

February 26, 2021

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street SW, 9th Floor
Washington, D.C. 20219

Remitted to: AppraisalRFI@fhfa.gov

Re: FHFA RFI on Appraisal-Related Policies, Practices and Processes, December 28, 2020

Dear Director Calabria,

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Information on Appraisal-Related Policies, Practices, and Processes (RFI). ABA believes it is critical for Fannie Mae and Freddie Mac (Enterprises or GSEs) to consider feedback from all users in the industry when implementing new valuation products, the use of Automated Valuation Models (AVMs), Appraisal waivers, and the Uniform Appraisal Dataset (UAD) and redesign changes that will ultimately impact borrowers' access to credit. ABA fully supports creating new alternatives to the traditional appraisals available in the market today. We believe new technology and tools need to be forward thinking in order to support a variety of valuation alternatives to enable lenders to offer a range of options to serve borrowers across the spectrum of loan types originated. These tools will help lenders serve all credit markets despite the capacity constraints in the availability of appraisers.

We ask, however, that prior to rolling out the new consolidated appraisal form, FHFA direct the GSEs to carefully consider costs and benefits associated with these changes, including the costs to industry arising from the implementation of the modifications to residential forms. Although a full revision of existing forms may help streamline the narrative section for some appraisal formats, the need for many expanded fields has not been fully established, and the actual cost and time to implement remain unascertained. We appreciate FHFA issuing the RFI and encourage the agency to continue to work with stakeholders to ensure that any changes ultimately adopted achieve their objectives while minimizing costs and potential disruption to the market.

¹ The American Bankers Association is the voice of the nation's \$21.9 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$17.8 trillion in deposits and extend nearly \$11 trillion in loans.

Appraisal Modernization: Alternative Valuations-Hybrid & Desktop Appraisal

ABA recognizes the need to expand traditional appraisals to include hybrid and desktop valuation approaches in order to have alternative valuation tools for different types of loans. The marketplace needs a full array of alternative methods to cover the broad spectrum of mortgage transactions and to address the different risk components or complexities of each transaction. Different collateral valuation methods, including the hybrid approach, are appropriate for use depending on the particular risk components of the specific loan. These alternatives will fill the gap between the appraisal waiver and the traditional appraisal. We support the Enterprises proposal for a hybrid valuation in which one entity inspects the property, collects key data points, and reports to the lender for submission to an automated underwriting system (AUS) and corresponding collateral tool (Freddie Mac's Loan Collateral Advisor and Fannie Mae's Collateral Underwriter). If the AUS determines that further collateral analysis is warranted, the data collected at inspection would be provided to a licensed or certified appraiser resulting in a desktop appraisal.

Traditional appraisals are essential for many complex loan types and properties while low-touch approaches are appropriate for some lower risk loan requests. Currently, lenders in rural and underserved areas report intense challenges finding seasoned appraisers. Even where appraisers are identified, the ability to access timely appraisals continues to be a problem across many market segments. A hybrid alternative is a streamlined valuation process that could address supply shortages in many communities, improving service to borrowers while also lowering costs to close the transaction within required timeframes. As described in the RFI, the collection and validation of certain data points can provide an adequate alternative for many underserved market areas. We emphasize, however, that a "one size fits all" approach is not appropriate for *all* valuation types—each transaction will vary depending on the complexity of the property or the credit risk of the underlying loan.

For example, one federally regulated financial institution reported a 30% time saving from application to closing when using hybrid valuations on their portfolio loan products. This hybrid approach had the added benefit of providing loan funding to the borrower in a more timely fashion. In addition, it freed the appraiser to focus on more complex assignments or revisions, and it meant the appraiser spent less time on the road, further increasing capacity to conduct new appraisal requests.

We note, however, that even if adopted by the GSEs, alternative valuation methods are not necessarily embraced by the entire marketplace. For other securitizers, loans with hybrid valuations are generally considered "credits with no valuation," and will currently rate "D" due to "no-appraisal" classification, even if a desktop appraisal is performed in the loan file. Full utilization of non-traditional valuations will require wider market acceptance, by a broader range of stakeholders.

ABA applauds FHFA for the recent COVID-19-related valuation enhancements, such as exterior inspections and borrower-assisted photos, allowed by the GSEs that have significantly helped lenders and borrowers during the crisis. We recommend that valuation-streamlined

processes should continue to be part of the lending toolbox once the pandemic ends. During the pandemic, these flexibilities facilitated borrowers' abilities to close loans and, if continued, would enhance options in areas impacted by future natural disasters. The GSEs' efforts to develop and leverage technology for valuations and appraisals is essential today; it enables lenders and servicers to respond to disaster-hit areas at a house-by-house, county-by-county and state-by-state level. Lenders deem these COVID-19 valuation enhancements essential for business continuity, as they allow quick response times to changes in the scope of work for an appraisal.

