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Better Mortgage Corporation
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September 7, 2021

Clinton Jones
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
8th Floor
Washington, DC 20024

RE: Policy Statement; Comment Request: (2021-N-7)

Dear Mr. Jones,

As a leading mortgage lender whose mission is to make home ownership simpler, faster, and - most importantly - more accessible to everyone, Better Mortgage is encouraged by your commitment to Fair Lending. We appreciate the opportunity to comment on your recent Policy Statement.

We support the stated commitment to ensuring that your regulated entities operate consistently with the public interest and with sufficient overall risk management. To reach the goal of those entities providing fair, equitable and non-discriminatory access to credit, we believe one area requires greater emphasis. That area is the policy and procedures governing the valuation of property.

As you know, persistent disparities in home prices between minority and non-minority neighborhoods is well- documented and due in part to failed housing policies and discriminatory practices by real estate and mortgage professionals. There has also been no shortage of recent media coverage and complaints related to bias in the appraisal process. To what extent appraisal policies and practices contribute to access to credit and the aforementioned disparity in home prices is currently unknown, but flaws in the system must be addressed to achieve our collective homeownership and Fair Lending goals.

It should first be noted that Fannie Mae and Freddie Mac - and subsequently FHFA - have unmatched access to standardized loan and appraisal data that puts them in a unique position to study the impact of property valuations on access to credit and housing. Not only is their data far superior in terms of volume, but - unlike other public sources of loan origination data - their data also includes data on loans that were not originated. This includes appraisal data captured in the Uniform Collateral Data Portal (UCDP) as well as their respective Automated Underwriting Systems (AUS), Desktop Underwriter and Loan Product Advisor.

This data should be an integral part of FHFA's Fair Lending Oversight responsibilities including monitoring, information gathering, supervisory examinations, etc. Better Mortgage has been actively studying our own loan and appraisal data to understand any disparate impact attributed to appraisal results, but simply does not have the breadth and depth of coverage that the Enterprises do. We look forward to continuing our partnerships with FHFA or the Enterprises on thoughtful examination of this data to understand potential root causes as well as solutions to these problems.

While the industry is still in early stages of examining the impact of real estate valuations on minority borrowers and communities, Better Mortgage has identified several key factors that contribute to this problem. First, There is a startling lack of diversity in the appraisal profession. Second, the appraisal process is highly subjective and the reliability of appraisals in general has been in question since the last financial crisis. Last - and most importantly - loan eligibility and pricing (i.e. Loan Level Price Adjustments and Mortgage Insurance coverage requirements) are in categorial LTV bands and have the greatest impact on consumers with higher LTVs, lower FICO scores, fewer assets, and higher debt-to-income ratios.

The combination of these factors result in a housing finance system where real estate valuations - even if well-supported and performed without bias - have a disproportionate impact on minorities and low-to-moderate impact borrowers. This disproportionate impact will continue to be felt if these underlying factors are not addressed.

To address these underlying issues, Better Mortgage respectfully requests that the following proposals be taken into consideration.

- The Trainee/Supervisor construct and incentive structure must be re-examined. We do acknowledge that appraisal licensing is not under the purview of FHFA and we applaud Fannie Mae's appraiser diversity initiative in partnership with the Appraisal Institute and the National Urban League. However, we do not expect material progress will be made until the incentive structure for Supervisory Appraisers is changed. Specifically, it is not economically feasible or attractive for experienced appraisers to take on trainees with appraisal fees at current levels (which, in many cases, is already split between the appraiser and the Appraisal Management Company). Higher appraisal fees would change this dynamic, but unfortunately would be at the expense of consumers and lenders which is counterproductive in context of providing affordable access to credit.

  As a solution, Fannie Mae and Freddie Mac could offer a lender credit of $250 for any loan delivered with an appraisal completed by a Trainee. This would facilitate appraisal fees large enough to compensate both the Supervisor and Trainee without increased cost to the consumer and/or lender. It should be noted this is not unprecedented as both Fannie Mae and Freddie Mac - under the direction of FHFA - are currently providing a $500 appraisal credit for delivered loans under their respective RefiNow and RefiPossible programs.

- Alternatives to traditional real estate appraisals should be considered more broadly. Be it hybrid products that combine a property inspection with automated valuation or the return of Desktop appraisals, separation of the appraiser from the borrower, occupant, and/or residents of the neighborhood would effectively reduce the potential for bias in the appraisal process. It should be noted that most current appraisal policies and the appraisal process as we know them today were implemented decades ago before the advent of the internet, digital photography, geospatial data, electronic data transfer, etc. In the past these alternative methods of property inspection and valuation would not have been possible without incremental collateral and credit risk, modern technology largely mitigates that trade-off. These alternative methods also mitigate any greater propensity for assignments to be declined in minority neighborhoods because the majority of the appraiser population lives outside those neighborhoods and is less willing and able to accept those assignments.

- Loan pricing and eligibility - specifically Loan Level Price Adjustments (LLPAs) and required Mortgage Insurance coverage - does not impact all borrowers equally. For example, an appraisal falling a few percent below contract price does not jeopardize the transaction or result in less favorable loan terms for wealthier borrowers with larger down payments, higher credit scores, and/or lower debt-to-income ratios. Other borrowers, however, can face a failed transaction or

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materially different loan terms.  Given the highly subjective nature of appraisals in general, it's also questionable whether or not that few percent difference poses any material risk to the consumer, investor, or guarantor.

While we understand the purpose and intent of risk-based pricing, the impact of real estate valuations - even when well-supported and performed without bias - is not the same for all borrowers.  LLPAs could be reduced in certain census tracts with high minority concentration, for certain borrowers (similar to Fannie Mae's Home Ready and Freddie Mac's Home Possible) and/or for GSE-to-GSE refinances to allow more borrowers to lower their monthly mortgage payments and facilitate greater growth of wealth.

For purchase transactions, allowing the Loan-to-Value ratio and subsequent eligibility and pricing considerations to be based on the contract price instead of the appraised value (so long as they are within a reasonable range, for example, of 5%) would also serve to mitigate the disparate impact of highly subjective valuations on certain borrower segments and facilitate home price growth in minority neighborhoods.  While borrowers and lenders have the opportunity to appeal appraised values, they are fraught with other policy implications - including Appraiser Independence Requirements - and generally unsuccessful as appraisers are often reluctant to reconsider.

In closing, we again thank you for the opportunity to provide comments and look forward to any future opportunities for engagement on this topic.

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Sincerely,

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