Quicken Loans

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February 26, 2021

The Honorable Mark Calabria
Director
Federal Housing Finance Agency
400 Seventh Street SW, 8th Floor
Washington, DC 20219

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

Director Calabria:

Quicken Loans, LLC ("Quicken Loans") appreciates the opportunity to submit our comments on the Federal Housing Finance Agency's ("FHFA") Request for Input ("RFI") on Appraisal Related Policies, Practices, and Processes, especially as they relate to modernizing the appraisal process as well as balancing both the industry's need for process efficiencies with the Government-Sponsored Enterprises' ("Enterprises" or "GSEs") need to engage in prudent risk management through quality valuations.

Detroit-based Quicken Loans, the nation's largest home mortgage lender, enables the American dream of homeownership through its obsession with an industry-leading, digital-driven client experience in closing mortgages across all 50 states. In late 2015, Quicken Loans introduced *Rocket Mortgage*, the first fully digital mortgage experience. Currently, 98% of all home loans originated by Quicken Loans use Rocket Mortgage Technology. Today, Quicken Loans and the Rocket Companies employ more than 22,000 full-time team members in Detroit's urban core and across the nation, including Cleveland, Phoenix, and Charlotte. Quicken Loans has ranked in the top-30 of FORTUNE magazine's annual "100 Best Companies to Work For" 17 consecutive years. Quicken Loans is also ranked highest in the country for customer satisfaction for primary mortgage origination by *J.D. Power* for 11 consecutive years (2010-2020) and ranked highest in the country for customer satisfaction among all mortgage servicers for the past seven consecutive years (2014-2020).

Quicken Loans steadfastly believes the Enterprises can and should improve the appraisal process through modernization. While we understand such modernization efforts may increase certain risks highlighted in the RFI, such risks can be effectively and appropriately mitigated in view of the benefits associated with appraisal modernization. The traditional appraisal process is manual, outdated, and unnecessarily subjective. Appraisal modernization, when done correctly, can optimize the loan process for the benefit of the entire appraisal industry, as well as lenders and consumers alike. More specifically, use of improved technology and standardized data could create more certainty and security in property valuations, mitigate the potential for bias, and better highlight the situations and loan transactions best suited for traditional appraisals. Appraisal modernization also underscores the benefit of continued use of appraisal waivers where appropriate because they eliminate subjectivity, allow for appraisal flexibility when the credit and other risks are low, and save time and costs for consumers.

Appraisal Modernization is Imperative

Property value is one of the most important and interconnected factors used to determine borrower credit risk. Property value not only affects a mortgage's loan-to-value ratio (which captures the degree of homeowner equity), but the data used to determine the value plays a vital role in supporting the accuracy of appraisals and automated valuation models ("AVM"). In today's digital economy, borrowers expect their mortgage experiences to be smooth. Unfortunately, this expectation often falls flat in the appraisal phase because appraisals are among the most costly, drawn-out, and challenging parts of the mortgage lending process.

The appraisal process can be stifled by excessive appraiser licensure regulations layered on top of outdated technologies. The combination of these two factors ultimately results in the use of a predominantly manual and subjective process during one of the most critical periods of the loan origination cycle. Quicken Loans believes technology updates can play a critical role in changing the workflows that enable these inefficiencies. Modernized appraisal technology can provide industry and consumers with significant benefits.

First, technology updates can infuse efficiencies in the appraisal process (such as report creation that provides better data) which could help to substantially reduce bias in appraisal valuation. Bias in property appraising is very real; and while it is a historical issue stemming from race-based housing policies and redlining, it is not a thing of the past. The negative effect of biased appraisals perpetuates racial wealth gaps and socio-economic stratification across the entire housing market. These problems have doubled over the last 50+ years.[1]

Second, modernized technology can create a more digital appraisal experience for the benefit of consumers, lenders, and other mortgage industry stakeholders. This includes facilitating widespread use of bifurcated appraisals where third-party property inspection data is sent to appraisers who could conduct desktop appraisals leveraging such data. Use of desktop appraisal technology can reduce cumbersome logistics coordination, as well as the turn-around times for completion of the final appraisal report. Moreover, appraisal modernization (inclusive of a bifurcated appraisal process) is necessary to solve issues with appraiser shortages. Current licensing regulations have significantly affected the appraiser workforce; and as more appraisers are retiring, there is no new "wave" of appraisers filing these critical positions. In fact, fewer new appraisers are entering the market due to high barriers of entry, such as required education and experience thresholds and licensing fees/costs. These factors directly impact the ability of lenders to solicit appraisals in certain areas in a timely manner, which is a growing industry concern.

