



October 14, 2022

Federal Housing Finance Agency
Office of Financial Technology
400 7th Street SW, 5th Floor
Washington D.C., 20219

RE: Fintech in Housing Finance: Request for Information

To Whom It May Concern:

Zillow appreciates the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Information (RFI) regarding the use of innovative financial technologies (fintech) in the housing finance sector. We commend FHFA for establishing the Office of Financial Technology (the Office) and recognizing that responsible use of technology can help more people access safe, decent, and affordable housing opportunities. The current real estate transaction is confusing and unnecessarily complex for both buyers and sellers, and FHFA is uniquely suited to drive long overdue innovation in housing finance that can improve the consumer experience, lower costs, and improve market liquidity and stability. FHFA, Fannie Mae, and Freddie Mac have already demonstrated innovative leadership by permanently authorizing the use of desktop appraisals and encouraging the inclusion of first-time homebuyers' positive rental payment history as a factor determining mortgage eligibility. These types of innovations will expand housing opportunity and represent how utilizing fintech solutions can support the evolution of the homebuying process and make the transaction more efficient, transparent, fair, and cost-effective for all parties.

Zillow was founded to empower consumers with the knowledge and information they need to move by bringing transparency to a traditionally opaque real estate market. Despite the transparency that has empowered millions of people in their search-and-find experience, innovation around the home purchase and sale transaction itself has been very slow to develop in the face of various antiquated regulatory and statutory barriers. However, adjustments during the height of COVID-19 demonstrated that, across industries, fintech innovations improve the consumer experience and provide remote access to valuable services. Within the real estate industry, the shift to 3D tours and floor plans, as well as to remote appraisals, mortgage loan origination, and closing shows that, with responsible regulation and oversight, technology can be a powerful tool to benefit consumers and create a more efficient and equitable transaction.

This RFI presents a welcome opportunity to share Zillow's experience deploying technology to empower consumers and simplify the homebuying process. Our comments are intended to help inform FHFA and other agencies as they consider how best to ensure that fintech is used as a tool



to facilitate innovation and improve the process for consumers. As a threshold matter, Zillow believes that technological advancement must enhance transparency, expand equitable access to sustainable homeownership, increase affordability, and safely modernize the homebuying process while simplifying and reducing the cost of compliance.

Fintech and Innovation

As noted in the RFI, many mortgage market processes remain complicated, manual, and confusing for consumers, despite technological innovations that have helped expand consumer access to information. A 2020 Freddie Mac study found that the average purchase closing time in Q2 was 42 days, up from the average of 40 days when compared to 2019.¹ Zillow's own research has shown that the uncertainty and anxiety of the real estate transaction has driven half of consumers to tears when purchasing a home.² This reality is unacceptable and, while seemingly every other industry is moving ahead with useful technological innovations, a complicated, offline transaction remains a barrier to entry for households that would benefit from homeownership.

The tools to streamline the home buying and selling processes exist today, but pre-internet regulatory and statutory barriers inhibit the adoption of these technologies and prevent wider advancement of further innovation. Many related laws and regulations, which contemplate in-person transactions with paper documentation, have not kept pace with the evolution of technology and consumer expectations for a transparent and seamless homebuying process.

Now, more than ever, consumers look to digital methods to navigate their lives. Most expect to be able to complete everyday transactions, from paying an electric bill to transferring money between bank accounts, from the relative comfort and safety of their own home or on a smartphone. Today's consumer, including those who use Zillow's services, often browse and shop online extensively before they ever formally initiate a home purchase transaction. While most customers have become accustomed to using digital financial tools daily for important functions, existing homebuying processes are cumbersome and limit the information that can easily be made available online to consumers.

FHFA's Office of Financial Technology has an opportunity to find ways to collaborate with industry, Congress, and other federal agencies to reconsider existing frameworks and ensure that they are adapted to meet the ever-evolving needs and expectations of consumers in a digital world. Zillow looks forward to partnering with the Office to facilitate the adoption of a consumer focused, digital homebuying process from browsing to closing.

