February 25, 2021

Regarding: FHFA Request for Information on Appraisal Related Policies, Practices and Processes

Electronic Response via FHFA.gov

Mr. William Merrill

Senior Policy Manager

Federal Housing Finance Agency

Office of Housing and Regulatory Policy

400 7th St., SW

Washington, DC 20219

Dear Bill,

Thank you for the opportunity to respond to the Federal Housing Finance Agency (FHFA) Request for Information on Appraisal Related Policies, Practices and Processes (‘the RFI’).

We find the RFI to be timely given the pandemic’s temporary impact on the process of all functions involved in loan origination, including valuation. Consumers, lenders and investors are learning what works and what is acceptable in “real time.” We also find the appraisal process to be an important public policy discussion that we are increasingly engaging on with industry stakeholders.

**Background**

Our perspective in responding to this RFI is shaped by our recent and ongoing work advising leaders in the mortgage industry through rapid technological change with the advent of raw source financial documentation being captured, stored and used in seconds. Access to digital employment, income and asset data has transformed the upfront process for borrowers, lenders and investors to improve the origination of a loan.

The benefits have many downstream effects through quality control, fraud mitigation and, longer term, loss mitigation in loan servicing. These remarkable enhancements have created process efficiency and driven down loan defect rates and repurchase risk. We believe long term these processes will dramatically reduce the workflow for consumers and lenders, but increase the confidence of the investor community.

In our role as advisors to fintechs who have successfully disrupted mortgage lending and continue to make advances in modernizing today’s digital environment, we are also focused on the misunderstood, often cumbersome and manual appraisal process. In an era of ‘smart’ solutions, the property valuation process lags behind weighted down by legacy rules and regulations and even workflows to ingest important data elements. Some inefficiencies remain in place such as use of measuring tapes and measures, pictures that may or may not truly capture the condition of the property, and suggestions that there remains too much subjectivity in the process to always represent everyone fairly.

Given the state of rapid transformation in mortgage, we see 2021 and the use of 3D scanning advancing the opportunities by placing a wide lens on collateral assessment. With precise property imaging through a series of digital ‘spins,’ equipment similar to an iPhone can create thousands of independent high resolution digital objects per room per property. This transcendent opportunity in valuation is set to enable the delivery of raw source property imaging without third party intervention, commensurate with the gains made in digital employment, income and asset verification. Authenticated source data with proper tools to ensure there are no subjective mistakes in the process, will ensure independent and unbiased information added to the valuation process for either a full appraisal or hybrid appraisal solution.

With 3D scanning being tested in many pilots and on the verge of availability for widespread adoption, usage is set to grow and drive the optimization of images forward through smart tagging, smart order routing, and machine learning. And importantly, the role of the appraiser remains intact whether they are leveraging the new technology at a desktop or in the field creating the images. In any case, by taking the human element out of part of the process (measuring a room, uploading actual data from appliances including models and year) will continue to move an important dial forward for the industry in this important segment. Finally, the creation of 3D scanned images, showing the footprint of the property from the inside out, can be performed by others which may be quite helpful given the declining population of appraisers or reach into rural markets.

**Comments**

Our comments are largely centered on three areas of the RFI. They are Appraisal Modernization, Appraisal Waivers and Fair Housing.

**Question A 1.1**

*Is there is a need to provide new valuation solutions that address industry identified issues of appraiser capacity, turn-times, training, and rural and high-volume market coverage? What are those potential solutions? What are the risks of these policies and the challenges in implementing them?*

Yes, there is a fundamental need to replace the antiquated appraisal system with tools and technology readily available for risk averse use today.

The US mortgage market grew at an unprecedented and unexpected level in 2020 placing a strain on the system, especially parts of the market like appraisal that have not modernized to take advantage of innovative technologies that have revolutionized other industries, such as autonomous driving machines. The lack of modernization in appraisal placed great stress on the housing market in 2020 leading to cost increases, elongated turn-times and an inability to serve appropriately rural markets in a timely fashion.

These observations on the need for new valuation solutions can be gleaned from any number of studies and periodicals including *HousingWire*’s recent article titled [Surging Mortgage Volume Puts Pressure on Appraisal Timelines](https://www.housingwire.com/articles/surging-mortgage-volume-puts-pressure-on-appraisal-turn-times/). We believe these are sound findings and observe that Hybrid Appraisals accompanied by innovative technology offer an expeditious path to solving the aforementioned appraisal challenges in the most risk sensitive manner. Just like other aspects of the mortgage business and transformation, this would be a step forward in that process.

Housing Finance Strategies believes the onset of 3D scanning is one such innovation. As recent advancements in prop-tech are beginning to enable third-party property data collectors in the valuation process, appraisers will no longer be required to visit the property in person in the majority of transactions. This does not mean an appraiser cannot perform the scan but we believe an efficiency play will be having others perform the scan for the appraiser who reviews a much more efficiently collected set of digital images and supporting data to inform the valuation while sitting at the desk. While an appraiser will still review and approve the report from her desktop, she will benefit from property data collection. This incorporates much optionality into a process that can be volatile with supply and demand of qualified professionals, the appraiser.

This separation further insulates the appraiser from the undue influence so often encountered when meeting real estate agents, borrowers, and other interested parties at the property, ensuring greater independence. To be clear, the more independence we can have around property valuation and clear objectivity, removing subjectivity, the better off everyone is.