Third, appraisal modernization will also allow for improved data collection, which includes aiding in the creation of: a data standard that can help to diagnose true collateral risks (i.e., a property's

[1] https://www.homelight.com/blog/buyer-real-estate-appraisals-racism/

square footage), optimized logistics, improved accessibility, and automation for streamlining manual appraisal processes. The appraisal industry is teeming with opportunity for innovation, and there are certainly workflows that are well positioned for such innovation to be included in their potential makeovers. However, it is clear that integration of high-capacity, modern technology is the only way to truly serve as the stimulant the appraisal industry needs.

Quicken Loans Supports Updating the Uniform Appraisal Dataset and Redesigning of Appraisal Forms

We appreciate the Enterprises' work to update the Uniform Appraisal Dataset (UAD) and redesign of appraisal forms, as both initiatives will support appraisal modernization efforts overall. Updates to the UAD offer the potential for streamlining appraisal review processes and decreasing subjectivity (often requiring lenders to seek appraiser clarification and revision) both of which aid in lowering addendum rates and save cost/time for consumers.

Additionally, eliminating elements such as freeform text in the redesign of the appraisal reports will move key information from commentary and text sections to discrete data points. This will shift the focus from the forms themselves to the data, as well as lead to potential innovation for things such as data mining, flags to identify and mitigate risk, and machine-readable data.

The Enterprises Should Continue Use/Offers of Appraisal Waivers

FHFA has recognized the benefits of appraisal waivers for both the lending industry and consumers, particularly in the wake of the COVID-19 pandemic.[2] Appraisal waivers have essentially eliminated a hurdle to refinancing, thereby enabling refinance transactions "to lower the monthly costs for more borrowers, while representing a low risk for the Enterprises."[3] Appraisal waivers also save valuable time for both lenders and consumers in loan origination/processing and allow for faster loan closings.

In addition to cost and time savings, appraisal waivers eliminate subjectivity and allow for appraisal flexibility when the risks are low, especially on rate and term refinance loans already owned by the Enterprises. On a more practical level, waivers can mitigate delays from appraiser shortages, especially when data and technology are used on lower risk loans because appraisers can be free to focus on more complex properties and/or transactions that may be better suited for traditional appraisals.

Quicken Loans understands the rapid growth and use of appraisal waivers may raise the FHFA's concerns about safety and soundness regarding the Enterprises; particularly as it relates to faster pre-payments, issues surrounding property conditions, data input accuracy, model errors, loan quality, and potential lender gaming. However, a salient lesson we learned vis-à-vis the COVID-

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[2] FHFA Request for Information on Appraisal Related Policies, Practices, and Processes; December 2020; pg. 16.
[3] Neal, Michael; Goodman, Laurie. *Appraisal Waivers Have Helped Homeowners Find Payment Flexibility Amid Pandemic-Induces Economic Struggles*; October 16, 2020. https://www.urban.org/urban-wire/appraisal-waivers-have-helped-homeowners-find-payment-flexibility-amid-pandemic-induced-economic-struggles

19 pandemic is that appraisal waivers are beneficial when used appropriately. The reality is borrowers are usually unaware of the benefits of an appraisal waiver until they have actually obtained one during the course of their loan application process. In fact, it is low rates –not appraisal waivers– that appear to be driving borrower interests in refinancing and/or purchasing homes, resulting in faster pre-payment speeds. The data reflected in the RFI support this correlation. Specifically, Figure 6 shows "the Rate and term refinances are the primary driver of appraisal waiver volume to the Enterprises as a result of the material delivery volume driven by low interest rates. As of December 2020, nearly seventy percent of rate and term refinances with LTVs below 70% used an appraisal waiver."[4]

