Federal Housing Finance Agency (FHFA)

Appraiser Related Policies, Practices, and Processes Request for Input (RFI)

First American

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Dear FHFA RFI Evaluation Team,

We are pleased to present First American's input in response to the Federal Housing Finance Agency's (FHFA) Appraiser Related Policies Request for Input. As you review our comments, we hope that you recognize First American as among the industry leaders based on our knowledge, vast resources, and years of valuation experience. We pride ourselves in not only having a deep understanding of the valuation space, but rather having a significant command across the modernization of the entire mortgage and real estate data life cycle, and are pleased to share our guidance and best practices with you.

First American is currently working with a variety of top lenders in the industry, which gives us a unique perspective into what are best in class fulfillment models. First American solutions have been awarded over 20 patents for title automation, loan risk assessment, online platforms, optical character recognition and data extraction capabilities. Using proprietary document data extraction technology, First American collects, extracts and curates the industry's most robust and highest quality property-related data, such as mortgages, deeds, assignments, liens, etc. Having applied this level of focus and expertise in several domains which previously relied on analog approaches, supporting digitization and success. Today clients utilize First American solutions through a variety of intuitive and flexible platforms, APIs, and integrations with technology providers. Further, our exceptional network of staff appraisers, flexible solutions, technology, and delivery mechanisms allow us to work closely with organizations of all sizes and scope, to provide specific solutions and approaches to meet exact requirements. From our engagements, we have developed best practices and methodologies that we believe will be instrumental as we move forward into the post-COVID-19 era.

We believe that our experience, combined with our innovative solutions, gives us the ability to comment on appraiser related policies and practices moving into the next decade. If you have any additional questions regarding our comments, please contact me directly. We look forward to sharing our experience and partnering with FHFA to address any questions you may have.

Sincerely,

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General Questions on Appraisal Policy and Process Improvements

Question 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? What are those potential solutions? What are the risks of these policies and the challenges in implementing them?

Appraiser capacity is a constant problem in certain market areas, mostly rural areas, throughout the country. It is an intermittent problem in more densely populated regions and is mostly driven by spikes in appraisal order volume.

In rural or sparsely populated regions of the country the capacity issue is a persistent issue in low volume periods and is exacerbated by spikes in volume. This often leads to appraisers accepting assignments in markets where they have limited or no experience. The capacity issue is mostly driven by the amount of time it takes to travel to and from the subject property and to drive by each of the respective comparable properties utilized in the report. One potential solution would be to update valuation policies to allow a bifurcated appraisal in those markets. By introducing a process whereby one vetted and qualified party (not a licensed/certified appraiser) is responsible for data collection and a licensed/certified appraiser is responsible for the development and reporting of the opinion of value, appraisers will spend less time in the field collecting data, thereby freeing up additional capacity to complete more assignments.

Investments in technology, data and analytics have made appraisal process improvement and capacity increasing options far more attainable than previously. Improvements in mobile inspection, data collection and increased transparency with homeowners/borrowers in the appraisal process create new opportunities for measurable gains in appraiser capacity and improvements in turn time. Firms, such as First American, have made meaningful investments to enable technology solutions which provide optionality in the collateral valuation process. Mobile inspection and data facilitation technologies have created empowerment opportunities available to appraisers today through the development of hybrid appraisal products. Additionally, through test and learn opportunities, firms in the market can provide relevant feedback on the performance of these new products, such that any changes to policy can be measured and well informed.

Risks associated with hybrid or bifurcated approaches lay largely with the integrity of data collected by a non-appraiser. Many of the risks can be anticipated and prepared for, not only with the technology solutions previously described, but also through leveraging labor forces that are already acclimated/oriented to property data and character is a reasonable approach. Licensed real estate professionals (e.g., real estate salespersons, brokers) would be likely candidates for this type of work. Alternatively, another mitigation effort would be needed to establish specific standards and training associated with property data collection. Ironically, formal standards and training requirements for data collection do not even exist within the appraiser profession. Training courses that focus specifically on collection of property data are not a part of the qualifying education requirements established by the Appraiser Qualification Board of the Appraisal Foundation and are not a part of most state appraiser licensing requirements.