To assure maximum clarity and to encourage use of the new approaches, ABA recommends that the Seller/Servicer guide be re-evaluated and updated each time a change in the appraisal scope of work is considered or any new appraisal type, flexibility or valuation product is accepted by the Enterprises. We urge FHFA to employ a fair and equitable approach to sharing the risk that is inherent in any reduced scope valuation product. The Seller/servicer guide should clearly outline the different appraisal approaches to assure that buy-back risk does not fall entirely on seller/servicers that use these modifications or flexibilities.

Appraisal Waivers

ABA members report that they generally accept the GSE appraisal waivers whenever the Desktop Underwriter (DU) or Loan Prospector (LP) system allow them for all loans originated for sale to the GSEs. Waivers are used most frequently in refinance transactions, and have proven to be a convenient tool for borrowers and lenders. Lenders and borrowers both appreciate the appraisal waiver enhancement as it improves the ability to close loans in a more timely fashion, saves money on closing costs, and offers solutions to time constraints in contracts. The waiver provisions are especially valuable since the appraisal process (ordering, obtaining an appraisal, and internal underwriting review of the appraisal) is one of the longer components of the origination process and the most common reason for closing delays. Members report that if a borrower accepts an appraisal waiver from Fannie Mae or Freddie Mac, there is higher customer satisfaction rating for the transaction. Another benefit of an appraisal waiver is that it eliminates pre or post-closing GSE quality control appraisal issues and the potential buy-back risk, which is a consistent management concern.

However, for those banks active in originating home equity loans in second lien position – which represents a small section of the market – there is some concern when an appraisal waiver is used for a first lien no cash-out or a limited cash-out refinance. In these cases, there is a request for the second lien to be subordinated, and there is an additional layer of untested credit risk when an appraisal waiver is used. During the refinance process, if an appraisal waiver is granted, the second lien holder will not have access to the appraisal typically used and would still need a valuation to decision in issuing a subordination. Without access to the new appraisal, second lienholders recently have changed their processes to require either a new valuation for their file or a recertification of their existing appraisal in file. For federally regulated institutions, there must be prudent review to ascertain an acceptable method to calculate a new market value that assures proper loan to value ratios in the credit decision.

Since the GSEs offering the appraisal waiver have the source data for their own risk parameters to render the appraisal waiver decision, we request that this information be made available to the lender, thus allowing transparency regarding the valuation estimated by Fannie Mae or Freddie Mac. Access to this data would be a beneficial resource so lenders can accurately assess the loan-to-value and the information regarding any additional risk affecting their lien position.

UAD & Redesign

ABA appreciates the GSE's work to date to change the UAD and to redesign the appraisal forms. We also appreciate FHFA's issuance of this RFI to encourage broader input and feedback from all stakeholders. As part of this comprehensive deliberation process, ABA urges FHFA to require the GSEs to undergo a full cost-benefit analysis of the implementation of the UAD and redesign of the combined appraisal format for lenders and appraisers. Our request is based on several concerns.

ABA is concerned about the impact of these changes on seasoned appraisers and the possible constriction on availability of appraisal services after these changes go into effect. Second, we are concerned about delays and costs associated with lender fulfillment and review systems, processes, policies and procedures. These elements are critical to the efficient operation of the credit and housing market. We urge the GSEs to assess the full implementation cost of lenders' reengineering of the business processes including the impact on appraisal ordering, input, review, and underwriting. In addition, the impact on the security of cloud applications, other users, and software systems must be considered,

To date, the GSE's work on the new UAD has only considered merging all the forms without concern as to the costs and burdens imposed by the use of the individual forms and the process changes that will be required. We observe that what started as a project to streamline the process appears to have changed into a merged new form. By combining all six residential forms into one new and comprehensive appraisal form, there is concern about the value and applicability of the increased datasets for all properties and appraisal forms. For example, the data fields required by appraisal form 1004 increases from 280 data fields to 823 data fields.² Such data is not necessarily material and does not impact the market value of the property. The new form has not been finalized and released for review to lenders and appraisers to determine whether it is more efficient and whether all the fields add actual value to the final product. Those factors, and others, require reconsideration as well as a full cost-benefit analysis of form redesigns. In the end, the industry is concerned that Fannie Mae and Freddie Mac are driving the proposed changes with a focus on redesigning the appraisal forms and the process for first mortgage originations they may buy, while there is no consideration or discussions around the needs of non-GSE lending, second mortgages, default/servicing and/or jumbo lending. The intent to sunset the existing reports has the potential of pushing the entire industry into confusion

² Fannie Mae and Freddie Mac UMDP Point Power Point Presentation Uniform Appraisal Dataset (UAD) & Forms Redesign Advisory Group December 7, 2020.

as there is no other industry standard for residential appraisal report forms or other alternative valuation options allowed by regulation.

