Ernest W. Durbin II

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

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

In response to the RFI,

My name is Ernie Durbin, I am the Chief Valuation Officer of Clarocity, a nationwide appraisal management and appraisal technology company. In addition to my national position, I also have a limited private appraisal practice in the Greater Cincinnati area. I have been in the appraisal business since I graduated college in 1982 and joined my parents in their appraisal practice. I hold designations with the Appraisal Institute and with the Counselors of Real Estate. My full Curriculum Vitae is available at www.durbin.com.

I have signed two other responses to this RFI, one as the Chairman of the Government Affairs Committee for the Collateral Risk Network (CRN) and the other as Chief Valuation Officer for Clarocity. This document contains my own personal submission and is not necessarily endorsed by CRN or Clarocity. I approach this RFI as a practicing appraiser with concern for the future of the appraisal profession. Undoubtedly you will hear echoes from other responses I have signed, but the opinions expressed here are my own.

In my response I will address three questions. Question A1.1 regarding the need for new valuation solutions; question C1.1 concerning the impact of appraisal process improvements on the appraisal industry; and C1.4 about discrimination in valuation practices.

A1.1 Is there is a need to provide new valuation solutions that address industry identified issues of appraiser capacity, turn-times, training, and rural and high-volume market coverage?

The industry identified issues in this question, appraiser capacity, turn-times, training, and underserved markets all find their origin in one major issue: the declining number of professional appraisers. Fewer appraisers have resulted in extended cycle times, underserved markets and report quality issues. Traditional appraisal reports are taking longer to complete. Lenders fear loan buybacks resulting in greater amounts of information required in the appraisal report, attempting to circumvent future investigations. Appraisers are concerned about the actions of

State Regulators and fill their reports with protective boilerplate. Appraisal Management Companies (AMCs) add layer upon layer of additional requirements hedging against actions by both Lenders and State Boards. The result: reports take longer to complete, are filled with boilerplate, and are more difficult to read. Often quality is reduced by additional minutia that really does not add to the credibility of the report.

The issue of appraiser capacity is compounded by the exodus of aging appraisers from the profession. To make matters even worse, we are not attracting new entrants to replace those retiring. Residential appraiser numbers continue to fall and there is no light at the end of the tunnel. Fewer appraisers spending more time than ever completing reports are impacting closing times and the real estate industry in general. This combination is not sustainable.

Residential appraisers continue to submit their reports with a plethora of addenda using the Uniform Residential Appraisal Report (URAR). This form was first created 1984. It had a few revisions in 2005 but has otherwise been the same for decades and decades. The form was designed for typewriter and is so embedded in our lending systems that initial data standardization efforts by the Enterprises had to be shoehorned into this antiquated outdated form.[1] This "traditional" appraisal form with its three comparables no longer meets the needs of our modern, computer centric, data rich environment.

The only solution is a new solution.

<u>A1.1</u> What are those potential solutions?

The problems with "traditional appraisal" have significantly contributed to the appraiser capacity issue. Until recent “test and learn” efforts by the Enterprises, every residential appraisal mortgage assignment was completed on a traditional appraisal form. Before the pandemic, there was a small percentage of GSE loans that were processed with appraisal waivers. As pointed out in the RFI, these waivers have swelled to 40+ percent as a result of heavy refinance activity and ancillary impacts from the COVID crisis. In spite of heavy appraisal waiver usage, appraisers are still unable to keep up with current market demand. Waivers have functioned as a pressure relief valve for the valuation requirements of lending. Without them, we would most likely have unacceptable closing times and potentially a lending crisis.