As previously mentioned, investments in data and analytics also can play a meaningful role in appraisal modernization. The Automated Valuation Model (AVM) as a valuation tool has been available to market participants for several years. The proliferation of “Big Data,” the broader access to modern analytic workspaces, machine learning and artificial intelligence modeling, and increased market investments to applied business analytics and their adoption, signal that the AVM can and should continue to play a role in the collateral valuation product continuum. The AVM currently has several accepted areas of application, with opportunities for further adoption as both a stand-alone service, and through hybrid product development in conjunction with an appraiser's involvement. As our industry continues to move to a more digital mortgage experience, with continued focus, adoption and reliance on data and technology, the AVM has an opportunity to fill a key role for mortgage production, servicing, and portfolio management. Risks associated with this approach lie with the inconsistent oversight of AVM models and the underlying data involved. While third-party oversight is available in some respects, participation is largely optional and model administration/documentation practices are not always consistent or formulaic. Automated valuation standards, validation, and testing will be necessary items to aid and offset potential risk. With each GSE having proprietary AVM models, FHFA can help drive these conversations, which would benefit both the enterprises and third-party models available in the market today.

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?

It is important to first acknowledge that valuations are leveraged in mortgage underwriting as a risk management tool that addresses a variety of risk vectors. Credit risk, compliance risk, and operational risk all contribute to a unique level of risk associated with each specific mortgage transaction. Given that the level of risk is represented on a continuum, it is logical to consider that the type of tools required to manufacture a loan are also represented on a continuum. It should also be considered that a "traditional appraisal" is not the most comprehensive product on that continuum.

As discussed in detail within Question A1.1, non-traditional valuation services, with the appropriate technology, data, and analytics investment, represent a meaningful opportunity to increase appraiser capacity and augment traditional appraisals within the product continuum. The benefits to the investors and lending community would be seen through the increased service level performance of the existing appraiser population, while taking advantage of investments made by service providers to increase the quality, speed and consistency of information being provided without increased risk or degradation. For the appraiser community, additional products can offer increased revenue streams, as well as additional flexibility in the services they provide to the market.

One risk to employing a valuation continuum approach is that it adds complexity to the loan manufacturing process. It is a more elegant solution that would bring some added efficiency and cost savings to the process, but would require a complex matrix that measures the relative risk of the transaction and matches it to an appropriate valuation product based on an objective set of criteria FHFA and the GSEs will need to ensure that the value of modernization efforts is recognized throughout the industry, with lenders of all sizes and business models.

An opportunity area for the current traditional appraisal would be added content to the appraisal in higher risk scenarios, which today largely rely on simply ordering two appraisal reports. Just as there are appraisal services that are more limited in scope than a "traditional appraisal" that could be applied when the risk level is on the low end of the continuum, there are appraisal services that are broader in scope than a "traditional appraisal" that may need to be applied when the risk level of the transaction is on the higher end of the risk continuum. An example would be appraisals where credible cost and income approaches are developed along with the sales comparison approach and may include supplemental indicators arrived at by use of algorithmic models.

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?

As discussed in response to Question A1.2, there is a reasonable valuation continuum. Appraisal waivers, combined with either a recent inspection of the property or a prior appraisal, may offer an acceptable level or risk mitigation for certain low risk mortgage transactions. Appraisal waivers for certain risk profiles do not seem sensible. For example, homes that are older tend to have more variability in condition and quality levels. And while a thorough inspection of the subject property may offer clear insights into the quality and condition, those variables are less understood within the comparable sales used in the model on which the waiver eligibility was determined. A reasonable year-built cap should be considered. Obviously, condition is an important factor. Homes with needed repairs and physical deficiencies should be ineligible for waivers.

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?

As previously discussed in Questions A1.1 and A1.2, significant research, development, and investments have been made within the industry to create consistency and continuity in the inspection process. Improvements continue to be made within the technology space, addressing potential risks through training, technology ease of use and vendor management practices. With viable technology allowing for the seamless integration of data and workflow between the various parties, along with appropriate vetting and training of alternative inspection workforces and the market's willingness to fund any increased costs in obtaining the appraisal due to having to costs associated with necessary technology and coordination of labor, yes, appraiser capacity concerns could be mitigated.

The risks of using third party non-appraisers may range from nominal to significant depending upon the training, qualifications, vetting of and scope of work being asked of these parties. Absent any risks from the use of third party non-appraisers for data collection, an indirect risk may be a drop in the number of credential appraisers in the marketplace, thereby creating a scenario where completion of appraisal assignments are delayed and/or more costly due to supply and demand. The reduction in the number of credential appraisers could occur if this bifurcated process created an atmosphere where the credential appraisers were performing more assignments per appraiser, therefore the economic demand for appraisers was lessened.

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.

