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February 25, 2021

The Honorable Mark Calabria  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street SW  
Washington, D.C. 20219

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

Director Calabria:

The Housing Policy Council<sup>1</sup> (HPC) appreciates the opportunity to provide feedback to the Federal Housing Finance Agency (FHFA) in response to its Request for Information on Appraisal-Related Policies, Practices, and Processes (RFI). HPC agrees with FHFA that there is a significant need and opportunity for appraisal modernization to improve the quality, efficiency, and integrity of residential property valuation. As a result of the dominant role of Fannie Mae and Freddie Mac (the GSEs) in the mortgage marketplace and the expanded use of alternative valuation methodologies over the course of the pandemic, FHFA and the GSEs are in a position to contribute significantly to the transformation of appraisal policies, practices, and processes.

The marketplace and consumers would benefit from expanded use of “hybrid” valuation methodologies that leverage data and technology to complement and enhance the physical review of the property. The move to a continuum of valuation methodologies that vary depending on the risk of the transaction, in conjunction with clear and consistently applied standards, judicious oversight and transparency, and the public release of the property data available exclusively to the GSEs today, would improve both the quality of property valuation and processes therein. As we discuss in more detail below, appraisal modernization should encompass all of these elements.

Before we discuss our recommendations, we want to be clear on one point: appraisal modernization does not mean that automated valuation models (AVMs) alone should be used for all properties. Licensed and certified appraisers, as regulated professionals governed by mature standards and an obligation to impartiality, will continue to play a critical role in a modernized appraisal framework. The use of technology and data in the valuation process enhance and complement the physical assessment of a property. HPC member companies are not seeking to supplant appraisers and are fully committed to fair compensation for appraisers, for the valuable work they perform.

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<sup>1</sup> The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families. For more information, visit [www.housingpolicycouncil.org](http://www.housingpolicycouncil.org)

**I. The GSE valuation framework should reflect a continuum of appraisal and evaluation methodologies.**

The FHFA regulatory oversight framework should advance GSE adoption of a continuum of valuation options, including appraisal and evaluation techniques that harness the risk mitigation benefits of data and technology, to be used in conjunction with individuals performing the physical inspection of the property. In such a continuum, the valuation techniques and methods will vary based on the degree to which they rely more heavily on data and technology or on human assessment of the characteristics and condition of the property. The determination regarding which approach to apply should be based on traditional mortgage transaction risk factors associated with both the property and the loan characteristics.

This tailored approach, using the valuation methodology most suitable for the transaction based on risk, would more efficiently and effectively target resources to compile accurate valuation information and control for risk. For example, in cases where a property has been resold several times in a market with substantial real estate sales activity, the valuation methodology could rely more on data and technology. In contrast, for a property under contract for the first time, located in an area with few sales transactions, the engagement of a licensed or certified appraiser is more appropriate.

The concept here is a continuum that embraces the innovations and improvements in valuation methodologies that have resulted from better use of data and analytics. With the substantial developments in technology and innovation, as well as the GSEs' extensive and rich property data set, there are a significant number of acceptable valuation approaches to establish an accurate opinion of value, approaches that fall between an in-person interior and exterior appraisal and an appraisal waiver.

We believe that the temporary COVID-related appraisal "flexibilities" that the FHFA and GSEs implemented this past year materially inform this framework and should be considered for inclusion as permanent components of this risk-based continuum. Financial institutions appreciate that these options were made available, but they were not used as extensively as most companies had planned, because the temporary nature of their availability made it difficult to execute these approaches efficiently. Namely, companies could not justify the dedication of resources to upgrade technology platforms to automate the fulfillment of the valuation alternatives for eligible transactions when these alternatives were temporary rather than permanent.

With these COVID valuation alternatives included in the continuum, we would envision the following types of valuation approaches within the spectrum (listed from lowest risk transactions to highest):

- 1) GSE appraisal waiver
- 2) AVM
- 3) Evaluation - AVM with some additional physical inspection, such as probable condition with imagery; probable condition verified; exterior inspection; interior inspection
- 4) Desktop appraisal
- 5) Alternative appraisal: desktop and probable condition
- 6) Hybrid appraisal: desktop and interior inspection by non-appraiser
- 7) Exterior appraisal
- 8) Interior appraisal

As mentioned above, the risk factors for determining which valuation methodology in the continuum is permissible and most suitable would relate to property and loan characteristics. Property risk variables could include factors like the type of property, availability of property and current market data, date of the last appraisal, the level of sales activity in the community, and whether the area has been affected by a natural disaster. In addition, factors related to the transaction would be considered, such as the LTV ratio and whether the property will be used as a primary residence as well as whether the loan is a refinance or purchase.