Waivers are not a "new" valuation solution. They have been around for some time. Even though they have been very useful during the pandemic, waivers certainly are not an answer to the waning number of appraisers in the long run. New solutions must involve a continuum of valuation products that are right sized to the collateral risk decision. Right now, the valuation of

[1] The Uniform Appraisal Dataset (UAD). This standardized data collection was forced into nearly unintelligible abbreviations in order to fit form fields on the URAR.

collateral is binary. It is either waiver (no appraisal) or traditional appraisal. New valuation solutions are necessary to bridge the gap between these two extremes. New solutions would result in fewer traditional assignments and a more robust valuation of collateral risk than simple waivers. Waivers will always have a place, but they should not be relied upon as heavily as they are now. Without new solutions, heavy waiver volume will continue, and traditional appraisals will remain slow and expensive.

An immediate solution is to study the workflow of the appraiser and to delegate any activities not requiring the professional decision-making of a licensed or certified appraiser. Appraisers should be doing what they do best, analyzing and reconciling data and information into an opinion of value. These activities take place in their office not in the field. Properly trained individuals utilizing handheld technology can collect the site information the appraiser needs in order to complete an assignment from their desk. This would make appraisers much more efficient by freeing up a very large percentage of their time. Decoupling field work and desk work will allow the appraiser to produce more appraisals per hour even if those appraisals continue to be transmitted on the antiquated URAR appraisal form.

Future solutions must include new ways of developing and reporting an appraisal assignment. 2021 is completely different than 1984. There is no reason appraisers should be supplying only three comparables to arrive at their value conclusion. The handheld devices we use as cell phones contain many times more processing power than the original Space Shuttle and our laptop computers thousands of times more. We have data stores and silicone chips that allow us to consider and “adjust” every sale in the market segment using regression analysis. Using this methodology, appraisers could then sort properties by those that have the least percentage of adjustments and begin to immediately identify large groups of potential comparable properties. Why include only three comparables when you already adjusted several hundred and can verify the top 10 very quickly? Why are we not using the tools we have right now to modernize the appraisal process and create data rich, transparent, and replicable reports?

Appraisers can also provide other services in the new valuation economy of the future. Part of the valuation continuum might be automated valuation models, for instance appraisal waivers. The weakness of automated valuation is assessment of depreciation, be it physical, functional or external. Automated valuation models have a hard time determining the condition, quality and externalities of properties. With human input directing these models they can be very accurate in predicting price and provide exceptionally credible results. Appraisers need to consider providing on-site inspection services using their professional judgment to assess condition, quality, and external influences. If these complications are minimal, assisted by inspection by the professional appraiser, the model will most likely do a very good job assessing collateral risk. If there are issues that are too complex for automated valuation, appraisers can be engaged to complete the assignment with a scope of work agreeable to the appraiser and the client. The scope of work may not include what we know today as a traditional appraisal. It could include an appraisal that uses qualitative analysis versus qualitative analysis, or a report that demonstrates a plethora of comparables adjusted with hedonic regression. Appraisers need to broaden their skillset to provide services in the valuation continuum of the future.

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

If appraisers delegate the inspection process to third parties, there is a risk that the information they receive is not accurate. Individuals collecting property data for the appraiser must have proper training, regulatory oversight and some form of licensure. Standardizing who can collect property data, and the process of doing so, is essential to this modernization effort. Then appraisers will be able to have confidence in data provided from the third-party and utilize it like other data sources they currently use for comparable selection.

Appraisers gain a lot of knowledge of the marketplace by simply driving to appraisal assignments. Differences between subdivisions and market segments can be observed firsthand. If appraisers remain at their desk too long this valuable market understanding can be lost. This risk can be mitigated by appraisers providing some inspection services for themselves or for other appraisers. Again, appraisers need to consider a variety of services they can provide in the valuation space. Also, site collection services are a great opportunity for appraisal trainees. These trainees have the rudimentary education, training from their supervisor and licensure recommended above.

C1.1 What do you envision the impact of appraisal process improvements as described in this RFI to be on the appraisal industry?

I began my response to this RFI noting that the majority of issues the RFI addresses are result of the declining number of licensed and certified residential appraisers. There have been considerable efforts to reverse this trend. The Appraisal Foundation has reduced the number of hours for credentials and the minimum college requirements necessary for initial application. Education and experience are perceived as barriers to entry. These are not the reasons why we have fewer people entering the appraisal profession. The reason is simply economic.