As stated in A1.2, a policy consideration would be ensuring that modernization value and efforts can be recognized across a wide spectrum of participants, regardless of institution size or business model. One avenue of managing this consideration is through policy. While First American does not have a further "yes" or "no" opinion, as appraisal modernization efforts progress, it would be a fair assumption that policies and controls may require updating in order to assess risks associated with new modernized or enhanced practices.

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?

Through the engagement with the UAD and Forms Redesign workgroup, we see the project as an opportunity for further evolution and modernization of the appraisal process, with the capacity to enable a more data-centric and analytical approach to valuation.

As with several other modernization opportunities, it is important to balance this modernization with the industry's ability to implement these significant changes across all of the impacted technology, and processes. The outcome of the UAD update and forms redesign will create significant changes to existing operations in appraiser processes, service providers, lending institutions and potentially consumer understanding of the report output. These factors cannot be taken lightly and FHFA should help communicate the value these changes anticipate providing in accuracy, speed and potentially cost.

As both an appraisal technology and service provider, there are examples we see that could be considered for refinement or implementation. One example is the expansion of mandatory discrete data elements in the new UAD, which will have a dramatic impact on the data collection burden of appraisers. It may be worth considering a "phased" approach to rolling out these requirements. For example, start with the subject property characteristics in a "phase 1" roll out and then later in a "phase 2" roll out expanded comparable data elements.

A second example would relate specifically to the forms redesign elements, suggesting FHFA publish their requirements, roadmaps, and expectations with a meaningful runway, ensuring technology providers have the opportunity to attune their software and deploy structurally sound solutions to the market. This would also aid FHFA in ensuring adequate training and understanding is available at all levels of the appraisal transaction with the newer approaches. It will be critical to listen to technology providers concerning estimated time to build solutions based on the requirements released.

Questions on 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 availability of collateral data currently managed by the Enterprises represents an essential opportunity for product and process improvements in collateral valuation. Enterprises can make appraisal data collected via the UCDP available to the industry (e.g., lenders, AMCs, technology providers, and data providers). The availability of UCDP data can allow market participants to continue driving innovation that can be directly applied in both the manufacturing of "traditional appraisals," as well as identifying new technical avenues to address noted concerns such as data transparency and market capacity. With respect to the distribution of the data, the Enterprises have an opportunity to partner with market participants that employ explicit expertise in data management and enablement to ensure Enterprise content is constructed and delivered in a high-quality and consistent manner to the market.

A potential risk could be tied to effective data management should the Enterprises release additional data elements. Data management would include the collection, curation, standardization, and ongoing structural integrity of the dataset, given the scale required to release it to the market. This can be offset based on how the Enterprises choose to manage the data, with a viable option being partnering with industry participants that have this core competency. For example, First American maintains the largest geographic collection of title plants, with 7 billion recorded documents, adding more than 5 million new images representing 20 billion data elements to the data each month promoting proliferation of data supporting title insurance.

With regards to practical and actual use-cases for this data, appraisers are responsible for collecting and verifying property data used within their appraisal reports. Exposing the multitude of property observations of a specific property to all parties within mortgage process will improve efficiency and quality. While there is some risk of confirmation bias, this data will be available for comparison against public records, listing data, and personal inspection data. If all parties have visibility into the same set of data, then increased transparency is achieved and confidence in the conclusions is also improved.

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

Each GSE has developed their own proprietary tools for assisting lenders with identifying, assessing, and managing collateral risk. Both have done a good job of deploying easy to use tools. However, continued development of these proprietary tools may produce an unhealthy reliance on them from mortgage lenders. As lenders rely more heavily on the Fannie Mae and Freddie Mac tools to help manage collateral risk, the ability of the GSEs to push poorly underwritten mortgages back to the seller becomes more difficult. Currently, these tools offer insight into the risk of a completed appraisal and tools to help assess that risk but enhancing these tools further may result in the GSEs crossing the line of providing collateral risk feedback to providing a collateral risk decision. While this creates certainty for sellers, it puts a heavy burden on the GSEs to manage losses attributed to underwriting defects.

This concern of safety and soundness further supports the need for the GSEs to make the UCDP data available to the industry and allow technology providers to apply innovative methods of helping lenders manage collateral risk.

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.

Not applicable. Because First American is not a lender, we do not have the insight to be able to comment on appraisal waiver offers between Freddie Mac and Fannie Mae.

Question B2.4:
How can lenders manipulate automated underwriting systems when seeking an appraisal wavier? 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?

Not applicable. Because First American is not a lender, we cannot comment on how lenders can manipulate automated underwriting systems when seeking an appraisal waiver.

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?