¹ <https://sf.freddiemac.com/content/assets/resources/pdf/fact-sheet/mortgage-cycle-time-benchmark-study.pdf>

² <https://zillow.mediaroom.com/2022-06-02-Half-of-Americans-cry-at-least-once-while-buying-a-home>



Identifying Fintech Opportunities in the Housing Finance Ecosystem

Zillow's goal is to make housing more accessible to a broader range of consumers. Fintech can provide access to information, at scale, in the housing finance ecosystem that can enable prospective buyers, sellers, and renters to efficiently share information with and receive information from lenders and others, allowing customers to more easily navigate the process. For instance, Zillow recently launched a tool to allow Veterans to find all condos listed for sale that are eligible for VA financing, which saves consumers time in determining which units meet financing requirements.³ This type of innovation can be the difference between success and failure in a challenging housing market.

Through FHFA's leadership, innovation in the appraisal industry is finally coming to market. The use of remote/desktop appraisals, utilization of floor plans, and 3D technology to more accurately value homeowners' assets can help address issues of capacity and potential human bias in the valuation process. Increasing the use of more data points, such as a wider geographical array of comparable homes in appraisals, allows fintech to provide more accurate home valuations. The further adoption of innovative valuation tools will have a meaningful impact on the housing market.

Remote Online Notarizations (RON) are another digital solution to provide certainty and speed up the mortgage transaction. Increasing efficiency and speed in the transaction will allow for homes to come onto market sooner, increasing labor mobility and helping to ameliorate supply challenges that have plagued the housing market throughout the pandemic. We applaud the GSE guidance on RON, but national acceptance is needed to allow for full adoption of this widely available technology.

The current regulatory environment, in many instances, prevents vital information sharing between housing providers and customers and limits innovation. For example, the Real Estate Settlement Procedures Act (RESPA)—which was enacted nearly forty years ago—was written before email or the internet, when a mortgage loan was typically obtained by walking into a local bank or credit union and meeting with a local loan officer. The transaction was assumed to be, generally speaking, an in-person endeavor. Since then, the in-person marketplace has largely become digitized—yet requirements for the timing and manner of disclosures and how electronic transactions can be conducted have not been adapted to support modern technological capabilities and consumer expectations with regard to speed, simplicity, transparency, equitable access, and affordability.

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<https://www.prnewswire.com/news-releases/new-zillow-tool-helps-veterans-nationwide-discover-condos-eligible-for-va-loans-301582143.html>



Similarly, the Electronic Signatures in Global and National Commerce Act (E-SIGN) has not been updated in over 20 years. E-SIGN was enacted in 2000, when the internet, personal computers, smartphones, and now-common digital tools were in their infancy. In the current market, many of the requirements of E-SIGN force consumers to provide the same information multiple times in the mortgage process, causing frustration and lack of communication between lenders and consumers, which may prevent consumers from reaching the finish line.

We urge the Office to collaborate with Congress and other federal regulators to examine existing laws and regulations that inhibit the adoption of technology that could enhance efficiency and clarity for consumers and to consider whether and where new laws and regulations may be needed.

Equitable Access to Mortgage Credit

Housing affordability has never been more challenging. The homeownership gap in America remains largely unchanged since the 1960s.⁴ Zillow believes technology can play a key role in addressing many of the equitable access issues facing today's market.

For instance, the simple dissemination of information to buyers, sellers, and renters at a national level can bring about more equitable access to quality housing. Last year, Zillow announced that it would include available down payment assistance resources with all listings.⁵ Zillow also uses technology to promote fair housing by including information on LGBTQ+ housing, public accommodation, and employment laws on all Zillow listings, as well as source of income protections on all Zillow Rentals listings.

FHFA is also again leading the way by working through the GSE's to include rental payment data in underwriting and encouraging greater use in credit scoring. Using fintech to achieve a more fair and accurate valuation of borrower creditworthiness and ability to repay will go a long way toward leveling the playing field in housing.

Zillow supports the position that any innovations deployed in the underwriting space must be done in a safe and sustainable manner, using adequately tested methodology. We recommend that FHFA and other regulators take a principles-based approach to the development of artificial intelligence and the regulation of fintech, which we believe has the potential to predict more sound credit outcomes, while controlling for all legally protected characteristics and benefiting consumers. A principles-based approach can enable innovation while building a sustainable framework to reduce discrimination and advance fair lending in the homebuying process.

