



# The Appraisal FOUNDATION

Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications

February 26, 2021

Federal Housing Finance Agency  
Office of Housing and Regulatory Policy  
400 7<sup>th</sup> Street SW, 9<sup>th</sup> Floor  
Washington, DC 20219

Delivered via email to: [AppraisalRFI@fhfa.gov](mailto:AppraisalRFI@fhfa.gov)

To whom it may concern:

The Appraisal Foundation is the nation's foremost authority on the valuation profession. Since gaining Congressional authorization in 1989, our boards have been responsible for setting the nationally recognized professional standards and qualifications for real estate appraisers. In addition to these FIRREA directed responsibilities, our boards also provide voluntary guidance on the nationally recognized professional standards and the qualification criteria. It is our mission to set standards that promote excellence and education and uphold the public trust to ensure that appraisals are independent, consistent, and objective.

Our responses to your request for input and information follow here in.

## [A1.1: IS THERE A NEED FOR NEW SOLUTIONS](#)

Regarding your request asking if there is a need for solutions related to appraiser capacity, turnaround time, training, and rural and high-volume market coverage, the answer is: yes.

With a very active residential real estate market, some claim that the appraisal profession does not currently have enough trained professionals to meet the increased demand of the market. The solution is to reverse some of the lender-imposed restrictions which evolved over the past ten years that have restricted the appraiser's ability to meet the market demand for lending appraisals.

Essentially, modernization can include reinstating some of the more beneficial practices of the past combined with instituting new practices. For example, this can include the following changes:

- allowing the appraiser trainee to complete the inspection of the property<sup>1</sup>.
- assigning appraisals to an appraisal firm, not the individual appraiser.
- allowing licensed residential (not just certified) appraisers to complete certain appraisals related to lending.

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<sup>1</sup> While, for example, Fannie Mae does currently allow a trainee to complete an inspection, the loan originator (the lender) themselves often does not allow the trainee to complete the inspection.

- allowing more limited scope appraisals.
- ordering the appraisal earlier<sup>2</sup> in the lending process.
- supporting, through grants to appraiser trainees or incentives to program developers, the career training pathway created by the Appraiser Qualifications Board effective January 1, 2021 known as the Practical Applications of Real Estate Appraisal.<sup>3</sup> This has the potential to greatly increase the number of appraisers in as little as one year.
- consulting with the Department of Veterans Affairs, who manage to maintain adequate turnaround times for appraisals, regardless of market conditions.

Much of the increased limitations on the appraiser's capacity to complete the valuation work lenders can use, has been imposed by the lender themselves.

### A1.2: SHOULD MORE DESKTOP APPRAISALS BE USED

This is a lender decision and appraisers can easily accommodate these assignments, as needed, and complete them in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).

However, in the past year, as more exterior-only inspections have been ordered, the lender imposed a new restriction on the appraiser, which had previously never been done. The appraiser now had to accept the liability for what they concluded the condition of the interior of the property to be without having any ability to see the interior.

Per USPAP, completing a desktop appraisal is an acceptable appraisal product. However, placing the appraiser in a position where they must accept liability for the condition of the interior (which they did not observe) is not a risk that should be shouldered by the appraiser. If the lender does not want the appraiser to see the interior of the property, that is acceptable, as that has been a reliable past practice, but it should remain that it is the lender who is the one taking the risk on the condition of the property. If they place a limitation on the appraisal product, that is related to *their* risk decision, not the appraisers'.

With this requirement, the appraiser's choice has been to either agree to accept this risk or not receive the lending work. No other type of client places this type of pressure on the appraiser. It is unreasonable to expect individual appraisers to be able to refuse the lender's requirement for the appraiser to accept this added liability.

### A1.3 APPRAISAL WAIVERS

Appraisal waivers are antithetical to the purpose of what is stated in Title XI of FIRREA: "... Federal financial and public policy interests in real estate related transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing...".

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<sup>2</sup> Per [www.quickenloans.com](http://www.quickenloans.com), the average loan takes 47 days to process. The average appraisal time (in normal market conditions) is 2-7 days.

<sup>3</sup> This opens the profession up to an extremely wide range of people. For more information, contact The Appraisal Foundation.

Because all lending is about risk, the public is the one to shoulder any burden that results when increasing risk in lending decisions accumulates and thus, directly contributes to crashing housing markets. It is instructive to remember that Title XI of FIRREA was enacted to protect the deposit insurance fund. Giving loans without the *independent* valuation of that property is the one risk to be avoided.

