the Uniform Appraisal Dataset (UAD) and Forms Redesign and is encouraged that more data will be collected during the appraisal process. NAHB members and staff have actively participated in stakeholder and advisory group meetings over the past two years and welcome the opportunity to provide meaningful feedback on this initiative. NAHB is encouraged this multi-year initiative will help provide greater clarity for lenders, borrowers, and investors while simplifying appraisal reporting and build a foundation for appraisal modernization. The expanded amount of information will provide a more comprehensive description of the property and lead to more accurate valuations. NAHB strongly supports the Enterprises' modernization efforts and the UAD and Forms redesign to meet this goal. NAHB believes the UAD forms redesign will be able to meet current needs and is flexible enough to adjust to future changes in the industry.

Interim Steps are Needed

The forms redesign initiative is a multi-year process that will take time to develop, implement and refine. In the meantime, the mortgage lending and appraisal industries continue to rely on the URAR for current transactions. NAHB remains concerned that key information, particularly on green and energy-efficient features, is not being collected because this form does not have the appropriate fields. New home construction requirements, including energy and water efficiency provisions, have changed considerably over the past fifteen years since the URAR was introduced and many of these new products and building practices are not accounted for in the URAR. Some of these new provisions include insulation type and grade, certified plumbing fixtures, windows and appliances, HVAC size and efficiency, and whole-house energy rating and/or green certification.

The current URAR does not include enough details to analyze the entirety of a house or to accurately compare it to other properties without energy and green upgrades. Therefore, NAHB urges Fannie and Freddie to begin collecting this information immediately by adding new fields to the URAR such as a code and energy rating. These additions should be added to both the "General Description" box on page 1 and on page 2 to the "Sales Comparison" section to be included in the analysis of comparable properties of the URAR. These datapoints are easily accessible to the appraiser and will allow the appraiser to more accurately assess the property's value.

Specifically, the addition of the "Code Built to" datapoint will provide key information on construction that the "year built" field would not necessarily capture. Having the code identified in the report would be an easier reference point for appraisers to understand and assign a value. This information would also be helpful in identifying regional characteristics and could help distinguish homes that have been significantly renovated. The addition of the "Energy Rating" information whether it be a Department of Energy (DOE) Home Energy Score (HES) for existing homes, a Residential Energy Services Network Home Energy Rating Score (HERS) or a DOE Energy Rating Index (ERI) for a new home, or a state or regional program's energy rating score, will capture a home's energy efficiency and is third-party certified.

Appraisal Standardization

NAHB believes that all aspects of the appraisal process should become standardized. Standardization of the appraisal will add a measure of credibility and confidence for all housing participants. NAHB notes there are

many inconsistencies found in appraisals leading to frustration and confusion among those who rely on them. Inconsistencies such as comparables used, square footage calculations and condition ratings of a property are just a few examples of errors commonly seen in appraisals. NAHB is encouraged that these areas and more will be addressed by the UAD and Forms Redesign in helping to standardize the appraisal process.

NAHB recommends the universal adoption of the NAHB Square Footage American National Standards Institute (ANSI) standard already developed to calculate square footage. The calculation of square footage is currently inconsistent and leads to confusion among its users and lowers confidence in the quality of an appraisal. For example, there have been instances where the square footage reported in the public records is different from what is reported in the NMLS. NAHB believes that a universal adoption of our standard, will address this particular issue and will help restore confidence in the quality and accuracy of an appraisal.

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?

NAHB members continue to identify impediments that hamper appraisers' ability to provide accurate valuations of residential real estate due to flawed data or missing information resulting in inaccurate or incorrect appraisal values. In particular, the limited availability of data on energy-efficient and other green features in new and existing properties has created confusion on how to account for the value of these elements. NAHB believes the objective of an efficient and accurate collateral valuation process is to have an appraisal that accurately reflects the value of the property enabling lenders to correctly understand the collateral risk to ensure solid lending decisions.

NAHB believes credible, consistent and easily accessible data is critical to the valuation process. Appraisers have complained that much of the data they need in order to complete an appraisal exists but is held by the Enterprises and is unavailable. In order to accurately assess the value of the property, the appraiser must spend time looking for data that already exists which reduces the efficiency of the appraisal process. NAHB supports making data more easily accessible to appraisers to better assist them in completing appraisals in a timely fashion and with fewer errors. In addition, NAHB believes data availability will also serve to help standardize the information shown on the appraisal thereby reducing errors on the report.

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?

NAHB is supportive appraisal flexibilities put in place in response to the COVID-19 pandemic to permit an exterior-only or desktop appraisal to the traditional appraisal when an interior inspection is not feasible due to COVID-19 concerns. NAHB believes that drive-by, desktop and exterior only inspections have a limited place in the housing market and can aid in supporting a liquid housing market provided the information relied upon is accurate.

NAHB believes it is prudent the Enterprises monitor the performance of loans given the temporary appraisal flexibilities to determine if they should remain in place after the pandemic subsides or be used in response to other crises. While it is too early to assess the long-term risks and impacts on the Enterprises, NAHB encourages the FHFA and the Enterprises to actively monitor the impact of the COVID-19 appraisal flexibilities.

Question C1.6 Do you have any additional feedback on issues and questions raised by this RFI?

Using Appropriate Comps for Manufactured Housing

NAHB is concerned with the Enterprises' appraisal requirements for manufactured homes. For both Fannie Mae's "MH Advantage" loan program and Freddie Mac's "CHOICEHome Mortgage," appraisers are now permitted to use site-built homes including modular homes as a comparable sale if an appraiser is unable to find a single-width comparison to use. NAHB points out that manufactured homes are built to the Department of Housing and Urban Development's (HUD) code requirements whereas site-built homes are built in accordance with the International Building Code (IBC) to meet state and local code requirements. Since the construction of manufactured homes is regulated by HUD and not the localities, the standards for the construction of manufactured homes are not the same as site-built or modular homes. NAHB suggests that if there are not appropriate comps to use for manufactured housing, then appraisers should be asked to note this fact in their analysis. Manufactured housing is a viable product that can provide much-needed affordable housing and the industry has created attractive options, such as the new class of manufactured homes referred to as CrossMod. However, the distinction between the two types of housing should be clear.

In our feedback to the UAD Advisory Group regarding sales comparison approach adjustments in March 2020, we noted that having a "line" to distinguish between both property types using the "code the property was built to" would help clarify homes that are site-built and manufactured homes.

While NAHB understands that FHFA's Duty to Serve requires Fannie Mae and Freddie Mac to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families in underserved markets, which include manufactured housing, NAHB cautions against blurring the lines between site-built and manufactured homes for appraisal valuation purposes. The methods and standards of construction both property types are held to should also distinguish how they are both appraised and valued.

Conclusion

Thank you for your consideration of NAHB's comments. NAHB is a strong proponent of a sound and effective appraisal industry. Appraiser training, education and data availability are critical components to improving the accuracy, credibility and integrity of appraisals. NAHB looks forward to working with the FHFA and all housing market participants to improve appraisal policies, practices and its processes.

Please contact Curtis Milton, NAHB's Director of Single Family Finance (email: cmilton@nahb.org or phone: 202-266-8597) if you have any questions about this letter.

Sincerely,



Jessica R. Lynch