⁴<https://www.urban.org/policy-centers/housing-finance-policy-center/projects/reducing-racial-homeownership-gap/data-black-homeownership>

⁵ <https://zillow.mediaroom.com/2021-12-15-Zillow-Adds-Down-Payment-Assistance-Information-to-For-Sale-Listings>



Identifying and Mitigating Fintech Risks

As the Office considers the risks of fintech in the housing finance sector, we encourage a recognition that new technology is not inherently riskier than legacy homebuying processes and that the benefits of responsible, well-regulated innovation will far outweigh any potential risks. The use of technology in housing finance presents an opportunity to reduce costs and diminish the effects of human bias in a responsible lending and valuation process, empowering consumers to realize the goal of home ownership and its wealth-building benefits.

Generally, as FHFA determines how best to use the Office to inform its supervisory authority to set standards and encourage adoption of updated technology from the pre- and post-purchase phase to the secondary market, we recommend particular consideration of how best to address and mitigate risk in the valuation process.

Further, as noted above, Zillow encourages a principles-based approach to regulation that would require regulated institutions to adopt policies, practices, procedures, and control systems to ensure that new technologies adhere to quality control factors. As financial technology continues to develop, a prescriptive approach would run the risk of quickly becoming outdated and ineffective, impeding innovation and limiting FHFA's ability to protect consumers as technology evolves. Instead, aligning policies and procedures with promulgated principles will ensure accountability through the appropriate level of transparency, rigorous testing, standardized outputs, and consistent enforcement.

Office of Financial Technology Activities and Stakeholder Engagement

Zillow encourages the Office to directly and continuously engage a broad range of industry leaders, market participants, consumer advocates, and other stakeholders, both formally and informally, to understand how steadily evolving technologies are being developed, tested, and deployed in the marketplace, as well as how they are being utilized by consumers. It will also be important for the Office, and FHFA more broadly, to effect change by using these learnings to take regulatory action where appropriate to help advance a housing finance system that better serves consumers.

The Office should also consider strategies to more widely share the significant amount of data regarding homebuyers and other stakeholders in the housing finance sector collected by Fannie and Freddie. This data is currently used by both entities and FHFA to gain important insights about consumers and ensure compliance with existing laws and regulations, insights that would be beneficial to a broader set of industry stakeholders to improve the technological systems used to serve consumers. FHFA is currently doing this as it relates to making fair lending data



more transparent. Sharing these data sets more broadly could allow for further refinement of the algorithms used by entities across the housing finance industry and lead to more sophisticated decision making and more equitable outcomes.

Zillow takes pride in its robust economic research and policy expertise, which give us a unique ability to help inform policymakers and industry stakeholders, and we stand ready to collaborate with the FHFA to provide market data and analysis related to both the rental and purchase markets to help inform the direction of future regulation and innovation. For instance, Zillow's Observed Rental Index was one of six private sector sources of information recently used by the U.S. Department of Housing and Urban Development to craft its FY 2023 Fair Market Rent, which is used to calculate the amount of rental assistance provided to low-income households through the Housing Choice Voucher Program.

Conclusion

Since its founding, Zillow has used technology to innovate and improve the real estate experience by unlocking information for consumers. As technology evolves and is integrated into additional aspects of the housing finance sector, regulators should focus on empowering consumers through the adoption of technology that enhances transparency, expands equitable access to homeownership, increases affordability, and safely streamlines the homebuying process while also simplifying and reducing the cost of compliance.

FHFA's Office of Financial Technology has an opportunity to support industry efforts to responsibly modernize the housing finance sector through the development and deployment of financial technology to meet the needs and expectations of the modern consumer. We look forward to a continued constructive dialogue with the Office and FHFA more broadly to ensure that the adoption and deployment of financial technologies further strengthens and provides equitable and efficient access to the housing finance sector for all consumers.

A handwritten signature in blue ink, appearing to read 'Ken Wingert', with a small horizontal line above the first few letters.

Ken Wingert
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Zillow Group