As it exists now, an appraisal waiver means no independent party has considered the value decision. An appraisal waiver is ripe for abuse. Some questions we do not have the answers to, but which would be relevant to understand are:

- Do appraisal waivers harm the public trust in any way?
- Is there any data that indicates where and to whom appraisal waivers are and are not given?

An appraisal waiver still means someone decided the value of that property. At this time, it is unlikely the party making that decision is independent from the loan process or sufficiently trained to ethically determine an impartial opinion of value.

#### [A1.4: SHOULD DIFFERENT WORKFORCES BE USED FOR INSPECTIONS](#)

This is an interesting question. Mainly because it is not a new concept when considering “modernizing the appraisal process”. Appraisers have always, in certain circumstances, relied on others to complete interior inspections. To appraisers, “alternate workforces” have typically meant “appraiser trainees,” those who were training to be appraisers. The appraisal profession has a very high demand from people who want to become appraisers and who are capable of performing inspections while gaining the experience needed to become a licensed or certified appraiser.

However, after the passage of Dodd-Frank, many lenders stopped allowing the appraiser trainee to complete the property inspection on their own, even though they were under the direct supervision of a certified appraiser. Today, lenders are starting to look to individuals who are unregulated, untrained and who may or may not have a background check before they enter the person’s home.

Different workforces should be allowed to perform inspections, but since they need to be trained in how to “see” and understand properties (and markets), they should, at a minimum be appraiser trainees.

When lenders do decide to hire “alternative workforces” for the inspections, the data that is collected must be viewed as having been completed in the interest of the client. It does not meet the same threshold of independence that can be given to data collected by an appraiser trainee (the one working on the appraisal assignment).

Also, while not directly asked, another concern going forward is privacy. If the lender hires non-independent, non-regulated property inspectors to film and record the interior of a property, every single possession that property owner is being recorded. Will property owners allow this invasion of privacy? If lenders are going to continue to expand the practice of such activity, they should be required to inform the property owners of invasion of privacy concerns.

The appraiser is careful to avoid photos the property owner objects to (photos of certain personal possessions) and is subject to all types of confidentiality agreements. How is the data these third-party inspectors collect stored, viewed, and used?

A 3-D inspection report of every square inch of a home may indeed give information to the appraiser, which is useful, but how is the homeowner protected?

As data collection activity becomes more intrusive, tight restrictions must be established for consumer protection.

#### [A1.5: HOW TO BALANCE RISK WITH BENEFIT](#)

The way to balance risk with benefit is to directly involve the appraiser in discussions about appraisal reports and appraisal assignment requirements. Allow them to, as they do in *all other* appraisal assignments, have a true ability to decide if they need to increase the scope of work for any specific assignment.

Even if a lender orders a very limited scope of work appraisal, the appraiser, per USPAP, is required to contact the lender client and inform them, when it is necessary, that the scope of work the client prefers is not enough to result in a credible opinion of value and, therefore, the appraiser must increase the scope of work. This has created an opening where some lenders then encourage the appraiser to *not* increase the scope of work even though that increase is necessary for the appraiser to comply with USPAP.

These types of pressures can, contrary to what is allowed by USPAP, cause appraisers to cut corners and reduce the quality of work performed. The goal of having an appraisal completed is to reduce risk and to protect both lenders and consumers. Any systems put in place which work contrary to that goal should be eliminated from consideration and implementation.

If the lender pressures the appraiser to simply ACCEPT the data provided to them as credible, a crack is introduced into the system as this has a significantly negative impact on the ability of the appraiser to remain independent, objective and impartial.

#### [A1.6: FORMS REDESIGN](#)

One stated goal for the form's redesign is an extremely important one: to ensure that the forms make it easy for the appraiser to comply with USPAP.

We are glad to see that the new form designers are considering input from stakeholders as they redesign lender forms. However, while one of the goals of the new UAD forms is to *"assess whether new data are needed to strengthen risk management, and if current data should be retired or revised,"* one major issue should be addressed:

The lender controls much of what the written appraisal form contains, how it can be filled out and what the resulting report looks like. If the lender client controls this much of the appraisal report, then the homeowner should be informed about this issue.

This is necessary because an estimated 60-65%<sup>4</sup> of all complaints to state regulatory boards come from a borrower. And of those, the most specific type of borrower to file the complaint is the property owner(s) who is refinancing their property and believes the appraised value is “low.” The borrower often does not understand the appraisal report format is designed by the client and considerable misunderstandings occur because the borrower is not, and would never be expected to be, aware of the intentions behind some of the content in the appraisal report.

Granted the lender’s goal is different than a borrower’s, so it makes sense that an appraisal report would present information in a way that is specific to their needs. USPAP requires the appraisal report be written so that the CLIENT (the intended user) can understand it, not so that the report can be understood by anyone who reads or receives a copy of the report (i.e., an *unintended* user). A borrower is an unintended user of the appraisal report. If the appraisal report were being written for a borrower, it would have a different design and contain different information than is currently on the form.