Moreover, FHFA's concerns of manipulation or gaming by market participants can be easily addressed by examining the root of the perceived risk. A lender is not gaming the appraisal waiver process by submitting the same loan to both Enterprises and selling the loan to the Enterprise that offers the waiver. Submitting the loan to both Enterprises actually provides an advantage to consumers who had recent appraisals with one of the Enterprises, which provides leverage for their benefit in terms of time and costs savings. That is ***not*** tantamount to valuation manipulation nor misrepresentation of property condition. Further, it is not easy to swindle data or risk technology –nor should it be– as the Enterprises are already well positioned with internal controls to limit data manipulation by monitoring for pattern usage by lenders. Any persistent concern from the FHFA for risk in this regard can be remedied by increased process transparency on the part of the Enterprises: if one Enterprise has an appraisal waiver for a property then it should share the value at which the waiver is being offered, and if there is disagreement on the valuation then the property can be subject to an appraisal.

Appraisal Modernization Can Assist in Uncovering and Addressing Valuation Differences by Consumer and Neighborhood Ethnicity or Race

Research presently indicates an unfortunate reality that disparities may exist in valuations of properties located in communities of color. These disparities exist despite the explicit prohibition of appraisers making unsupported conclusions (or even supported conclusions, in some cases) about characteristics of protected classes such as race, color, or national origin.[5] Over time, measurable increases in suppressed property valuations in communities of color (as compared to majority white communities) have raised credible concerns regarding the potential for improper appraiser bias being inculcated into the valuation process. This problem is buttressed by inconsistencies in the use of varied appraisal methodologies and appraisers' discretion to select comparable properties that are presumed to establish accurate and reliable valuations.

Bias, in and of itself, is an esoteric element within the human psyche which makes having conversations about it challenging to explain and to understand. Expressions of explicit (overt) biases are the easiest to identify and prove; while on the other hand, implicit bias is more furtive and difficult to isolate, and thus harder to prove. Regardless of whether it is implicit or explicit,

[4] *Figure 6 - Appraisal Waiver: Acquisition by LTV (Fannie Mae and Freddie Mac),* FHFA Request for Information on Appraisal Related Policies, Practices, and Processes; December 2020; pg. 15.
[5] *Uniform Standards of Professional Appraisal Practice (USPAP), 2019*

bias has historically been among the most insidious machinations of systemic and institutionalized racism in America; and was once the silent justification for the specific and sanctioned purpose of marginalizing communities of color to their generational detriment.

Housing types are diverse and varied, yet the appraiser workforce is not: there is a lack of diversity in both race and age. Eighty-seven percent of professional appraisers are white males between the ages of 51-65.[6] To be clear, homogeneity of race and age among appraisers ***does not*** warrant the appraisal industry to be undeservedly labeled as (or presumed to be) inherently biased or racist. However, the lack of diversity does expose an undeniable risk for certain assumptions to impact property valuations in communities of color. This risk can be attributed to any number of factors unrelated to blatant or intentional bias, such as appraisers' sheer lack of proximity or interaction with anyone outside of their race or communities in which they live.

The risk of bias is not far-fetched. Everyone has implicit biases, which are shaped by life experiences and perceptions. This holds true irrespective of race, ethnicity, gender, or socioeconomic status. Bias is most risky, however, when it is given the potential to negatively impact the lives of others. Property appraisals are sound examples of this risk. At the baseline, an appraisal is an opinion of a property's fair market value supported by data. However, appraisers' opinions can be influenced by their perceptions, which is at the very point when bias becomes a nascent factor in determining property valuations in communities with demographics and/or socio-economic statuses different than the appraisers' own. Yet, the focus should *not* be on whether bias actually exists or if bias can be eradicated. Instead, the focus should be exploring ways to leverage technology to prevent implicit bias from being a consequential factor in determining how much a property is worth in a community of color. The modernization of appraisal tools and processes can be a tremendous help in this regard.

Appraisal modernization alone is not a wholesale solution for the range of social complications impacting communities of color. However, we are in a punctuated moment in history with a unique opportunity to directly cauterize a vestige of inequality on communities of color by mitigating the presence of bias in a key part of the home lending process.