This type of improvement in property data capture will better inform the mortgage underwriting process with greater transparency into the condition of the collateral. Having a clear picture of the collateral can help highlight the risks to low-income or cash-strapped borrowers in cases where the home may be facing imminent system failures that could impact the borrower’s ability to repay.

Innovations such as asset capture and computer vision that reveal the age and expected life of HVAC, roofing, and appliances can go a long way to enhancing the current process and enhance risk management by illuminating risks to higher loan-to-value thresholds.

And the industry does not have to wait. Today, 3D scanning creates a precise set of digital HDR images in any light that enable a virtual walk through the subject as if you were there, provides more granular information to downstream users, identifies and tags obsolescence, improves accuracy and consistency of gross living area calculations and creates immediate fraud prevention by automatically geocoding the property and generating a Google Map.

With a 3D scan delivered to the appraiser’s inbox, there is certainty that information captured at the room level includes the floor area, floor material, wall area, ceiling type, ceiling height, age, quality and condition, damage, repairs needed, cost estimates and a spatial context of contribution of value.

Source of truth data is driving much change in the industry and this use of 3D scanning will drive significant progress to the digital mortgage roadmap and scale to the origination process. It will enhance protections for the homebuyer, stay current on the condition of the property in a cost effective way, while satisfying lending and investor requirements.

**Question A 1.3**

*Do appraisal waivers have a place in Enterprise appraisal policy and process, and if so, for what segment of loans? What are the current risks to Enterprise safety and soundness in how appraisal waivers are offered? Would caps or other limits on their usage be appropriate?*

Our experience through the Housing Crisis of 2008-2009 demonstrated the vulnerability of home valuation. The industry learned painful lessons over repurchase risk and litigation risk. These are challenges still fresh in the industry’s mind.

By requiring an internal inspection on all homes, using 3D scans, industry would appropriately have a sense of the property and, at a minimum, along with an AVM and full appraisal waiver, have a record of the internal condition of the home.

We think it is time to tackle this important issue for how we think about valuation and it needs to include the appraiser community, federal and state government input, and hear from the investor community. The GSEs have been the de-facto drivers of any change in this area. In fact, for private jumbo mortgages, we often see two and even three full appraisals in the origination and audit food chain due to lack of clear standards for a scaleable process outside of the GSEs.

We encourage FHFA to drive policy through the GSEs to continue to use their powerful industry standard setting to continue to manage the risk, find ways to streamline a very cumbersome and complex system, and to find a way to minimize bias in the system while gathering authentic source data on any property. There has been a recent shift away from innovation or new programs driven by the GSE’s to crowd in private capital. But there is no system in the world in housing that matches the prowess and standard setting that has been as effective in housing finance. By continuing that march to refine and expand innovative approaches to lending, the market will benefit by those thoughtful advances. Our recommendation is to also stay as transparent as can be to help benefit the full financial system so that the liquidity remains high in all cycles. Finding ways to complement other Government lending efforts on collateral as well as Private placement lending and balance sheet loans, will be helpful for the health of a robust financial services sector in housing.

**Question C 1.5**

*What are the fair housing impacts of current FHFA and Enterprise policies and procedures on appraisals and valuations, and how can these policies change to further fair housing? Please provide any relevant data or analyses.*

As FHFA considers the broad topic of Appraisal Modernization, we assess the timing is appropriate to concurrently consider appraisal bias. Our positioning on bias is informed by our study on the issues and our recent participation on the Collateral Risk Network webinar titled [Real Estate Appraisals and Racial Bias – Fact or Fiction?](https://us02web.zoom.us/webinar/register/WN_Z3W-b4urSLK8Clee2RtThQ) In that panel, data was presented that affirmed the presence of bias in the collateral assessment process.

As policymakers consider the approach to address this inequity, we acknowledge much work has to be done. However, there are short-term measures FHFA should be considering to address bias and its fair housing impact. First and foremost, FHFA should prioritize the availability of 3D scanning so that unconscious bias can be removed. As we noted earlier in our response, 3D scanning technology is available today to modernize the appraisal process – and at the same time, that innovative technology is color blind.

Swift adoption of 3D scanning is one avenue available today to further fair housing.

**Conclusion**

We stand ready to address any questions you may have as the RFI process moves toward policymaking.

Our overarching view is that the appraisal process is ripe for modernization and the tools exist today. Developing an execution path for lending on valuation driven by source data through 3D scans will transform lending, make independent valuation available day one, and allow appraisers to review final appraisals from a desktop view, increasing productivity and lowering defect rates on the final value for lending.

This digital capability will also increase the accurate capture of in home appliances, material to build the home, condition of the home and accurately establish all views from the inside out, outside in. Once a digital footprint of the property is created, it cannot be falsely adjusted to appear to be something it is not. In other words, investors may have more certainty than ever before on the shape and value of a property by leveraging the breakthroughs provided by technology in this area.

Finally, we believe the authentic source data combined with efficient review and execution will result in downstream benefits to the consumer, lender and credit investor. We will not have a way to have a more uniform capture of information to feed the lending system through to the capital markets who place great value on certainty and the quality of the valuation. As we approach this opportunity for appraisal modernization, it is paramount to move to practices and systems that bring transparency and scale to the broader lending marketplace for all stakeholders.

Sincerely,

/s/

Faith A. Schwartz

President

Housing Finance Strategies