ABA recommends Fannie Mae and Freddie Mac resolve UAD Backward Compatibility Break issues and offer advice on how users will be able to integrate existing appraisal data into the new UAD format. This is a critical problem, and the industry needs to have a viable solution. In the 10-years since the UAD was introduced, the entire industry has adapted procedures, systems, and protocols for using the standardized dataset as well as super-imposed UAD fields on the boilerplate form templates that are read by consumers and underwriters. The original UAD aligned to the pre-existing GSE mandated appraisal form templates. The compatibility of the various residential appraisal forms are currently unaligned and this requires further attention by the GSEs.³

We note that these elements are at the heart of the elevated level of burdens that will result from the proposed UAD changes. First, the “forms” by property type will be eliminated and the unique information each may have contained will be consolidated. The new URAR would feature a basic, common set of information that applies to all residential property types, and then the property specific details, such as single family versus 2-to-4 family, will drive additional data requirements conditionally along with other case-specific conditions relative to the subject property.

Systems in use today that read and or write the datasets described above will have to be modified substantially, both in the formats expected and the rules/logic employed. The new UAD project not only breaks compatibility with the original dataset (2.6GSE), it also adds to the existing challenge for lenders who will have to support the full spectrum of GSE datasets through the life the loan. In other Uniform Mortgage Data Program (UMDP) initiatives, lenders must comply with processes for datasets using a MISMO Reference Mode (RM) version, which include:

1. Uniform Loan Delivery Dataset (ULDD) implemented in 2010 using MISMO RM version 3.0
2. Uniform Appraisal Dataset (UAD) implemented in 2011 on MISMO DTD 2.6 Valuation/GSE2.6 (sunset version replaced by the Reference Model)
3. Uniform Mortgage Servicing Dataset (UMSD) announced in 2012 and halted in 2013 using MISMO version 3.3
4. Uniform Closing Disclosure (UCD) using MISMO RM version 3.4, implemented in 2017
5. Uniform Loan Application Dataset – using MISMO RM version 3.4, effective March 2021

³ For instance, the four primary appraisal forms (1004, 2055, 1073 & 1075) were targeted for the additional UAD data and are in the v2.6GSE format. The other forms represented by property type, however are still sent to Uniform Collection Data Portal in the original MISMO Valuation Response 2.6 Errata 1 format (no new UAD elements).

6. Uniform Appraisal Dataset (UAD) Version 2 projected for MISMO RM 6 or 7 in 2023 or 2024

Due to the impact of all these factors, ABA urges FHFA to further evaluate and more fully assess the current redesign. Once reconciled and resolved, if the GSEs determine to move forward, we strongly recommend a cost benefit analysis and a pilot program to test the new format before a full system change is implemented. This testing period will allow the GSEs to adopt necessary changes and corrections before imposing costs on the industry to implement new systems.

In addition, we have significant concerns about potentially losing appraisers from an already struggling field, particularly seasoned and well-qualified appraisers who may conclude that the cost and training for the new appraisal software system as well as making the necessary changes to their procedures and processes is not outweighed by future gain. We are deeply concerned about the likely impact to the appraisal industry and the negative impact of the probable appraiser exit from the field of operations. ABA members report many rural and underserved markets have 2 to 4 appraisers available to lenders. The loss of one or two appraisers in these markets will significantly reduce the availability of credit. We urge FHFA to factor this potential loss into its cost-benefit analysis.

Further, ABA urges FHFA work with the Appraisal Sub-Committee (ASC), the Appraisal Institute, and the Appraisal Foundation to gather accurate appraiser demographic data. This data will enable FHFA and industry to measure the full impact of how these changes could erode the capacity of an already strained system. Until this data is provided, FHFA will be unable to adequately project or fully comprehend how the UAD and redesign will change appraisal service availability and credibly assess the resource risk that may exist throughout the nation.