Accordingly, Quicken Loans steadfastly believes appraisal modernization through both process and technology improvements can assist in uncovering and addressing disparities resulting in undervaluation of properties located in communities of color. From a process standpoint, bifurcation could potentially reduce the opportunity for bias to impact appraisal outcomes. This begins at the outset by having property data obtained by trained third-party data collectors instead of appraisers. Doing so eliminates direct interaction between appraisers and consumers, which has the potential to both reduce bias and undue influence on appraisers. Improved technology (i.e., image blurring of photos inside of the property) can assist in this by reducing insight into key indicators about consumers' profiles, thereby reducing the chance for appraisers to draw conclusions about (or impose any latent or overt bias upon) consumers.

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[6] https://www.appraisalinstitute.org/assets/1/7/U.S._Appraiser_Demos_3_1_16.pdf

The importance of using standardized data points industry-wide would also be game-changing with respect to addressing bias. Standardized data points can be tracked to build data sets that will help to establish appraisal trends over time. For example, pattern recognition of appraisers could be confirmed (and corroborated) using standardized data of how they set valuations, such as using comparable properties only in certain neighborhoods. Additionally, standardized data points could rectify inconsistencies in how appraisers determine home valuations based upon gross living area (GLA).

Lastly, it is imperative for the FHFA to consider the real estate implications of tax assessments, otherwise it is only solving part of the problem with respect to bias in appraisals. Tax assessments are critical because the amount of property taxes homeowners are billed is impacted by property valuations. Policy modernization provides the basis for standardization of data (i.e., consistency in calculating square footage) and standardization of technology and innovation in the way property data is captured. Technology cannot adequately address the lack of consistency in other industries when it comes to calculating and defining things like square footage. Accordingly, Quicken Loans highly recommends the FHFA contemplate ways to address this in the realtor and tax assessor spaces, so all parties affiliated with the property are following the same standards.

<u>Responses to FHFA's General Questions on Appraisal Policy and Process Improvements</u>

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?**

   Yes, there is a need to provide new valuation solutions that address the issues raised in the question. Appraisers may be able to double (or perhaps triple) their capacities by leveraging an alternative professionally trained and background-checked workforce, paired with data and technology that assist appraisers in completing reports in a standardized method.

   The largest challenge to implementation is the ability to obtain the ideal devices for scanning and deliver those to a professionally trained workforce to complete the data collections at scale. Most of the risks that exist are mitigated through data enhancement, further standardization, and technology security.

   The overall benefit to new valuation solutions is the ability to apply technology, where appropriate, to make existing appraisers more efficient while attracting new appraisers into the industry. Initially, minor risk could exist in resistance from appraiser groups who have not been introduced to the capabilities, in training existing appraisers on new technology (particularly hardware), and the ability for the technology to scale quickly. Those initial risks diminish rapidly as appraisers and appraisal management companies ("AMCs") gain efficiency.

2. **Are there opportunities for process improvements that allow non-traditional valuation services (inspection-only, desktop, exterior-only) to augment traditional appraisals? Please elaborate**

on the risks, challenges and benefits. Separately, are there opportunities to improve traditional appraisals to mitigate problems and concerns that have been observed to date?

Yes, non-traditional valuation services augment traditional appraisals by creating efficiency, data standardization, and a common language the industry can use. For instance, 3-D scans or other types of floor plan scans, including videos, captured and delivered to the ultimate appraiser can be reviewed multiple times if needed instead of relying on photos. The pairing of technology with human appraisers leverages the strengths of each. 3-D imaging is used by a lower cost workforce who can be deployed quickly and easily to a property. Guided applications can ensure the imaging is usable at the time it is captured. Merged data sources with appraisal report creation can be expanded to provide quality control on the appraiser process.

While there may be risks associated with adoption, traditional appraisal processes can be augmented to improve efficiency and prudently mitigate risk. The standard appraisal process using a single source of information with photos and drawings should be sunset as soon as possible. Single source information is, by nature, a subjective opinion that is overly reliant on freeform text and ensures a lack of consistency in the measurements of square footage. Square footage being a significant driver of value should and could be standardized in both definition and data capture. Subjectivity shows up in opportunities and accusations of explicit and implicit bias. Non-traditional valuation services supported by data standards (such as definitions, ranges, and verification) can mitigate risk caused by differing interpretations of condition and quality ratings. Subjectivity in calculating adjustments and choosing comparable sales can be augmented on non-traditional valuational services.

