

**Question B.1: What kind of fintech activities have the greatest potential to positively impact the housing finance sector? Describe several situations in which a product or service has been or could be used, the factors considered in determining importance, and associated impacts.**

Our first submission to this RFI was limited to the appraisal process and focused on the need for rigorous, data-driven adjustment support. This submission, on the other hand, responds to this question much more holistically and proposes a solution that can have an even larger impact on the housing finance sector.

**Overview**

The current way that homes are bought and sold in the U.S. is deeply flawed and is contributing to both the housing affordability crisis as well as racial inequity. True Footage has devised a radically different transaction platform that would materially address these issues. However, the viability of this platform depends on the GSEs making two regulatory changes. This RFI response is organized as follows:

1. First, we highlight four pressing issues in residential real estate related to affordability and racial inequity.
2. Next, we present the core features of this novel transaction platform.
3. Next, we explain how this transaction platform would address the four issues highlighted at the outset and would also respond meaningfully to RFI **Questions B.2** and **C.1**.
4. Finally, we discuss the needed regulatory changes and explain why the GSEs should have no misgivings about instituting them.

**Pressing issues in residential real estate related to affordability and racial inequity**

* The real median home sales price in the U.S. has climbed dramatically since the start of the pandemic. As a result, housing is becoming increasingly unaffordable, particularly for low income and first-time homebuyers.
* The NAR policy that requires sellers to offer a preset, nonnegotiable buyer’s agent commission has resulted in a price-fixing scheme, whereby sellers are effectively extorted into offering a going rate buyer’s agent commission of 2.5-3% so that buyer’s agents don’t steer their clients away from their properties. While this rule is being challenged in multiple class action lawsuits and actively investigated by both the DOJ and FTC, it is, in the meantime, responsible for putting home ownership out of reach for many.
* Two recent Fannie Mae studies present compelling evidence that appraisers make a deliberate effort to confirm the contract price. One of the papers determined that when appraisers were aware of the contract price, their appraised values were 4.2-8.3% higher than when there was no contract price available.
  + This means that property values are artificially inflated at a time when home prices are already skyrocketing. As a result, more buyers are overpaying, the cost of living is higher and mortgages are riskier as the collateral is worth less than expected.
  + We believe that the issue of confirmation bias is largely, if not entirely, responsible for the appraisal gap between majority White and majority-minority neighborhoods. Specifically, we believe that appraisers have fewer tools at their disposal to justify contract prices in majority-minority neighborhoods, which tend to be poorer and more urban than majority White neighborhoods.
    - The accompanying document titled *appraisal\_bias\_analysis.docx* provides empirical evidence that supports this theory.

**Core features of transaction platform**

* When a seller is ready to list their home, our partner lender would order an appraisal.
  + After the appraisal comes back, the seller would decide whether or not they want to list their home with us at the appraised value.
  + It’s important to emphasize that appraisers wouldn’t have any perverse incentives -- their sole objective would be to accurately assess the fair market value of the home. If the appraised value is too high, the property won’t sell. And if the appraised value is too low, the seller won’t list their home with us.
  + Implications:
    - The fair market value of the home would only need to be evaluated a single time. All interested buyers would have access to the appraisal report and could decide for themselves whether they believe the appraised value is accurate.
    - There would no longer be a concern that the appraisal will come in below contract price.
    - The escrow process would be significantly expedited as the lender could immediately begin the underwriting process after the home goes under contract.
* While the vast majority of discount brokers, such as Redfin and FSBO platforms, give in to the price-fixing scheme and encourage their sellers to offer a going rate buyer’s agent commission, this platform would create a new way to avoid steering. Rather than offering a 2.5-3% commission to the buyer’s agent to incentivize them to bring their buyer to the property, our sellers would offer a 2.5-3% discount directly to the buyer.
  + For example, if the home appraises at $500K and the going rate buyer’s agent commission is 3%, we’d offer a $1 buyer’s agent commission and offer a 3%, or $15K, discount to the buyer. The buyer could then decide how they’d like to use the discount. Options include covering closing costs, reducing the purchase price of the home, compensating their agent if they have one, or a combination of the three.
* Finally, the traditional offer process would be replaced with an open auction format, where the bidding would start at the appraised value minus the discount offered by the seller. There are two stages to the bidding process: first, buyers would give back a portion of the discount. This would continue until one or more buyers agree to pay the full appraised value of the home. If there are multiple buyers left at that point, then the remaining buyers would bid on how much over the appraised value they’d be willing to offer. The only caveat is that buyers would have to come out of pocket for this additional cost.
  + Implications:
    - This auction format would eliminate the tedious offer process and would provide full transparency to buyers about what the competition is willing to pay.
    - It would also ensure that interested buyers wouldn’t face any discrimination from the seller or the listing agent as the top bid wins the home.

**How selling homes this way would address affordability and racial inequity issues**

* First, the discount offered by the seller would increase housing affordability by lowering the purchase price and/or covering closing costs by up to 2.5-3%.
* Second, the fact that the appraisal would take place before the home is listed means that appraisers would be able to properly do their jobs, which is to independently evaluate the fair market value of a home, rather than being pressured into finding a way to justify the contract price.
* Third, because the appraisal gap is at least in part caused by appraisers having an easier time confirming contract prices in majority White neighborhoods than majority-minority neighborhoods, performing a pre-listing appraisal would materially shrink, or potentially eliminate, the gap.
* Note that this transaction platform would also address the questions posed in **Questions B.2** and **C.1**. It would “*improve efficiency, reduce costs, reduce time requirements and facilitate equitable outcomes for borrowers.*” And it would “*further equitable access to mortgage credit and sustainable homeownership.*”

**Regulatory changes**

* In order for this platform to be viable, the GSEs need to accept purchase appraisals where there’s no contract price at the time the appraisals are completed.
  + Note: just as with traditional purchase appraisals:
    - These pre-listing appraisals would need to be updated if the home doesn’t sell within a specified amount of time (e.g., within 4 months of the effective date of the pre-listing appraisal).
    - If the buyer decides to work with a different lender than the one that ordered the pre-listing appraisal, the GSEs would need to allow the appraisal to be transferred to this other lender.
  + The GSEs shouldn’t have any qualms about making this rule change for the following reasons:
    - The pre-listing appraisal process would be analogous to the refinance appraisal process in that there’s no available contract price.
      * In fact, the opinion of value of a pre-listing appraisal would be more trustworthy than that of a refinance appraisal because a buyer must agree to purchase the home for the appraised value. This would be a strong indication that the appraiser hasn’t overvalued the property.
    - The fact that these pre-listing appraisals would be immune from confirmation bias would lower the risk taken on by the GSEs.
    - The credibility of a pre-listing appraisal is likely to be higher than average because the appraiser would not only need to convince the lender that the appraised value is accurate, but would also need to convince the seller and at least one interested buyer that the appraised value is in fact the fair market value of the property.
* Secondly, the GSEs should permit all sellers to provide a gift of equity, even if the buyer and seller aren’t related. This would allow the buyer to use at least a portion of the discount towards a down payment.
  + Rationale:
    - A gift of equity to a non-relative poses the same risk as the gift program in place today.
    - The notion that only a family member can help out a buyer resembles “legacy admissions” at a university. It is unfair and only reinforces generational wealth gaps. Why can’t anyone who has already been financially vetted for a mortgage receive down payment assistance?