A risk-based continuum would ensure that loan collateral is appropriately evaluated in an effective and efficient manner that would benefit: a) appraisers, by targeting their assignments to those properties most in need of their technical expertise and knowledge, b) consumers, by simplifying the valuation process including reducing the time to close, and c) lenders, by enhancing their ability to better focus and manage the resources dedicated to collateral risk management.

Consistent with the HPC recommendation for the use of a continuum of valuation techniques to be permissible in the origination of mortgages, we believe that a similar approach should be considered for other parts of the business, such as servicing, where a full interior appraisal may not be necessary or practical.

## **II. FHFA should exercise proper oversight and encourage publication of the interagency AVM standards.**

The risk-based continuum framework will only be successful if there are proper oversight and clear standards in place. Within lending institutions, appropriate risk management controls, training, and internal audits are vital to prudent execution of any risk-based framework. That said, FHFA must ensure that the rules support a simple approach for lenders to determine and deploy the appropriate valuation methodologies for each transaction, and that standards that are clear for all stakeholders.

In addition, we would encourage the FHFA to motivate the regulators involved in development of the interagency Dodd-Frank rulemaking on Automated Valuation Model (AVM) standards to complete that work in a manner that complements and supports the use of AVMs in this valuation continuum. We understand that this rulemaking was suspended for a period of time, to accommodate changes in regulator leadership as well as the national pandemic. However, establishment of these standards is critical today, given the growth in the use of AVM tools and evolution in the models. Further, we ask that these regulatory standards apply to the GSE AVM technologies, as well as to the other private models that are commonly used across the marketplace; uniformity in the application of the standards will provide transparency and a basis to compare the features of various AVMs as well as their reliability and efficacy. HPC would also recommend that the GSEs accept evaluations performed using private AVMs that meet the new standards, once the rule is fully executed.

## **III. Data democratization is critical for risk management improvements across the industry.**

Improvements in valuation, most specifically in the risk management practices of all stakeholders involved in the mortgage market – such as mortgage insurers, lenders, and investors who rely on analytic models to project expected loan performance and anticipate severity of losses – require high quality data. The more data that is available, the more accurate and reliable the analytic models. Residential property data has long been compiled by various parties across the mortgage industry and

shared or sold for the benefit of enhancing risk management tools. However, the most expansive set of property data – accumulated from the submission of appraisal data to the GSE Uniform Collateral Data Portal – resides with the GSEs and has been maintained exclusively for GSEs’ benefit.

We recommend that the FHFA develop a public-use database or data release, to make available this full set of rich data for use by industry, advocates, academics, researchers, and others. The release of this information would allow for a substantial improvement to private valuation risk management tools and techniques, as well as better research and assessment of the accuracy and implications of historical valuations in various markets. The value of this information cannot be understated and therefore, a broader policy dialogue regarding how best to release this data would be welcomed by HPC.

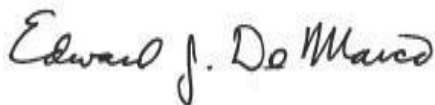
HPC developed a complementary RFI response letter, submitted jointly with the American Bankers Association (ABA) and Mortgage Bankers Association (MBA), to advance this same recommendation.<sup>2</sup>

**IV. The property value gap between white and non-white neighborhoods is a significant concern and merits immediate attention, through research and analysis as well as policy dialogue to identify actions to mitigate the problem.**

HPC members are deeply concerned that residential property values may reflect a level of bias grounded in historical practices, such as redlining and government-imposed segregation. The serious questions raised by the extent of distortions in home values and the impact on communities of color must be discussed and addressed collectively – by government officials and regulators, industry professionals, civil rights advocates, and consumer groups. HPC members do not profess to know the range of possible policy solutions but stand ready to play a leading role in this critical conversation. Given the FHFA’s access to authoritative government data sets, including the National Mortgage Database (NMDB), Home Mortgage Disclosure Act (HMDA) data, and the GSE Uniform Appraisal Dataset (UAD), we suggest that FHFA initiate and perhaps engage other stakeholders in some preliminary analysis that could inform and advance the discourse on this critically important topic.

Thank you for your consideration of these comments. We look forward to working with FHFA and the GSEs on modernizing appraisal-related policies, practices, and processes. Should you have any questions about these recommendations, please contact Meg Burns, EVP for the Housing Policy Council, at 202-589-1926.

Yours truly,



Edward J. DeMarco  
President  
Housing Policy Council

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<sup>2</sup> [Joint Trade Letter](#)