Thus, since one of the stated goals of the form’s redesign is to move “*a significant amount of information out of the text addenda into standardized data elements ...*”, we recommend considerable effort is made to make sure the reports do not become so segmented and compartmentalized that there is a great reduction in the ability of the appraiser to cohesively communicate their opinions and conclusions. Most of time, and as will be noted below, the basis for the great majority of all complaints being filed are not because of standards related issues, but because the borrower does not understand what they are looking at in the form.

The Enterprises have further contributed to the issue of borrowers filing complaints without merit, by, in 2005, adding to their most common appraisal form (the “1004”) something known as “Certification Statement #23.” The appraiser is required to agree to Certification Statement #23, which states the borrower may rely on the appraisal report (thus, essentially, the borrower becomes an intended user). USPAP firmly states it is the appraiser who holds the responsibility to identify and state the intended users of the report. Appraisers know that the forms are not designed for borrowers and would not agree to this expansion of liability. Nonetheless, the lender has again forced the appraiser to agree to do something that often results in an uncomfortable misalignment with USPAP. The appraiser’s choice is to not accept lending work or agree to this certification.

Roughly 10%<sup>5</sup> of all complaints filed go on to result in disciplinary action against the appraiser, as most complaints have no merit and are dismissed. However, just having a complaint filed increases the appraiser’s Errors and Omissions insurance and subjects them to months of expensive and time-consuming investigation procedures. Even if, once an investigation is opened, a complaint is eventually dismissed (which the vast majority are) the state regulatory agencies are required to investigate EVERY aspect of the appraisal, not just the topic of which the complaint was filed.

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<sup>4</sup> [www.valuationlegal.com](http://www.valuationlegal.com)

<sup>5</sup> <https://www.liability.com/audias-corner/>

If one of the goals an appraiser has is to protect the public trust, the lender could aid in this by helping to design a form that does not confuse the borrowers who receive a copy of it, and attempt to interpret it.

### [B2.1: PROVIDING DATA TO APPRAISERS](#)

All property data collected by the Enterprises should be shared with appraisers, along with information about how the data is collected and controlled. Appraisers need to understand what, if any, “bias” is built into the data collection systems.

Also, data is power. While it is understandable that the Enterprises should be collecting data, the raw data should be available especially to those who are independent of the Enterprises. If all parties have access to the data: they can all act to balance one another out. The access to more data just broadens the appraiser’s ability to support their conclusions with evidence (a USPAP requirement).

Raw data can be studied by all types of parties, and it should be. There is no advantage gained by having one entity hide the data and use bits and pieces of it as they see fit. Without disinterested parties seeing the data, the ones who hold the data in secret can issue any statements about “what the data says.”

Appraisers must be able to, per USPAP, show the exact data they used to draw their conclusions and develop their opinions. If this is an expectation of appraisers, why would the Enterprises be allowed to draw conclusions from data, but not have that data be viewable to the parties impacted by those decisions?

### [B2.2 COLLATERAL TOOLS](#)

This is outside our area of expertise.

### [B2.3 HOW DO WAIVERS DIFFER](#)

This is outside our area of expertise.

### [B2.4 HOW CAN LENDERS MANIPULATE THE WAIVER SYSTEM](#)

While this is mostly outside our area of expertise, there is one issue to consider. The manipulation of data and other outputs that are relied upon by appraisers or for collateral valuation is outside the standards of practice and increases risk. However, it is important to remember that the manipulations of value conclusions are exactly what created the need, after the Saving and Loan crisis of the late 1980’s to develop a force of regulated, trained and licensed valuers (appraisers).

### [B2.5: QUALITY OF SERVICE, ENFORCEMENT OF NON-APPRAISERS](#)

Appraisers are trained to understand all aspects of how markets function and how forces act to impact values. For the lending assignment, this is done for the purposes of helping the lender evaluate collateral risk. Recording facts is one thing but knowing which questions to ask is what distinguishes an appraiser from a note-taker. Doctors are valued not because they prescribe methods to cure ailments, but because they know which questions to ask to determine what is wrong. Giving an appraiser a report that has been prepared by someone else does nothing to lessen the appraiser’s responsibility to control

the questions being asked about a property. The value of a property is not just about its interior features, it is about the whole. No one is trained to see the *whole* except the appraiser.

Data are not answers, just information. If we prevent appraisers from being under undue pressure to not question the reliability, appropriateness, credibility, and impartiality of an inspection report to determine value, then desktop appraisals will not be a reliable product for lenders. It is the pressure placed on that appraiser that must be kept in check.

