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Comment: Quality Control Standards for Automated Valuation Models RIN-2590-AA62

This is a comment letter about the proposed change in the Dodd Frank Act section 1125. I'm a certified and licensed real estate appraiser with over 40 years of experience. Automated Valuation Models (AVMs) should NOT be used by mortgage originators and secondary market issuers in determining the collateral worth of a mortgage secured by a consumer's principal residence or any real property. The main reasons are because they are not reliable indicators of market value, the data can be manipulated and there are conflicts of interest.

AVMs are not accurate because the AVM never sees the actual property and doesn't know all its attributes. The actual size, effective age, condition, amenities, view, lot type, specific location in a neighborhood ... are not known or considered. These factors can affect the value by up to 100%. There is no quality control that can account for vital missing data which can only be known by a live licensed appraiser. AVMs are GIGO, i.e., Garbage In Garbage Out. In this case there just isn't enough data going into the valuation to make it accurate.

Dodd-Frank Act added section 1125 to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA); that section requires that AVMs meet quality control standards designed to: (1) ensure a high level of confidence in the estimates produced by automated valuation models; (2) protect against the manipulation of data; (3) seek to avoid conflicts of interest; (4) require random sample testing and reviews; and (5) account for any other such factor that the agencies determine to be appropriate. This letter is a comment on the change in section 1125.

AVMs don't ensure a high level of confidence in the home value estimates produced. They don't protect against the manipulation of data. There is a conflict of interest. AVMs currently can only consider address, tax size, tax bed/bath count, original tax age, pool/no pool and site size at most. Sometimes not all of this information is available. AVMs don't know if the property still exists or was burned down and demolished last year. AVMs don't know if it's in original 100 year condition with deferred maintenance or if the property was fully renovated, upgraded and expanded. AVMs don't know if the property is next to a water tower, power line, dump site or major freeway.

AVMs are even less accurate if the property is older, over/under improved, fair C5 or very good C1 condition, has a view or no view, is in an area with few recent sales or varies from the average home. Even the AVMs owners such as CoreLogic, Zillow,... state the AVMs are flawed and no substitute for a real estate appraisal by a licensed appraiser. Below is the disclaimer of Zillow.

"The Zestimate® home valuation model is Zillow's estimate of a home's market value. A Zestimate incorporates public, MLS and user-submitted data into Zillow's proprietary formula, also taking into account home facts, location and market trends. It is not an appraisal and can't be used in place of an appraisal."

As a real estate appraiser with over 40 years of experience I look at the different AVM values after I have finished an appraisal just for comparison. I can definitely state that AVMs are not a reliable indicator of value. I've seen AVMs state \$2,000,000 value when the home just sold for \$35,000,000 and appraised at \$34,500,000. I've also seen AVMs state \$1,500,000 value when the home just appraised at \$500,000. The only time I've seen AVMs be close to accurate is when they are for average newer tract homes in average condition near median neighborhood values in an area with a sufficient number of recent sales. Even then they don't match actual market value.

Here is but one example. There are two identical homes on the same block in a development built in 1950. One is in original condition with deferred maintenance and no view. The other has been fully renovated, upgraded with an addition and has an ocean view. The difference in value would easily be 50% using an experienced appraiser. For a good measurement system, the accuracy error should be within 5%. AVMs are not accurate. There is no confidence in their valuations.

The data used in the AVMs can be easily manipulated. Zillow and other AVMs allow the homeowner, anyone, disgruntled ex tenant to edit the data for a property. If you edit the size, condition or other characteristics of the home, you can drastically change the value. The data can also be manipulated by Multiple Listing Service (MLS) data. Some AVMs consider MLS size, bed/bath count, view... As a real estate appraiser and past broker I can definitely state that MLS data is not accurate. Agents want to sell homes so they make them appear larger and newer. They Photoshop out power lines, water towers, freeways from the photos. They digitally stage them with pools, new lawns, new kitchens...which don't exist.

The AVM doesn't see the home or view so it values them the same if they are the same size in the same area. The person who owns the home in original condition will be happy because it will appraise over market value. The person who owns the upgraded home with the ocean view will not be happy because now they have to apply for a different loan with a full appraisal in order to get a higher loan or lower rate. I've been in this exact situation many times. The owner ends up paying two "appraisal" fees even though the first was just an AVM. They also waste time.

The ability to manipulate the data creates huge conflicts of interest. Sellers, agents want to sell home for the highest price. AMCs, Lenders want the highest value so they can easily make the loan to make money. Zillow is both an AVM and seller, agent. CoreLogic sells AVM data to Lenders and others. They want to make the deal to make money. The independent real estate appraiser only cares about actual market value. They don't make money on the transaction besides a small appraisal fee which is paid if they hit the value desired by the borrower or not.

Have we learned nothing from the Zillow fiasco? "The evidence is there for anyone wishing to look. In a disastrous bet made by Zillow – one in which the company staked its future on investing in residential real estate based on its own algorithms – the company lost $32 billion in market capitalization from February to November 2021. What did Zillow learn about its “Zestimates” when its own money was at stake?" (https://appraisersblogs.com/dazzled-by-wizardry-federal-mortgage-regulators-ignore-zillow-debacle)

I've studied AVMs in depth as have others. There is a lot of research already done on the inaccuracy of AVMs. Here's an article I wrote about AVMs which cites some of that research. https://mary--cummins.blogspot.com/2022/03/what-is-avm-automated-valuation-method.html

The Dodd Frank Act is the result of the 2008 Great Recession and Financial Crisis. The purpose was to protect consumers, banking and our economy so that would never happen again. The public will lose trust in the real estate industry, mortgage market and mortgage backed investments. This will negatively affect the real estate industry, banking industry, stock market and our economy. Please, do not use AVMs to value property which will be collateralized by loans.

Sincerely,

Mary Cummins
California Certified Real Estate Appraiser