As noted earlier, appraisers are spending more time than ever completing a single traditional appraisal assignment. Fees, although up somewhat as a result of demand, are still not appreciably higher than they were 10 years ago. Lenders will not allow trainees to inspect properties on their own, creating a huge economic barrier for supervisory appraisers. There is no economic benefit to training and supervising appraiser if you have to accompany them to visit every property. AMCs represent the majority of appraisal order volume and deal primarily with individual appraisers, undermining the foundation of a large appraisal firm where traditionally new appraisers are trained. It simply is not profitable to be an appraiser the way we do business now, completing appraisals in a traditional manner.

Appraisers typically charge for their work on a per assignment basis. However, I always encourage appraisers to consider their hourly rate when they are quoting fees. Fees vary greatly nationwide, but in Southwest Ohio, where I do business, a traditional appraisal assignment is typically around $400-$450. These assignments take between 5 and 8 hours to complete including inspection of the property, file preparation etc. This yields an hourly rate between $50 and $90 depending upon the efficiency of the appraiser. In this same market, there are some desktop assignments being completed for home-equity lending and portfolio review. These desktop assignments have a different scope of work but enable the appraiser to complete USPAP compliant reports. Because of the technology involved, the appraiser remaining at their desk, and a different scope of work (qualitative analysis) the assignments can usually be completed in an hour or less. These assignments have fees between $85 and $150. Assuming one hour per assignment they clearly yield a higher hourly rate than traditional appraisal work. The economics of new valuation solutions are more profitable for appraisers than the way we produce our assignments now.

Ultimately, the impact of appraisal modernization and new appraisal solutions will result in fewer appraisers. Because appraisers will be more efficient, we will not need the same number of appraisers that we have for the traditional appraisal process. These appraisers will produce more valuations on a daily basis and at a higher hourly rate. These valuations will have different scopes of work depending upon the collateral risk level evaluated. Appraisers will also augment their income providing property data collection either for themselves or utilizing staff under their direction.

The valuation solutions of the future will involve more technology and require a higher level of data analysis, particularly regression analysis. Efforts to reduce the education level of appraisers are misaligned. We will need college graduates in the appraisal profession of the future, particularly those with an emphasis in math and economics. Higher hourly rates and a diversification of services will lower the economic barrier and attract more college graduates to a profession where they can use their analytical skills and education.

These changes will result in some appraisers simply retiring. Other appraisers will emphasize only traditional work and or property data collection services. Some appraisers will step up and gain the necessary education for the next generation of valuation.

We will always have appraisers, and those in the future will earn more, but there will be less of them.

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C1.4 Is there discrimination in current collateral valuation practices?

As an individual respondent, it would be easy to ignore this question and not deal with the difficult topic underpinning it. Ignoring the topic of discrimination because it is difficult to discuss is not acceptable. No reasonable person would disagree that racial bias is still a cultural concern in our country, states, cities and neighborhoods. Professional appraisers do not live in a vacuum outside of our culture. As appraisers, we analyze the action of market participants in relation to real property. If cultural bias is evident in the market participants, it is not unreasonable to conclude that this bias will make its way into our reports and unintentionally be reflected in our appraisal opinions. As with any large professional group, there are certainly some licensed or certified appraisers that intentionally discriminate based on race. I do believe this is a small percentage of our profession. No matter how small this percentage, we must seek to extinguish any discrimination that occurs in our profession; intentional or unintentional. I personally support additional research, education and enforcement on discrimination within the appraisal profession. I encourage FHFA to pursue potential discrimination in the valuation space.

Closing

Thank you for taking time to read my response to the RFI. Please feel free to contact me with any questions or commentary. I will be happy to make myself available as a subject matter expert for FHFA

Sincerely,

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