Additionally, of all the “alternative workforces”, only appraisal trainees have a mechanism for resolving disputes or enforcement of national standards. Unregulated data collectors do not operate under any uniform standards or qualifications and there is no enforcement mechanism in place when there are quality issues.

## B2.6 DATA OR EVIDENCE

The evidence we can offer is not precise data. It is empirical data. The main reason the appraisal was originally needed, per the safeguards established with Title XI of FIRREA, was to adequately understand the value of property before making a risk decision. To ensure public trust in appraisals, we need diligent regulations, including qualification requirements and a process to ensure the valuation product (the appraisal) was completed with utter objectivity and independence.

“Alternative value solutions” have the same weaknesses we spent the last 100 years addressing. The “alternative value solutions” are just a reversion to where we were in the 1930’s thru the early 1980’s: valuation products largely under the control of the lender.

History has proven the importance of independent value conclusions. We should learn from the mistakes of the past and not return to valuation solutions that are unregulated and easily manipulated.

Past evidence includes Redlining practices from the 1930’s, the Savings & Loan crisis prior to 1990 and the 2007-08 housing crisis where no-doc loans and other high-risk practices resulted in a collapse of the world’s economy.

The alternative valuation solutions have the same risks and flaws that appraisals had prior to their regulation. Circumventing the cadre of professionals who have been educated, trained, tested and follow a court-tested set of written performance standards is an unnecessary invitation for an increase in risk.

## B2.7 APPRAISAL FLEXIBILITIES

As noted at the very beginning of this letter, there are multiple solutions that would result in providing an environment that is needed to have timely appraisals completed during times of very high demand. Just having interior inspections completed by unregulated individuals is not the most effective solution.

Any solutions proposed should result only from the viewpoint of keeping safeguards in place to reduce risk and to allow USPAP to be followed. Do not confuse “not requiring the appraiser to inspect the property” with “the appraiser does not need to vet the reliability, credibility, accuracy and

appropriateness of the data in the inspection report.” The appraiser must still follow USPAP, even with a client-provided inspection report in hand.

### C1.1 IMPACT OF ALTERNATIVE APPRAISAL SOLUTIONS

Since the passage of Dodd-Frank, banking regulators and lenders have continually tried to move away from including an appraisal as part of the decision-making process. For example, banking regulators have continually increased the de minimis threshold for when an appraisal is required, and essentially enacted 13 various carve-outs to the protections contained in Title XI of FIRREA. When first enacted, Title XI of FIRREA covered 90% of all federally regulated transactions and today, that percentage is down to only 10%. Despite Congressional action and policy direction to secure safety and soundness, lenders continue to seek ways to create more products and processes that decrease the amount of independence in the final value conclusion used to make the loan.

With FIRREA, the government realized they needed a set of regulated individuals who were independent from the loan decision to provide opinions of value. While it did take a few decades to work out weaknesses and improve the independence of the process, as soon as a good balance point was reached for appraiser independence (i.e., in 2010), the lenders immediately moved to create more products that lacked independence.

Remember, appraisers used to be trained and employed by the lenders themselves, so the lender had a certain amount of control over the appraiser. Once that control was removed after Dodd-Frank, the lender, using guidance from federal regulators, moved to increasingly rely on alternative valuation solutions, which did not involve the independence of the valuation conclusion.

### C1.2 HOW DOES THIS IMPACT THE OLDER APPRAISER

Change is inevitable. No profession can hide from change. Appraisers expect change and have adapted well over the years. It is the personal responsibility of the appraiser to remain current and it is the driving force behind the continuing education requirements of the Appraiser Qualifications Board of the Foundation

Implying that desktop appraisals would result in an older appraiser being able to simply sit in their office is misunderstanding, per USPAP, the appraiser’s obligations to understand the market. Even if one or more assignments the appraiser receives do not *require* them to personally go see the subject property, that appraiser must always be aware of what their market is doing, and that means continually *observing* the market in person. While today much data can be gathered from virtual sources, in order to be able to fully understand a market, the appraiser must be physically in the field often.

If an appraiser is receiving only desktop assignments, they may be able to get away with not going into the field for a few weeks, but eventually, they will need to be an active observer of how things are physically changing in a market. Virtual data is past information. The appraiser must know what their markets are doing today, the effective date of the appraised value.



Overall, an appraiser would save minimal time if 100% of their assignments were desktops. The more you remove the appraiser from the data, the more work they must do to verify the data and supplement the data.

