Appraisal Institute®

Professionals Providing Real Estate Solutions

May 30, 2017

Ms. Maria Fernandez
Senior Associate Director
Office of Housing and Regulatory Policy
Division of Housing Mission and Goals
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Dear Ms. Fernandez:

Thank you for holding meetings on May 23 with Fannie Mae and Freddie Mac officials to discuss the enterprises' plans to waive appraisals in purchase (and refinance) loan transactions. The meetings were helpful in understanding the breadth and scope of the proposed programs and to answer many questions from appraisers and institutionally-employed appraisal managers.

As we reflect on the discussion, we remain deeply concerned about the structure and scope of these initiatives from a taxpayer protection standpoint, particularly given recent housing price increases. If anything, such market activity begs for *heightened* due diligence, not less. These concerns include, but are not limited to, the following:

- Freddie Mac was unwilling or unable to estimate the size and scope of the proposed waiver program. While Fannie Mae was open and transparent about their proposed plans (no proposed waivers for purchase loans and a projected target of 10 percent in refinance transactions), Freddie Mac did not provide a clear estimate for the percentage of loans the proposal would impact. In a previous meeting, Freddie Mac officials stated to our organization that a "supermajority" of loans would continue to utilize appraisals, which could be interpreted to mean that as much as 35 percent of purchase loans would NOT continue to utilize appraisals. More recently, we have heard a 15 percent figure from some mortgage loan sellers, but the enterprise's unwillingness or inability to provide an accurate estimate is deeply troubling and indicates that a slippery slope likely lies ahead.
- Freddie Mac indicated that appraisal waivers would be allowed even when previous appraisal information was not available to the enterprise. Fannie Mae indicated the exact opposite, which puts the two proposals at odds with each other. Should Freddie Mac move as aggressively as indicated to reduce risk management requirements, we expect Fannie Mae to do the same in order to avoid adverse selection in the market, as their representatives made clear at our meeting.
- The stated reason for the appraisal waiver purportedly is to provide greater access to capital, and FHFA officials believe that the appraisal waivers are necessary to address appraisal delays or cost increases. This contradicts presentations by the enterprises indicating that recent issues confronting loan sellers could be explained by variable demand in loan applications. We share concerns about a potential shortage of appraisers in the long term based, in large part, on declining interest in entry into the profession. However, the data available to the enterprises indicates that complications reported in 2016 in large part were an anomaly.

> Further, as we pointed out at the meeting, the enterprises' appraisal processes are theirs alone – the enterprise seller/servicer guidelines and appraisal forms dictate an appraisal process to appraisers, and do not emanate from the appraisal profession. There are any number of ways that the enterprise appraisal guidelines and/or underwriting requirements could be adjusted or updated to address these concerns and reduce points of frustration for appraisers and mortgage loan sellers, but the enterprises - at least in the past - have been reticent to engage the appraisal profession or users of appraisal services on issues such as seller/servicing guide updates, appraisal form development and updates and process and procedure issues. Recently, the enterprises have shown greater interest in engaging the appraisal community – Fannie Mae recently developed a newsletter specifically for appraisers, for instance. We applaud steps like these and see more opportunity to collectively address problems.

For these reasons, we believe that further study of the proposals is warranted. Further, we urge the agency to publicly define the scope of any waiver program and to ensure that similar criteria are applied by each agency, such as having previous appraisal information on file.

Several times during both meetings there was great interest and willingness expressed on both sides to continue discussions on how the appraisal profession and the enterprises could work together to improve processes, procedures and integrate technological advancements. These efforts could help streamline processes for appraisers, alleviate bottlenecks and better serve housing finance stakeholders. The Appraisal Institute stands eager and willing to commit resources to such endeavors, and sees a role for the Federal Housing Finance Agency (FHFA) in facilitating this.

Thank you, again, for organizing the meetings. We look forward to working with FHFA in addressing housing finance oversight issues as they relate to the collateral valuation and risk management processes. If you should have any questions or would like additional information or resources from our organizations, please contact Bill Garber, Director of Government and External Relations, Appraisal Institute, at 202-298-5586, bgarber@appraisalinstitute.org.

Sincerely,

Jim Amorin, MAI, SRA, AI-GRS
President

Cc: Mr. Robert Witt, Senior Policy Analyst, Office of Housing and Regulatory Policy