March 31, 2021

The Honorable Mark Calabria

Director

Federal Housing Finance Agency

400 7th Street SW

Washington, DC 20219

RE: Request for Information on Appraisal-Related Policies, Practices and Processes

Dear Director Calabria:

Wells Fargo & Company, together with its affiliates and subsidiaries (collectively, “Wells Fargo” or “we”), appreciates the opportunity to comment on the Request for Information (RFI) on Appraisal-Related Policies, Practices and Processes*.* Wells Fargo is a diversified, community-based financial services company with $1.9 trillion in assets and approximately 268,500 employees. We provide banking, investment and mortgage products and services, as well as consumer and commercial finance. We support the efforts by FHFA, Fannie Mae and Freddie Mac (the Enterprises) to modernize appraisal policies, practices and processes in a way that better supports the evolving and dynamic needs of the housing market. This RFI is timely and it is a critically important topic in shaping the future of the housing finance system and our collective ability to support homeownership.

The industry continues to face the historic and ongoing challenges with appraisals and appraiser capacity that reveals many opportunities to rethink the appraisal policies, practices, and processes which have been in place for years. Many of these policies and practices predate the advent of the internet, digital photography, online MLS and public records, electronic appraisal data and geospatial capabilities. These advancements in data and technology can facilitate a modernized appraisal framework that provides efficiencies for all parties while effectively managing collateral risk and ensuring safety and soundness.

While these current challenges with appraiser capacity may be the most significant the industry has observed, they are not surprising and will not resolve themselves without fundamental changes. Concern about a shortage of appraisers and highest and best use of this valuable and limited resource has been an ongoing discussion for many years and has not been adequately addressed. Data on the number of active appraisers and new entrants to the profession suggests that this problem will persist

and perhaps accelerate in coming years.

We must start by acknowledging the impact this has on consumers. Appraisal costs and extended turn-times put home buyers in need of a mortgage at a significant disadvantage relative to cash buyers. These challenges can be particularly impactful in rural areas where the limited number of appraisers and the logistics of an on-site appraisal inspection are inherently challenging. Similarly, low-and-moderate income buyers can be disproportionately impacted when faced with even higher appraisal fees to obtain a turn-time that meets their closing date or consider waiving the appraisal contingency in their purchase contract.

A modernized appraisal framework should include a continuum of valuation products where the scope of work scales with the complexity of the property, risk of the transaction, availability and reliability of data, and the confidence in automated valuations. This would include appraisal waivers, hybrid products that combine an automated valuation with inspection of the property, continuation of Desktop and Exterior appraisals that have been utilized successfully in response to COVID-19 and traditional interior appraisals, in some cases. As these alternatives are considered, we encourage FHFA and the Enterprises to also consider eligibility along more predictable dimensions like property type, loan purpose and occupancy rather than LTV, which is not known until after the valuation is completed.

Appraisal waivers have been successful in mitigating the impact of capacity constraints on appraisers and lenders negatively impacting consumers, but are not the singular solution and are only appropriate for certain transactions. We consider the current eligibility criteria for appraisal waivers to be appropriate and that overall waiver rates will naturally increase and decrease as loan purpose composition changes. For example, as long as appraisal waiver rates remain highest on rate-term refinances there will be more waivers overall when rate-term refinance activity is high. Conversely, appraisal waiver rates are much lower on purchase transactions so there will be fewer waivers overall when purchase business accounts for a greater share of total origination volume. The Enterprises’ need for standardized appraisal data to feed their risk management utilities (i.e. DU/CU and LPA/ACE) is an important factor in establishing appropriate boundaries on utilization. However, despite the record-high number of appraisal waivers and COVID-19 related appraisal flexibilities in recent months, the Enterprises have also been capturing a record-high volume of appraisal data due to historically large origination volume.

Additional changes to the current appraisal framework must be made to optimize the capacity of each individual appraiser in the loan origination process. This should include an examination of current policies, practices, and processes to identify inefficiencies that provide little risk management benefit given advancements of data and technology since they were originally implemented. For example, the need to drive-by comparable properties to take photographs made a lot of sense decades ago when this policy was established. However, given the availability of online MLS listings and aerial/street-level imagery to both appraisers and underwriters, the benefit extracted from this requirement has been significantly diminished. Similarly, requiring that appraisers perform simple final inspections and drive-by inspections for appraisal updates is not the most strategic deployment of scarce appraiser resources.

Use of non-appraiser third parties in the process could increase appraiser capacity by allowing appraisers to focus more on market analysis (e.g. comparable selection, adjustments, etc.) than on on-site data collection. Emerging technology like 3D scanning with a mobile phone or tablet may eventually allow consumers to participate in this process by ensuring integrity in the process without requiring independence. Use of non-appraisers in the process must come with appropriate controls to manage risk and to create a level playing field among mortgage lenders. This includes clear and enforceable requirements for training and certification similar to what exists with appraisers as well as distinct roles, responsibilities, and accountability between the appraiser and non-appraiser parties.

A modernized appraisal framework should also take steps to prevent biased or discriminatory outcomes. Any conscious and unconscious bias in individual appraisals must be eliminated and a distinction made between property *values* (i.e. what homes are selling for in any neighborhood) from property *valuation* (i.e. the act of valuing a property).  Accurate, unbiased valuations benefit customers and the mortgage market overall. As we seek to build a more efficient valuation process, additional time is necessary to study the challenges to prevent any changes from unintentionally exacerbating housing inequalities while at the same time maintaining confidence in collateral valuation.   To understand the extent of any bias associated with the existing appraisal framework and to develop potential solutions, additional study and analysis is required.   The time required to study the issue extends well beyond the comment period and it requires data unavailable to a single lender.  Additional areas of research and consideration could include, utilizing the Enterprises’ databases to compare valuations and test for possible discrimination, comparing valuations across neighborhoods with different ethnic demographics that are otherwise substantially similar, and increasing the diversity of the appraiser community and enhancing appraiser training.

A credible opinion of property appraised value is a key component in making sound underwriting decisions and is mutually beneficial to consumers, lenders, the Enterprises and investors. While there are suitable alternatives to traditional appraisals for certain transactions, appraisers have and will continue to play a critical role in this process and should be fairly compensated for their work and expertise.

In summary, there is great need and opportunity to improve on the existing appraisal process by developing new and reliable methods of valuation that optimally leverage the significant advancements in data and technology that have taken place since inception of the appraisal process. Most importantly, collateral modernization does not need to come at the expense of prudent risk management practices if those advancements in data and technology are leveraged to their full advantage and updated policies govern use of these appraisal alternatives. If implemented correctly, a future appraisal framework can deliver critical time and cost savings benefits for consumers while contributing to a safe, sound and equitable housing finance system.

Wells Fargo Home Mortgage would like to thank FHFA for the opportunity to provide these comments and look forward to future engagement on these important topics.

Sincerely,



Kristy Fercho

Executive Vice President

Head of Home Lending