### C1.3 IMPACT ON ACCESS TO CREDIT FOR RURAL MARKETS

Rural markets are the most complex markets, and a lender does not have the same skills as an appraiser to adapt to these complexities.

Instead of taking on additional risk by seeking analysis from an untrained, unregulated individual, lenders should rely on a professional who can give them insight under a reduced scope of work.

And again, the benefits of relying on a professional that has the qualifications and adheres to professional standards provides economic safeguards that must not be cast aside for the sake of faster and cheaper closings. The long-term price to be paid for this is far too steep.

The lender can think outside the box and instead of just ordering a very detailed appraisal report, they can order a more limited appraisal (so long as the limited scope appraisal is not pressing the appraiser to produce opinions of value which are not credible). Alternative valuation products are just that: products with limitations on how much research is done to arrive at a conclusion. If an appraiser is equipped (and regulated) to draw value conclusions based on only certain types of research, just as these alternative valuation products are, why err on the side of choosing a non-independent product?

Lenders have come nowhere near to tapping into the great diversity of valuation services appraisers can provide. The benefits of relying on the expertise of a qualified valuation professional to be a part of the valuation decision are immense. History has shown us the importance of having a trained and accountable valuation professional providing independent services.

### C1.4 IS THERE DISCRIMINATION?

Every year, in the United States, we estimate there are well over 12,000,000 real property appraisals completed (excluding tax assessment appraisals). In the last year, there have been news media stories of refinancing borrowers (where one or both are minorities) who believe their appraised value was low.

Because concerns of the public are concerns of ours, we strongly support any efforts to gather data which would indicate if and where valuation bias is occurring. We want to know how large this issue might be and to fix it.

While we take these press reports very seriously, the only data we have to date on this topic are these anecdotal accounts. We would accept all data that can better show where issues related to race may be located. Appraisers deal with data daily and can make immediate adjustments and decisions based on what data is telling them.

Once these reports began circulating, appraisers immediately began looking for solutions, but without understanding exactly where a problem is, we cannot implement a widespread solution. It is clear we have a perceived problem, but we need to have data and documentation.

As we await this data, the Appraisal Foundation has begun acting within its powers to help preemptively address these concerns.

Also, to add an additional point and to clarify one issue that has also been discussed greatly in the media in the last year: “value” is not the same as an “appraisal” and “devaluation” is not the same thing as “appraised value.” Many different studies that have been conducted recently on home values, that draw conclusions about appraisals, however, the studies did not study appraisals. Rather, many are studies of sales prices. To fully understand where an issue lies related to value, it is important to first know that sales prices (the prices that buyers and sellers agree upon) are the evidence “value” in any specific neighborhood, but they are not appraised values. An appraiser has no control over what prices people agree to pay for homes in specific neighborhoods. Thus, the terms “value” and “devaluation” should not be confused with “appraised value”.

### C1.5 FAIR HOUSING

Lenders have guidelines they require the appraiser to follow when they complete an appraisal. These guidelines include some very well written and very clear directions related to how an appraisal and an appraisal report can avoid intentionally or unintentionally violating Fair Housing related policies.

While the guidelines themselves are clear, there are indications that some of these policies are not being followed by some appraisers and that the lenders are not specifically acting to correct the appraiser.

As such, the Foundation’s Appraisal Standards Board is in the process of updating guidance related to Fair Housing issues, including examples of how to not let bias (or the appearance of bias) creep into the appraisal report. This guidance will be then covered in detail in the 7-Hour National USPAP Course real property appraisers are required to take within every 24-month time period.

### C1.6 ANY OTHER COMMENTS

Decisions resulting from the FHFA’s Appraisal RFI should be made with the focused intent to protect the public and safeguard the world’s largest economy. History has shown us that it is important to have opinions of value which are independent from the loan process and not controlled or able to be manipulated by the party who is making the loan. Lending money is an extremely important and vital part of how society can remain healthy and productive, but allowing the stakeholder most interested in making a loan control the value conclusion of the property is nothing more than a re-do of failed housing policies of the past.

The determination of the opinion of value of the property should remain the one independent piece of the process. Any party responsible for granting opinions of value (be that a machine or a human), must have a full system in place to guarantee and protect the independence of that person’s professional and educated judgement.

While, per the RFI, the Enterprises “have developed appraisal policies, practices, and processes to ensure accurate valuation of the collateral on which mortgages are made,” if the process is not independent, then accuracy is never assured and reliance on the value conclusions suspect.

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Sincerely,

A handwritten signature in blue ink, appearing to read "Lisa Desmarais". The signature is fluid and cursive, with a large initial "L" and a long, sweeping tail.

Lisa Desmarais, SRA  
Vice President of Appraisal Issues