Memo from the Appraisal Institute Government Relations Committee

Responses to Discussion Questions from May 15, 2018 meeting

1. As the entire industry is moving towards a more digital mortgage process, what would the ideal appraisal process look like?

- The ideal appraisal process would embrace on-line, mobile, and GIS technology (with auto-populating appraisal report potential).
- The appraiser would have access to data on a more "global" basis from the GSEs so they are aware of data that is available in the market. Appraisers must continue to make the decision as to the selection of comparable sales.
- Appraisal order has a list of property characteristics including, but not limited to, green features, energy efficiency features, construction type (i.e. manufactured mobile, manufactured modular, log, panel, wood frame), dates of remodeling, replacement, and known defects supplied by borrower at application. This document should be standard form that is digital.
- Certified appraisers have ability to use Trainees for inspection or trained property verifier.
- More photographs and less boilerplate in both the preprinted form and in the final work product.
- All relevant third-party property inspections that are part of a purchase transaction (or that are in possession of the borrower or lender in a refinance transaction) should be provided to appraiser upon engagement of valuation service.
- Auto-populate portions of appraisal form for major forms software (ACI, a la mode Click Forms, etc.) with known relevant data that can still be edited by appraiser. Floor plans and exterior photos should be included if available at the onset of an appraisal assignment (require appraiser to verify all such data).
- Allow appraisers to provide a value range rather than a point value whenever possible.

2. What component(s) of the current appraisal process causes the greatest amount of confusion or dissatisfaction with the appraiser community? How would you solve for it?

- Lack of clarity in the Selling Guidelines (even with Underwriters).

  Solution: Revise Guidelines to be principles based (not "rules") with more clarity using input from all stakeholders including appraisers & underwriters. Suggest having a permanent panel of stakeholders in place to review suggested revisions.
- Guidelines looked upon by Underwriters as Rules.

  Solution: Encourage/require Underwriter education on appraisal matters. Underwriters have an enormous amount of autonomy in most lending institutions to the extent that they can create "rules" or requirements that may be illogical, especially to appraisers who are often asked to comply with their "revision" and/or "reconsideration of value" requests.
- Additional lender requirements (also known as "lender overlays") above and beyond those found in the Selling Guide create confusion and an incredibly complex rules-based system that add time and cost to the appraisal process.

  Solution: Strongly discourage the use of lender overlays to the maximum extent possible; and insure that underwriters do not confuse overlay requirements with requirements found in the Selling Guide.
- Outdated Guidelines that do not address new building science.

Solution: Guidance from Appraisers, NAHB, and DOE would be most helpful in keeping guidelines compliant with emerging technologies in new building science. (Example: requiring a backup water heater if solar thermal water heating is present or requiring passive solar homes to install a heating source).

- Lack of "true verification" of pending sale of the subject (when applicable) and all comparable sales used in the sales comparison approach.

  Solution: Define the process required to "verify" information in the FNMA guidelines, as related to the word "verify" used in SR1-4 USPAP (line 519 of 2018-2019 version) and SR 2-2viii USPAP (line 652-665) add a data entry field for each comparable to detail those individuals who were contacted in the verification process and when the verification took place.

- Lack of disclosure of potential concessions and/or market participant motivations in the appraisal report discovered during the verification process that impacted the sale price.

  Solution: Add a required data entry field within the form to adjust comparable sale prices for such concessions and conditions of a comparable sale.

- Lack of a detailed summary of the support and rationale used in the HABU analysis within the Agency's current reports.

  Solution: Require appraisers to fill in detailed answers for each test of HABU included in the HABU analysis (both as improved and as-if vacant) (SR 2-2)

- "Zoning compliance" within the current form does not provide sufficient choices.

  Solution: Breakdown "zoning compliance" as a two-part question on the appraisal forms. 1) Does the SITE comply with zoning (irrespective of what's on the site)? 2) Do the present or prospective IMPROVEMENTS comply with zoning?

3. What are the easiest and most complicated problems to solve in the current appraisal process?

EASIEST:

- Competent appraiser selection and customary and reasonable fees are the easiest to solve

  Solution: Appraiser selection using a rotation list without regard for competency can be resolved by setting guidelines for how lenders determine appraiser competency. A state-credentialed appraiser does not result in competency for all property types within the appraiser's service area.)

  Solution: Customary and reasonable fees should be commensurate with the complexity of an assignment. (Fees are largely established without regard to complexity under todays outsource business models).

- Lenders using TRID as an excuse not to change appraiser fee when needed.

  Solution: Clarify to appraisers, AMC, and Underwriter on how and when it can be done.

  Work with FHFA and CFPB to eliminate/reduce TRID tolerance constraints on appraisal orders.