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?**

Yes, there is a place for the proper usage of appraisal waivers in the Enterprise appraisal policy and process. Supporting data enhances the ability for the Enterprises to manage risk while improving outcomes. Loans that pose little risk due to low loan-to value ratios are best suited for appraisal waivers. We also agree with the Enterprises view that rate and term refinances of loans already owned by the Enterprises actually reduce credit risk from the lower consumer payment and are particularly well-suited for appraisal waivers. Further, based upon improving and expanding data sources, waivers can be effective on purchase or a cash-out refinances on properties that have been recently appraised. Failure to capture property interiors could expose the Enterprises to rare risk of damage occurring prior to the transaction. Those risks are further mitigated in the purchase transaction where interior condition is widely available to multiple parties. In reality, timing and likelihood that property condition has deteriorated can also be mitigated through analytics.

Caps or limits are already determined by the eligibility criteria. When supported by data that is actively collected in the subject property's area or recently on the home itself, waivers generally make sense.

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?**

   Using alternative inspection workforces would absolutely alleviate appraiser capacity concerns. Leveraging an alternative workforce would eliminate travel time and associated costs to appraisers, thereby allowing appraisers to devote more of their time to the highly specialized aspects of the appraisal process, such as analyzing property data. The risk of using an alternative inspection workforce is human error, miscommunication and/or misunderstanding. While alternative scanners could get a data point wrong or miscalculate square footage, these are the same or similar risks that exist with appraisers conducting property inspections. Those risks can be mitigated through guided technology, data verification within appraisal report platforms, and training.

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.**

   Incentives such as improving appraisal turn times and avoiding increased cost that comes with additional reviews already exist. As alternatives become more widely accepted, additional policies and procedures will develop among AMCs and lenders. Similarly, fraud, data verification, and data records are all monitored and can be mitigated through appropriate technology components.

6. **Do the objectives as outlined for the UAD update and forms redesign meet the current and future needs of the mortgage industry? Are there opportunities for refinements or additions?**

   Yes, we support the UAD update and redesign. Quicken Loans continues to evaluate and provide comment to improve the UAD as changes are made.

7. **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?**

   Appraisers typically do not inspect the physical interiors of comparable sales, as the data is already provided to them via public records and the multiple listing service (MLS). It should be no different for the subject property. Likewise, data that the Enterprises provide to the appraisers enhances their ability to further understand the property.

   Actually, data companies will be competing with each other to provide efficiency, clarity, and standardization of data for the appraisers’ benefit. It is the technology that is built to supply the appraiser with relevant and accurate data.

8. **How can the Enterprises improve their collateral tools currently available to lenders?**

Enterprises can improve their collateral tools by allowing lenders to share the findings with appraisers as well as create transparent policies on what is to be done with the findings. When lenders view comparables provided by Collateral Underwriter and question why appraisers did or did not use a comparable, tension is created because the appraiser believes they chose the best comparable. Lenders cannot force the appraisers to change it. Usually, the appraiser does not change it and just addresses it in the commentary instead. The Enterprises can allow for greater clarity and partnership in leveraging data and technology to improve service and outcomes.

9. **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.**

   The appraisal waiver offers differ based upon the data each Enterprise has in their database on the property. There is no guarantee they will both offer a waiver on the same property. If an Enterprise has never held a loan on that property, it is unlikely a borrower will obtain an appraisal waiver.

10. **How can lenders manipulate automated underwriting systems when seeking an appraisal waiver? For example, lenders changing the loan amount, submitting data changes multiple times, or submitting to both Enterprises and delivering to the one who offers the waiver? How do the Enterprises minimize this manipulation?**

    “Manipulation” is the inappropriate word to use when submitting a loan through an automated underwriting system (AUS). Through data, the Enterprises are aware of the points at which they are comfortable valuating a property. As previously stated, a lender is not gaming the appraisal waiver process by submitting the same loan to both Enterprises and then selling the loan to the Enterprise offering the waiver. Submitting the loan to both Enterprises actually provides an advantage to borrowers who had recent appraisals with one of the Enterprises, which is a benefit in terms of time and costs savings.