The quality of service can be managed by establishing a core curriculum for Data Collector education and by developing technology solutions that drive specific behaviors and requirements that are performed during the data collection process. Additionally, using a labor force that is already acclimated/oriented to property data and character is a reasonable approach. Licensed real estate professionals (real estate salespersons/brokers), home inspectors, and appraiser trainees would be likely candidates for this type of work. As previously mentioned, there are no formal standards and training requirements for data collection within the appraiser profession.

Service management firms, such as First American, have longstanding track records of creating, developing, and deploying vendor management practices, policies, and procedures. Applying this type of core competency is an opportunity for market participants to aid the Enterprises in addressing the challenges referenced. Sample practices would include management of background checks, accreditation/licensure and ensuring adequate training be made available for new participants.

Training courses that focus specifically on collection of property data are not a part of the qualifying education requirements established by the Appraiser Qualification Board of the Appraisal Foundation and are not a part of most state appraiser licensing requirements. Establishing a core education curriculum and standard may also serve to raise the quality of service across the board for all property data collection. It may also be worth considering having the GSEs sponsor or partner with a standard setting body to create a Data Collector certification. Data Collection can reasonably be described as an appraisal service that can be performed by a licensed appraiser trainee and governed by enforceable standards.

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

First American considers our data as proprietary and confidential information.

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, however, this would depend on the specific event have that occurred and how it impacted the ability to perform a traditional appraisal. The appraisal flexibilities that were designed to mitigate risk of virus transmission while maintaining a process that allowed for a credible appraisal specific to property and loan types may not be the same flexibilities necessary in other types of disasters. But, the COVID-19 appraisal flexibilities have shown us that it is possible to amend or alter certain appraisal processes while maintaining the ability to provide credible appraisal opinions (again, within the metrics of specific property and loan types).

Operational Questions on 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?

The opportunity for significant appraisal modernization and adoption within the appraisal industry represents a meaningful positive impact for all industry participants involved with a mortgage or appraisal transaction. An opportunity to have greater insight into market fluctuations in appraisal cost and/or turnaround-time, consistent availability and continuity of data, and a broader spectrum of available products would provide benefit to lenders, investors, service providers, and most importantly consumers.

Current alternative products being investigated, such as the bifurcation of the appraisal process and implementation of hybrid products, do appear to have potential for easing the burden of appraiser capacity in specific markets. As noted through the commentary provided in the FHFA Appraisal Modernization RFI, this measure alone is not adequate to address the capacity issue for specific markets. The GSEs should be encouraged to implement additional valuation alternatives, beginning with a property Inspection w/AVM, Evaluation, Desktop Appraisal, Hybrid Appraisal, and a Traditional Appraisal. These solutions should be carefully monitored and tested against the working hypothesis of improved efficiency and quality prior to any change to GSE Policy.

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?

The opportunity for substantial improvement to the appraisal process has a definite impact on all parties involved within the transaction, but especially the appraiser as the primary driver of the analysis and product output. Technology will evolve and change regardless of whether GSE driven appraisal policy and process improvements are adopted. Appraisers who can retire will do so despite any GSE decision related to appraisal modernization. To that end, various avenues outlined thus far could also represent new or alterative lines of business for appraisers that previously would not have been available.

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?

Traditional appraisal products do present a unique challenge in rural markets. Comparable market data is scarcer in these rural communities and the housing stock tends to be aged with limited new construction occurring. When a new home is built, it is often difficult to obtain conforming financing because the appraisal standards are not easily achieved for traditional products. Certain appraisal alternatives may improve access to credit where a conforming mortgage may not have otherwise been attainable using a traditional appraisal product. An alternative appraisal in these scenarios might include increased reliance on a cost approach to value in addition to the sales comparison approach with some greater flexibility on use of pending sales and dated sales transactions. Given that these markets are often less prone to market fluctuation and have greater price stability, a comparable sale that is 24 to 36 months old might be more palatable than in more dynamic markets with greater volatility.

Additionally, use of alternative labor forces in a bifurcated appraisal process may increase employment in these rural communities bringing further economic stability and opportunity for growth.

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?

Well-known and respected think tanks are studying these collateral valuation practices and we are open to understanding these findings as they are shared.

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.

While we recognize the importance of this matter, this is not an area of FHFA and Enterprise valuation policy where we have expertise.

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

First American believes that transparency is not only beneficial for organizations in our industry during this time, it will also be vital to preserving the integrity and accuracy of data and information as we move forward in a post-COVID-19 world. We are pleased to dive into each of these topics on a more granular level with FHFA upon request.