

October 31, 2016

The Honorable Melvin L. “Mel” Watt
Director
Federal Housing Finance Agency
400 7th Street, NW
Washington, DC 20219

Dear Director Watt:

On behalf of the largest professional association of real estate appraisers in the world, we are writing to express our serious concern with the policy announced on October 24, 2016, related to changes to Freddie Mac’s Loan Advisor Suite. In sum, under the new policy, Freddie Mac will waive appraisals in lieu of an “appraisal alternative” in a host of situations, including first-purchase loans.

Unlike the Property Inspection Waiver policies announced by Fannie Mae this week – which are limited to lower-risk refinance transactions – the policy change by Freddie Mac appears to be oriented to purchase-mortgage transactions or transactions with the highest risk to the agency. It has become standard practice to obtain a complete interior inspection appraisal to understand things such as property condition. Unlike a refinance transaction, where a previous appraisal is likely to be on file, loan purchases generally have less information available to the agency, which is where appraisal data provides added input to risk management.

Freddie Mac’s decision to veer away from fundamental risk management practices appears to harken back to the loan production-driven days in the years leading up to the 2007-2008 financial crisis. Similar actions were taken by government-sponsored enterprises in the early to mid-2000s¹, and the resulting decline in risk management by mortgage lenders turned out to be disastrous for the entire economy. In fact, the Government Accountability Office confirmed that such appraisal waivers were in widespread use leading up to the point when the government-sponsored enterprises were taken into conservatorship, with as many as 30 percent of mortgage loans receiving such waivers².

It has taken many years for the mortgage finance sector to recover, but progress has been made, in large part, because fundamental risk management activities like appraisal have been reinforced by mortgage lenders. Today, there is little doubt that markets are more secure because of most first-purchase mortgages utilizing real estate appraisals as a fundamental tenet of residential mortgage risk management.

Reducing appraisal requirements sends the wrong signal to mortgage loan sellers about the importance of risk management practices. Competition between Freddie Mac and Fannie Mae should not result in a race to the bottom from a risk management stand point – especially while the agencies remain in conservatorship.

Therefore, we respectfully request that Freddie Mac reevaluate this program, especially as it relates to purchase-mortgage transactions. We will contact your office to request a meeting with you to discuss these concerns in greater detail. Should you have any questions or need additional information, in the interim, please contact Bill Garber, Director of Government and External Relations, at 202-298-5586, bgarber@appraisalinstitute.org.

Sincerely,

Appraisal Institute

¹ See http://realtymtimes.com/consumeradvice/buyersadvice1/item/17218-20011217_appraise

² See <http://www.gao.gov/assets/590/587735.pdf>