    Again, the Enterprises are well positioned with internal controls to limit data manipulation to monitor for pattern usage by lenders. Any persistent concern from the FHFA for risk in this regard can be remedied by increased process transparency on the part of the Enterprises. If one Enterprise has an appraisal waiver for a property then it should share the value at which the waiver is being offered, and if there is disagreement on the valuation then the property can be subject to an appraisal.

11. **What are the challenges associated with quality of service, enforcement and consumer protections related to non-appraiser entities providing property inspection data?**

    The challenges associated with non-appraiser entities providing property inspection data are deconstructing the way customary and reasonable appraisal fees are contemplated. The Dodd

Frank Act states "[i]n any covered transaction, the creditor and its agents shall compensate a fee appraiser for performing appraisal services at a rate that is customary and reasonable for comparable appraisal services performed in the geographic market of the property being appraised."[7] The verbiage of "customary" and "reasonable" can be interpreted to heavily favor appraisers which does not allow for enough competition between AMCs for non-appraiser activities. This lack of competition could operate to the detriment of consumers because there are no cost savings. Ideally, more competition would lead to better appraisal-related technology and potential reduction in costs.

12. **Is there any data or evidence you could share regarding the performance of alternative appraisal solutions versus traditional appraisals?**

    Anecdotally, our data shows that loans with alternative appraisal solutions may have faster turn times. We believe that pairing data collection with an appraisal waiver could prove to be hugely advantageous. Both the Enterprise and the borrower would benefit from that scenario because the Enterprise would have the data, and the borrower would receive the waiver.

13. **Should Enterprise type COVID-19 appraisal flexibilities be part of an updated appraisal process to address disasters and other events to lessen market impacts?**

    We believe some of the COVID-19 appraisal flexibilities are mitigating risk and should remain. The use of data and other tools to offer appraisal waivers benefit the consumer experience while delivering the value needed to protect the Enterprises and investors. Desktop appraisals without newer technology or data capture techniques did not work because conducting the data capture manually introduces all the same concerns of a traditional appraisal. Eliminating desktop appraisals, though, without evaluating property data collection through technology-driven resources would be a mistake. Effective data collection is the key to operationalizing desktop appraisals.

14. **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?**

    What we envision is a faster, more accurate valuation of properties across the board as a result of appraisal process improvements. Traditional appraisals will be more easily available as appraisers will have more tools (i.e., scale) and flexibility to address properties that require the traditional process. For example, instead of appraisers physically visiting multiple properties in a day, they would visit one per week. The goal is to get to value and property condition certainty within 24 hours of applying for a mortgage. How is that possible? Obtaining data collection proactively at the time a home is listed on the market for sale, for instance, would allow the appraiser to review the property and fulfill the order immediately upon mortgage application.

[7] (12 CFR 1026.42(f))

Leveraging data collected at the property for a variety of other uses can lower costs to consumers and save time/money (e.g., home insurance claims).

Appraisers can scale and grow the industry. Technology will enable recruiting, efficiencies, and volume so that appraisers can conduct reviews on more properties that require a higher degree of expertise and experience.

15. **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?**

Whether or not a late career appraiser will embrace change or retire to avoid it should not be the focus of this evaluation. The physical inspection of a property is but a small part of an appraiser's job. The adoption of technology will serve to assist appraisers to better execute their skills in evaluating and determining property values in a more efficient and accurate way. Regardless of whether they stay or retire, technology evolves, those using technology (or competing against it) for their livelihood must adapt and respond. This is true in all industries and in all parts of our industry. When Rocket Mortgage was released, many assumed it would be Millennials and first-time home buyers who used the system. Yes, those groups were primary adopters. However, the second largest cohort of Rocket Mortgage early adopters were clients over 55 years old who had already refinanced multiple times before. Familiarity with the process and subject matter made it easy for experienced people to incorporate technology and tools. The same is true for professional appraisers.