APPRAISER IMPACT: Valuation Methodology and Market Impact

To promote the hybrid appraisal model and qualify individuals to become data collectors, we suggest implementation of a new certification or licensing training program at the state level. In their lending operations, ABA members require the participation of professionals that are trained, and then certified or licensed to assure proper standards for data quality. Training for data collectors should similarly address core competencies as well as ethical responsibilities to address the risk of individuals being improperly influenced, which is prohibited under the Dodd Frank Act. There needs to be alignment and clarity in data collection. We recommend that licensing or certification be state responsibilities, so that licensing or certification can be assessed and removed by the state authority. States are also best positioned to conduct background checks for certification, in order to address consumer privacy concerns.

In addition, as part of this process we urge the Appraisal Qualifications Board to reexamine the minimum appraiser qualification standards for a residential appraiser. These standards should be continually re-evaluated and realigned to remove any new or existing barrier of entry into the appraisal profession. The housing market has an overwhelming need to bring

more entry-level appraisers into the industry. We continue to hear banker frustrations regarding the entry barriers to the appraisal profession created by the required levels of appraiser education, training and experience that create a financial disincentive for many interested in entering the field. Collecting data for the hybrid valuations could serve as a training ground for incoming appraisers, providing a source of income for trainees. However, we emphasize the need to have partners with strong knowledge of neighborhoods and markets for appraisals, hybrids, and desktops.

Fannie Mae and Freddie Mac Must Make Additional Data Available

ABA encourages the GSEs to make appraisal data available to the industry. The compendium of market data that the GSEs gather would greatly benefit industry and the public at large. Appraiser access to valuation data would provide more accurate tools for comparable properties, real time sales and property condition information, and greater transparency for the market.

For ten years, the submission of the UAD/URAR data into the GSE data portal resulted in a massive population of critical collateral information for not only the subject property, but also for the comparable properties used to establish the opinion of value. The accumulation of such a vast amount of data on properties, data that is verified by repeat sales, and that provides insight on changes in the characteristics or condition of properties over time, is extremely valuable.

This compilation of residential property data should be shared with those parties who contributed to the work. We believe that FHFA should initiate an exercise to assess the options and develop a plan for broad public release of this valuable information to industry – including appraisers and appraisal management companies, lenders and servicers, mortgage and title insurance companies, investors and rating agencies, and data analytics providers – as well as to other stakeholders, such as academics, researchers, and consumer advocates.

Appraisal Waiver Approval Differences Between GSEs

ABA members do not have data regarding Fannie Mae and Freddie Mac approval of appraisal waivers, including differences in each GSE's approach to waiver approval. We observe that the GSEs and federal regulators can more readily obtain and analyze this data. FHFA has access to the GSE and lender data. We encourage monitoring of multiple submissions to prevent misuse and manipulation; lender changes to multiple data fields and subsequent resubmissions that result in an “accept” for an appraisal waiver should be a red flag for the GSEs. Analysis of this data and the differences between GSE acceptance of appraisal waivers would also be a useful tool for FHFA.

ABA members report that they have noted differences between the agencies when granting appraisal waivers, but they lack clarity about these differences.⁴ We believe that analyzing the waiver data could add much needed transparency about the required criteria that would benefit both consumers and lenders.

⁴ Fannie Mae guidelines are more transparent on what criteria is required for an appraisal waiver.

Valuation Differences by Borrowers and Neighborhood Race

To better understand the potential differences in appraised values by race and/or ethnicity of neighborhoods, FHFA is seeking comment on Appraisal-Related Policies, Practices and Processes. Recent news reports raise serious concern about undervaluation of residential property in minority communities. The reports detail the experiences of minority borrowers whose traditional appraisals resulted in values that were well below the neighborhood property averages. Some stories report that when Black homeowners removed family photos from their homes, appraised values increased.

Banks oppose discrimination in any aspect of the lending process, including appraisals. As the RFI points out, USPAP directs appraisers not to consider the racial or ethnic characteristics of a neighborhood. ABA is engaged and working with appraisal industry representatives, State and Federal regulators, investors and others, to reassess appraisal practices and identify potential problems and to search for workable solutions. We encourage the States, which directly oversee appraisers, to work with the appraisal industry on additional training and other steps to eliminate potential bias. Hybrid and desktop models could also be used to help to mitigate the risk of conscious and unconscious bias. We further encourage the GSEs to monitor the existing data in their systems, submitted in UAD, which are used for decisions influencing waivers, and AVMs to determine if they reflect discriminatory considerations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sharon L. Whitaker". The signature is fluid and cursive, with a large initial "S" and "W".

Sharon L. Whitaker

VP, Commercial Real Estate Finance