MOST COMPLICATED:

- Appraisal orders rarely identify the complexity of the assignment

  Solution: Develop a form borrower completes at application (see attached form for identification of green features and energy efficiencies)

- Hiring the most competent appraiser for any one assignment
- **Solution:** Keep reviewing appraisers by property type and location and only use those that maintain a performance standard set by the GSE's. Establish a separate qualification for

specialty properties (i.e. high value, rural, low-income urban, historic, high performance (energy efficient), etc.).

4. How can emerging technologies support the appraisal process?

- Sharing Portal Data with appraisers at time of order.

  Solution: Lender gives appraiser the data they've secured from the Collateral Underwriter dataset, or better the appraiser has access to search the dataset for a market in a manner like an MLS search. (GIS based technology could parse Agency's sales data availability for specific markets).

- Fannie/Freddie Dataset used as the main data repository for appraisers, who have (washed and cleaned) "verified" MLS and other public real estate sales data sources.

  Solution: Fannie Mae/Freddie Mac Data becomes the data Repository for appraiser. Connecting to energy databases like RESNET, HES, and Green Organization Labeling Data. It is a win-win for the public, secondary market, and borrowers, as independent and unbiased fee appraisers could maintain a real estate sales database that is no longer held by a group of real estate salespeople who possess a bias and interest in each real estate transaction.

5. What component(s) of the appraisal process should not be influenced or changed by digitization and emerging technologies?

Appraiser boots on the ground knowledge of the market and product.

Solution: Appraiser review of the AVM to agree or disagree with support for any disagreement. Credentialed appraisers with geographic and property specific competence remain the safest and most effective way to reduce risk in mortgage lending and when physical attributes of the property and/or market conditions are at all questionable.

6. How can we best facilitate cost and process efficiencies while satisfying regulatory requirements and concerns of the appraisal community?

Sharing Portal Data upon ordering the appraisal

Work closer with lenders to insure they understand Agency guidelines to avoid expectations of the appraiser that are not implied, warranted or necessary.

7. Please provide your suggestions on how Fannie Mae can foster appraiser independence, improved appraisal quality, and greater appraisal report transparency?

Independence. Educate underwriters and AMCs on when it is acceptable to suggest (insist) an appraiser remove an adjustment. (Example: We regularly hear from appraisers that underwriters ask them to remove solar or energy adjustments even when they've supported them.)

- Quality. Appraiser panels that include ONLY competent appraisers – hold lender/AMC responsible for the quality early in the game. Penalties for lenders if appraisal quality is not acceptable. (Not on foreclosure, but upon review.)
- Transparency:
  - Allow a range of value

- Allow appraiser's access to UAD compliant data already maintained by Agencies which was originally obtained and scrubbed through the verification process by appraisers.

8. What can be done to reduce appraisal revision requests and value reconsideration requests?

Solution: Holding lenders responsible for hiring competent appraisers

Solution: Lender/AMC appraiser panel must have a complete file on the appraisers that qualifies them for the property types they can accept orders from. (Education, Experience, Designations from a Quality Organization, & Quality scoring you already have in place).

9. What are the pros and cons to adopting a bifurcated appraisal process?

- Con – Disconnect can result in less than credible results in more complex properties.
- Con - the appraiser's experience as property "inspector" is vital. Appraisers are trained and have experience observing property characteristics that others simply don't have. Qualitative and often subtle factors as light, space, utility, view amenity, externalities, renovations /updates and their timeliness, site utility, development patterns, etc. are among the things appraisers observe and analyze, not merely square footage and room count.
- Con - With respect to training 3rd party inspectors, I believe these individuals must meet a minimum level of experience and possess certification. If the appraiser/analyst is to rely on their work product, the appraiser must be able to trust the source. The appraiser should be involved in the training process.
- Con - With respect to selecting 3rd party inspectors, who drives this process is a question that deserves more study. Whether the appraiser makes the selection or the lender, this decision must be made early in the origination process. Undeniably, a profit-motive will be a factor. So, the question is, which party is more profit-driven (potentially at the expense of competency)? The lender, or the appraiser/analyst? That decision should rest with the party that is the most exposed to liability. Moreover, this development could result in the rise of large shops of desktop appraiser/analysts who produce reports without ever seeing a property, and a small army of inspectors working for them putting in a lot of windshield time. The smaller mom & pop appraisal shop may be endangered which could have a significant on rural markets.
- Pro- Will speed the process and potentially cost less
- Pro-Will work well in homogenous "cookie-cutter" neighborhoods
- Pro – If it works as intended, the appraiser can spend more time being an analyst using the skills that that they were trained with rather than spending a significant time driving from assignment to assignment and comparable to comparable.

10. How can we better connect with the appraiser community?

- Continue publication of appraiser newsletter, communicating deficiencies most often found and examples of things you find most helpful.
- Webinar specifically for appraisers at least twice a year.
- Appearances by Fannie Mae staff at major appraiser meetings/conferences to allow for constructive dialog.

Contact Bill Garber, Director of Government and External Relations with questions or for more information, 202-298-5586, bgarber@appraisalinstitute.org.