16. **Do you believe appraisal policy and process improvements would have a positive impact on access to credit, including for rural and underserved markets by providing additional valuation services that serve the needs of these markets?**

Yes, appraisal policy and process improvements would have a positive impact on access to credit. If valuations are more reliable, able to be obtained quickly and efficiently, and conducted more objectively, myriad possibilities exist for benefits to underserved communities. This is mission critical for the entire housing finance industry to adopt. For the Enterprises to lead on this innovation will bring us closer to standardization, invite participation from private capital, and scale to meet the needs of rural and underserved markets. For example, sellers more frequently turn down FHA borrowers because of the appraisal process and minimum property requirements (MPRs) that need to be re-evaluated for actual risk concern. Some of the data gathered by FHFA could be used across the spectrum for adoption by HUD.

Efficiency in addressing delays in the appraisal process is the primary but not the only reason these policy and process improvements must continue to advance. Over time, these technology improvements will lower the cost of the appraisal process and streamline the origination process. "Cost to originate" is still cited as one reason low balance purchase loans do not receive adequate attention by the overall housing finance system. Streamlining property valuation unlocks other benefits and future innovation for new mortgage products such as home equity-related products or shared equity type-products.

17. **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?**

There exists a significant amount of scholarly research which suggests the existence of discrimination in collateral valuation practices resulting from bias. With that said, the current collateral valuation process has only recently begun leveraging data analytics, pattern recognition, and machine learning to better understand (and perhaps corroborate) the existence or impact of bias. The systemic issues can be self-fulfilling as comparable properties are all evaluated using the same manual processes. The existence of discrimination might only be discovered if a consumer inquires about their appraised value, unless reviewed by data models that validate both the process ***and*** the outcomes. The result is one-off examples of potential discrimination but not a way to understand how or why systemic issues linger or reinforce old assumptions.

Further, participants in the real estate and mortgage industries are not aligned on data standards or definitions. Lack of data standardization makes it difficult to understand: a) the magnitude of potential discrimination (exactly to what degree implicit bias has a systemic impact on certain neighborhoods), and b) the frequency of potential discrimination (how often have individual valuations created patterns in certain neighborhoods or communities). Automated solutions could have a discriminatory impact if the bias that exists in traditional values over time is unconsciously engineered in the models. For example, research conducted by the Brookings Institute showed that property values in communities of color are historically undervalued.[8] If appraisers are already undervaluing homes and those values are the basis for a model, the model may include innate flaws. Mitigating those risks is not to avoid automated or data-driven solutions but rather to use technology to serve as a validation tool for identifying outliers, red flags, and patterns.

18. **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.**

Values influence everything from risk-based pricing, how much interest is paid over time, compensation, and wealth building for the homeowner(s) and communities. Discretion and subjectivity abound within the traditional appraisal process. Technology and, in particular, innovation within the appraisal industry has allowed more objectivity into the process. Existing FHFA and Enterprise policies and procedures provide wide latitude to the appraiser and little

[8] https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/

oversight to identify and understand implicit bias. One-way alternative inspection workforces can mitigate implicit bias is bifurcating the property inspection from the valuation. Another way technology is helping to uncover potential implicit bias is the identification and/or scoring of comparable properties. Fair housing ensures all components within the real estate and mortgage process are executed fairly and the outcomes are as close to equitable as possible. However, more can be done to ensure that both individual properties and entire neighborhoods are properly and fairly evaluated.

In conclusion, Quicken Loans fully supports appraisal modernization. For the reasons enumerated above, modernization is essential for the continued improvement of the appraisal process. It reduces overall risk to the Enterprises by facilitating improved data collection, which in turn, directly supports: more accurate and reliable property valuations; reduction of appraiser subjectivity; mitigation of potential for bias; travel/time savings for appraisers; cost-savings for borrowers; and reduction in turn-times for lenders. Additionally, we would welcome the opportunity to convene a working group comprised of lenders and appraisal industry participants to further explore and address the topics and inquiries raised in this request for information prior to any proposed rulemaking or decisions made by the FHFA.

Quicken Loans looks forward to continued work with the FHFA as it contemplates any considerations for appraisal-related policies, practices, and processes. Should you have any further questions, please contact Chrissi Johnson at (313)-373-0036 or at ChrissiJohnson@rockcentraldetroit.com.

Sincerely,

Bob Walters

Bob Walters
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Quicken Loans, LLC